Part B Insider (Multispecialty) Coding Alert

Medicare Private Plans: Nudging Patients Into Private Health Plans

Physicians may still have to deal with preferred provider organizations, but it won't be in the name of saving Medicare money.

An actuarial projection released June 2 by the **Centers for Medicare and Medicaid Services** shows that Medicare wouldn't save much money with PPOs in a competitive environment. The program would save $22 billion over 10 years, a savings CMS Administrator **Tom Scully** termed "marginal" at a June 2 press briefing.

Medicare, as constructed under current law, is expected to cost about $3.8 trillion over the next decade. That means the projected savings from incorporating PPOs amount to about half a percent of spending and would extend program solvency by about three weeks.

The administration released the analysis to head off the **Congressional Budget Office's** rumored conclusion that adding PPOs to Medicare will actually result in the program's spending more money over 10 years. The CMS actuaries' analysis is based heavily on information gleaned from the young PPO demonstration project that began late last year.

To get even the marginal savings the actuaries predict, the program would have to be "structured correctly," Scully said. "How you do it matters." An ideally structured PPO program would limit health plan participation to three winning bidders per region, Scully said. Limiting the number of winners would encourage plans to bid aggressively, thus producing the most savings for the program. Beneficiaries would share in the savings from choosing a more efficient plan, and the government would share risk with plans, thus allowing plans to bid more aggressively.

All plans in the demo have significantly higher administrative costs than does fee-for-service Medicare. Those with lower costs than FFS gain their savings from negotiating lower provider prices and controlling enrollee utilization.

Of the 31 plans in the demo, seven were deemed to cover too-small regions, suggesting that they might have cherry-picked service areas to ensure strong revenues. CMS analyzed adjusted community rating data from the 24 remaining plans, which all serve regions somewhat comparable in size to the large multistate areas that plans would serve under the administration's Medicare drug proposal.

The 24 plans were divided into three groups ranked by cost efficiency, with each group covering a roughly equal share of the total population. As proxies for the three winning plan bids in a Medicare PPO region under the Bush plan, actuaries took the weighted average efficiency of each of the three groups.

If little savings are to be had, should a PPO option be introduced at all? Scully says yes, for two main reasons. First, having a beneficiary get all of his or her coverage
through a single PPO rather than from a hodgepodge of government coverage, a private drug-only plan, and a private Medicare supplemental plan - as would be the case under some other Medicare drug plans on the table - is bound to deliver better medicine more efficiently.

Second, unlike government-run Medicare, private plans have the valuable freedom to pay different providers in the same region different prices for the same service, based on any number of criteria, Scully says.