Module 2: Physician Agency and Treatment Decisions

Part 4: Current Payment Policy

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Econ 372

Major Public Payors

1. Medicare
2. Medicaid

Background on Medicare

- Created by the Social Security Act in 1965
- Originally health insurance to those 65 years of age and older
- Expanded to include certain disabilities (20% now below age 65)
- Consists of four parts:
  1. Part A: Hospital Insurance
  2. Part B: "Medical" Insurance (physician visits and outpatient care)
  3. Part C: Private supplemental care (Medicare plus Choice, now Medicare Advantage)
  4. Part D: Prescription Drug Coverage

Medicare Part A

- Automatic enrollment for anyone 65 and older who worked over their lifetime
- Financed with combination of payroll tax (current workers) and cost-sharing (deductibles, etc.)
- Funds exist as part of "Federal Hospital Insurance Trust Fund"...can't finance through debt
- Benefit structure:
  - Very good for short inpatient stays
  - Very bad for major problems with long stays
  - Doesn't cover nursing home care beyond 30 days

Medicare Part B

- Voluntary, but almost everyone enrolls
- Requires monthly premium ($144 in 2020)
- Small deductible and 20% co-insurance

Medicare Part C

- Private insurance provision of Medicare benefits
- Formally created under Balanced Budget Act in 1997 (existed informally before)
- Heavily revised in Medicare Modernization Act in 2003
- Medicare pays insurers a risk-adjusted amount to enroll a given beneficiary
- Broader benefits than Part A and B, often with $0 additional premiums, but restrictive networks

Medicare Part D

- Created under the Medicare Modernization Act in 2003
- Private insurance for prescription drugs
- Insurers receive payments from Medicare to enroll a given beneficiary (much like Part C)
- Many insurers offer a combined Part C+D plan

Privatization of Medicare

- Medicare Advantage (both Parts C and D) has been well-received and generally thought to be a success story for Medicare benefits
- Accounts for nearly 40% of total Medicare enrollees
- Some early difficulties with adverse selection and risk-adjustment
- Still slightly sicker people staying in traditional Medicare
- Could be a **big** part of any future "Medicare-for-all" type program

Medicare payments

- Prospective payment system
- Begin with two "base" rates:
  - Operating base payment rates, $5,797 in 2020
  - Capital base payment rates, $462 in 2020
- Adjustments:
  - Diagnosis Related Group (higher adjustments for more complicated things)
  - Academic Medical Center
  - Disproportionate Share

Background on Medicaid

- Also created by the Social Security Act in 1965
- Originally provided health insurance to people receiving "Aid to Families with Dependent Children", mainly extremely poor families
- Expanded over time with different rules by state
- Huge program: about 40% of births are covered by Medicaid/CHIP and 1 in 3 birhts!

ACA and Medicaid Expansion

- Big part of ACA was Medicaid expansion
- Originally mandatory but made voluntary by Supreme Court
- Expansion covers all adults (with or without children) below age 65 and with incomes below 138% of the federal poverty line ($35,535 for family of 4 in 2020)

Medicaid Funding

- Paid for by states and federal funding
- State funding is matched by federal funds, and the match amount depends on the state's per capita income
- Incentivizes services to be provided by Medicaid that historically may not be

Medicaid Benefits

- Pretty generous coverage
- Low to no copayments, deductibles, co-insurance
- Usually covers dental, vision, hospitals, and physician services
- Covers long term care (unlike Medicare). About 40% of all long term care is paid for by Medicaid.
- Growth in Medicaid managed care

Medicaid Payments

- Works similarly to Medicare with a base rate plus adjustments
- Base rates vary by state Medicaid agencies
- Adjustments (or supplemental payments) consist of:
  - Disproportionate share adjustments
  - Other (non-DSH) adjustments
  - Account for a little less than half of total Medicaid payments on average

Pay for performance

There are three main pay for performance programs employed in Medicare right now:

1. Hospital Readmission Reduction Program
2. Value-based Purchasing
3. Quality Payment Program for physicians: Merit-based Incentive Payment System (MIPS) and Advanced Alternative Payment Models (APMs)

Capitated Payments

There are two forms of capitated payments in Medicare now:

1. Bundled Payments
2. Accountable Care Organizations

Other payment issues

Information and Consumer Choice:

1. Hospital Compare
2. Penalty Information

Reading an academic paper

Let's answer these questions for the Clemens and Gottlieb (2014) paper.

1. What is the main question and what is new?

2. What data are they using?

3. What is the "unit of observation"?

4. What is the central "identification strategy"?

5. What is the main takeaway?