

BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

Reforming Medicare: Options, Tradeoffs, and Opportunities

by

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Medicare's Successes

- **Contributed to:**
 - Lengthened lives
 - Reduced poverty
 - Desegregation and other societal goals
- **Reported satisfaction and access are high**
- **Performed as well on cost as private insurers**

Medicare's Challenges

- **Persistent benefit gaps**
- **Low focus on quality**
 - Not unique to Medicare
- **On cost, “as well as private sector” may not be good enough**
 - Long-run fiscal and economic challenges

Approach

- **Reviews major approaches to Medicare – and health – reform**
- **Assumes “pure application”**
 - Fully implemented
 - Adheres to advocates’ vision
 - Illustrated through an example: Ms. Brown
- **Contrast shows major moving pieces**

Social Insurance

- **Description:**

- Uniform benefit and shared financing
- Pooled purchasing power drives outcomes

- **Origins:**

- Risk for health care costs managed collectively
- Democratic support
- Basis of Medicare

Premium Support

- **Description:**

- Private plans make most decisions
- Competition drives outcomes

- **Origins:**

- Combines regulation and competition
- Some bipartisan support
- Growing in Medicare via Parts C and D

Consumer Direction

- **Description:**

- Individuals control most decisions
- Responsibility / liability drives outcomes

- **Origins:**

- Pure free-market theory and belief in individual versus collective action
- Republican support
- Medicare Medical Savings Accounts growing

Functions

Approach

Who Determines Benefits and Cost Sharing?

Social Insurance

Medicare determines services and cost sharing
expert panels determine services

Premium Support

Private plans determine benefits and cost
sharing within legislated limits

Consumer Direction

Individuals choose services under HSAs; high
deductible plans provide catastrophic
coverage within legislated limits

Functions

Approach

How Are Payments Determined?

Social Insurance

Medicare pays providers administered prices or based on competitive bidding

Premium Support

Private plans set rates to providers; receive Medicare risk-adjusted capitation

Consumer Direction

Individuals shop for care based on price;
Funded by Medicare HSA deposit

Functions

Approach

Which Providers are Covered?

Social Insurance

All qualified providers; new financial incentives encourage use of high-quality providers

Premium Support

Private plans form provider networks; extra charge for others

Consumer Direction

Individuals select providers; providers may turn away patients

Functions

Approach

How is High Quality Encouraged?

Social Insurance

Financial incentives for high-quality providers; regional quality forums; minimums

Premium Support

Private plans could manage care; may compete on quality performance

Consumer Direction

Individuals receive information on quality of providers, influencing choice and change

Three Approaches to Reform: Our 'Report Card'

	<u>Medicare Objective</u>	<u>Social Insurance</u>	<u>Premium Support</u>	<u>Consumer Direction</u>
Access	[Financial]	High	Medium	Low
	[Physical]	High	Low	Medium
Quality	[Optimal Care]	Medium	Medium	Low
	[Satisfaction]	High	Medium	Low
Cost	[Total]	Low	High	Medium
	[Government]	Low	Medium	High

Which system you prefer depends on which goals are most important

Incremental Reforms

1. Research on cost-effectiveness; differentiated deductibles and cost sharing based on this research
2. Pay for performance
3. Develop and disseminate information on provider performance
4. Competitive contracting for selected services
5. End overpayments to Medicare Advantage
6. Increased premiums, deductibles and/or cost sharing for upper income beneficiaries