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MEDICARE ADVANTAGE AND MEDICARE BENEFICIARIES
Monthly Tracking Report for February 2005

A Brief Summary of Selected Significant Facts and Activities This Month
to Provide Background for Those Involved in Monitoring and Researching Medicare Advantage

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PROGRAM STATUS: PLAN OFFERINGS, ENROLLMENT, AND CHANGE

From the CMS Medicare Managed Care Contract Report (http://cms.hhs.gov/healthplans/reportfilesdata/):

NOTE: CMS did not release its Medicare Managed Care Contract Report for February.

Plan Participation, Enrollment, and Penetration by type	Current Month: Feb. 2005	Change From Last Month	Same Month Last Year	
			Feb. 2004	Change From Feb. 2004 – 2005
Contracts				
Total	Not Available	Not Available	283	Not Available
CCP			145	
PPO Demo			35	
PFFS			4	
Cost			30	
Other			69	
Enrollment				
Total	Not Available	Not Available	5,292,265	Not Available
CCP			4,581,796	
PPO Demo			89,226	
PFFS			28,541	
Cost			332,853	
Other			259,849	
Penetration*				
Total MA Penetration	Not Available	Not Available	12.4%	Not Available
CCP + PPO Demo Only			10.8%	

Penetration rates for February 2004 are calculated using the number of eligible beneficiaries reported in the December 2003 State/County File.

NEW ON THE WEB FROM CMS

About Requirements, New Contracts and Withdrawals

- CMS has posted slides for the MMA Technical Assistance Trainings it conducted in Baltimore, San Diego and New Orleans during January and February. The slides cover a variety of topics including the Medicare Advantage (MA) Part D transition, the MA application process, MA appeals and grievances procedures and financial review of MA applications. The slides are available online at: www.cms.hhs.gov/healthplans/.

- This month, CMS released a memo giving MA organizations, prescription drug plan (PDP) sponsors and other interested parties advance notice of methodological changes for calendar year 2006 (CY 2006) Medicare Advantage payment rates. CMS proposes to change the MA capitation rate methodology and risk adjustment methodology. CMS will accept comments on the revised methodology thru March 4th, 2005. CMS will announce the final MA capitation rates on April 5th, 2005. A full description of the methodology changes is posted on CMS' website at: www.cms.hhs.gov /healthplans /rates/.

Summary of service area expansions and new contracts announced in January 2004:

Firm	Areas Served	Is this the only plan in the area (yes/no)	Number of beneficiaries
Group Health Inc. (new plan for dual eligibles)	New York City, NY	N	1.23 million
	Rockland County, NY		
	Westchester County, NY		
PacifiCare of California, Inc.	Alameda County, CA	N	300,000
	Contra Costa County, CA		

About Medicare Advantage

- On February 7th, CMS held a Special Open Door Forum: "The Medicare Prescription Drug Benefit and the Medicare Advantage Program" to clarify stakeholders' understanding of the regulations governing these programs and provide an overview of some of the key elements contained within them. Comprehensive information about both programs is also available on CMS's website at: www.cms.hhs.gov/medicarereform/pdbma.

About Drug Card and Other Features of Medicare Related to MA

- On February 7th, CMS released details of the President's FY2006 budget related to the Medicare program. In the announcement, CMS indicated that net Medicare spending in the President's budget for FY2006, the first year in which the Medicare prescription drug benefit will be in effect, is estimated to be $345.2 billion. Medicare's discretionary budget proposal for FY2006 includes continued funding for MMA implementation activities, including $435 million for education and

outreach activities. More information on the President's FY2006 budget for Medicare is available online at www.cms.hhs.gov.

- On February 14th, CMS held a Special Open Door Forum: "The Medicare Prescription Drug Benefit: Options for Employer- and Union-Sponsored Retiree Drug Benefit Plans." At the forum CMS discussed options employer and union-sponsored health plans can use to reduce the costs associated with providing prescription drug coverage to Medicare-eligible retirees. CMS intends to issue additional guidance on a variety of issues related to retiree benefits, including the actuarial equivalence standard, the subsidy application process, and the streamlined approach CMS plans to use in implementing the employer waivers. (CMS, February 14th)

ON THE CONGRESSIONAL FRONT

MA Specifically

- MedPAC will hold its next public meeting on March 10th and 11th, 2005. The meeting will be held at the Ronald Reagan Building in Washington, DC. An agenda will be available approximately one week before the meeting and transcripts will be available approximately 3 – 5 business days after the meeting ends. Both documents will be available online at: www.medpac.gov.

Broader Medicare Reform (in Brief)

- On February 4th, *CongressDaily* reported that a group of 17 congressional Democrats sent a letter to President Bush arguing that MMA subsidies to employers that provide prescription drug coverage to retirees could contribute to the erosion of retiree health benefits. Under the law, Medicare will provide tax-free subsidies valued at 28 percent of retired workers' annual drug costs to employers who offer a prescription drug plan at least as generous as Medicare coverage. *CongressDaily* reported that the Democrats are asking President Bush to work with them to resolve their concerns that the MMA regulations (published by CMS last month) provide employers with incentives to reduce benefits and increase cost-sharing. The Democrats are concerned that the regulations regarding the definition of actuarial equivalence will allow employers to receive the full subsidy even if they offer plans that have less value than the standard benefit because of increased cost-sharing requirements on retirees. (*CongressDaily*, February 4th)

- On February 10th, the Subcommittee on Health of the House Committee on Ways and Means held a hearing on Medicare payments to physicians. The hearing focused on identifying problems with the physician payment formula and exploring potential solutions including tying payment to quality of care and resource use, and implementing measures to reduce the volume and increase the quality of certain services. Witnesses at the hearing included Bruce Steinwald, Government Accountability Office (GA)); Glen Hackbarth, Medicare Payment Advisory Commission (MedPAC); Nancy Nielson, American Medical Association (AMA); Thomas Lee, Partners Community Healthcare, Inc; William Gee, American Urological Association; and Robert Hayes, Medicare Rights Center. At the hearing, Glen Hackbarth noted: "[MedPAC] recommends Medicare pay more to physicians with higher quality performance and less to those with lower quality performance." Full transcripts from the hearing are available on the Committee's website at: http://waysandmeans.house.gov/hearings.asp?formmode =detail&hearing=376.

- On February 9th, Douglas Holtz-Eakin, Director of Congressional Budget Office (CBO), sent a letter to Congressman William "Bill" Thomas discussing the CBO's projections of spending for the Medicare Part D benefit, which was published in the January 2005 *Budget and Economic Outlook*. In 2003, CBO estimated that the MMA would result in additional direct spending of about $395 billion over the 2004-2013 period, including $552 billion in payments for benefits and mandatory administrative costs, offset by $219 billion in premiums. In the letter, Holtz-Eakin indicated that CBO's estimate of Part D benefits was modified slightly in 2005 when CBO updated its baseline projections for all federal programs. As of a result of these changes, the estimate increased by about $6 billion, raising the projected cost of the program from $552 billion to $558 billion. Holtz-Eakin also noted that the 10-year projection period CBO uses for its baseline has changed since the MMA was enacted. It now runs from 2006 to 2015, and encompasses two more years of prescription drug benefits. The letter can be accessed online at: www.cbo.gov.

- This month, the Government Accountability Office (GAO) released the results of a new study on Medicare payments to physicians. The study was conducted in response to concerns about the sustainable growth rate (SGR) system, the system Medicare uses to determine annual changes in physician fees. The GAO study addressed: (1) how the SGR system is designed to moderate the growth in spending for physician services; (2) why physician fees are projected to decline under the SGR system; and (3) options for revising or replacing the SGR system and their implications for physician fee updates and Medicare spending. GAO found that the SGR system sets spending targets and adjusts physician fees based on the extent to which actual spending aligns with specified targets to moderate Medicare spending. GAO noted that proposals to reform Medicare's method for updated physician fees would either eliminate spending targets and establish new considerations for annual fee updates or retain spending targets, but modify certain aspects of the current system. The full GAO report is available online at: www.gao.gov.

- On February 17th, the House Committee on Ways and Means held a hearing on the President's fiscal year 2006 budget for the U.S. Department of Health and Human Services. At the hearing, HHS Secretary Mike Leavitt presented the President's budget. He noted that the President proposes outlays of $642 billion for HHS (a 10 percent increase over FY 2005 spending). Leavitt said that: "the Department will direct its resources and efforts in FY 2006 towards providing access to quality health care, including continued implementation of the Medicare Prescription Drug, Improvement and Modernization Act of 2003; enhancing public health and protecting America; supporting a compassionate society; and improving HHS management." Leavitt also said: "HHS will be working in FY 2006 to successfully implement the Medicare Modernization Act (MMA) including the Medicare Prescription Drug Benefit and the new Medicare Advantage regional health plans." A full transcript of Secretary Leavitt's remarks can be accessed online at: http://waysandmeans.house.gov/

- GAO released a new, MMA mandated report on trends in employment-based retiree health coverage prior to enactment of the MMA, and the options and incentives available through the MMA that could affect the voluntary provision of employment-based retiree health benefits. Specifically, GAO determined which MMA prescription drug options sponsors of employment-based retiree health plans said they would pursue and the effect these options might have on retiree health benefits. GAO identified trends using data from federal and private sector surveys of employers' health benefit plans and financial statements of 50 randomly selected Fortune 500 employers. GAO also interviewed plan benefit consultants, private and public sector plan sponsors and other experts. GAO found that the percentage of employers offering retiree health coverage has declined since the early 1990's, although this trend has leveled off in recent years. Retirees face an increasing share of costs,

eligibility restrictions and benefit changes that "contribute to an overall erosion in the value and availability of coverage." Many of the plan sponsors GAO interviewed had not yet made final decisions about which MMA prescription drug options they would choose for their Medicare-eligible retirees; however; most were considering the federal subsidy option (an option through which plans offering prescription drug benefits that are actuarially equivalent to the standard Part D benefit can receive a 28 percent subsidy) as one of several options. Some sponsors are waiting to see how the Medicare Advantage market develops before deciding whether to sponsor their own plan or to contract with an MA plan. The full report is available online at www.gao.gov.

FROM THE PERSPECTIVE OF BENEFICIARIES

- In February, AARP released the findings of a survey: "Prescription Drugs and Your Pocketbook: 2004 Survey of AARP New York Members." The survey of 1,001 randomly selected New York AARP members was commissioned by AARP New York to gauge how AARP's 2.5 million members are being affected by the costs of prescription drugs and what these members think about proposed legislation, such as a bulk purchasing plan to reduce prescription drug costs. The survey results show that: (1) many AARP members in New York are worried about being able to afford the cost of prescription drugs in the coming years; (2) a quarter of members spend at least $100 per month out-of-pocket on prescription drugs; (3) in order to save money on their prescription drugs one in ten members have delayed filling a prescription or taken less medicine than was prescribed; and (4) the majority of New York members support legislation to help lower the cost of prescription drugs and provide them with more information to help reduce their prescription drug expenditures. The study can be accessed at: www.aarp.org.

FROM OTHER STAKEHOLDERS

- On February 8th, *The New York Times* reported that the White House released new budget figures indicating that the Medicare prescription drug benefit will cost more than $1.2 trillion in the coming decade (2006 through 2015). *The New York Times* reported that CMS Administrator Mark McClellan said the drug package would cost $720 billion after taking into account "several major savings and offsets." According to *The New York Times*, the new budget projections also show that seniors will face higher bills each year. A 10-year chart prepared by Medicare actuaries estimates the Part D premium will rise from $35 a month in 2006 to $68 in 2015, and annual deductibles will rise from $250 to $472 in the same time period. (*The New York Times*, February 8th)

- On February 15th, *Nightly Business Report* (NBR) aired a special series: "Off The Charts: Can Medical Costs be Controlled?" In this series, NBR examined spending increases in managed care and Medicare. The series also examined two new initiatives that the Bush Administration is "counting on to bring costs back in line" – the Medicare Advantage (MA) program and consumer-driven health care. In the report, Dr. Marcia Gomez, director of medical services at Humana Florida, said that Medicare Advantage allows for a much more coordinated effort for managing health care and conditions. Marsha Gold, a senior fellow at Mathematica Policy Research, noted that although MA plans have given recipients better benefits and picked up a lot of Medicare's cost-sharing, they have not saved the government much money. A transcript of the report is available at: www.nbr.com.

- The National Health Policy Conference was held between February 2nd and 4th. The conference covered a variety of topics including the future of entitlements, Medicare coverage decisions, pay for performance programs and the Medicare-approved prescription drug discount cards. At the conference, CMS Administrator Mark McClellan noted that 2005 is a critical year for the Medicare program, as CMS continues to implement the MMA and gets closer to implementation of the Part D benefit in January 2006. He said that the MMA offers "real help and security" for everyone in Medicare because it will help beneficiaries pay for their prescription drugs, provide assistance to employers that provide health insurance to retirees and save states $8 billion over 5 years. McClellan also touted the MA program, noting that, on average, MA enrollees pay $700 less out-of-pocket for healthcare per year, relative to fee-for-service enrollees. A conference transcript is available online at: www.kaisernetwork.org.

- On February 18th, *CQ HealthBeat* reported that CMS has received more than 141 applications from health plans to participate in the Medicare Advantage program (in addition to the 152 HMOs, 26 PPOs and seven private fee-for-service plans currently in the program). The figures do not include applications for regional plans, which are due on March 23rd. (*CQ HealthBeat*, February 18th)

- This month, the Henry J. Kaiser Family Foundation released a summary of the final rule for implementing the Medicare prescription drug benefit. The rule contains regulations to implement the Medicare Prescription Drug Benefit (Title I of the MMA). The summary, which was prepared by Health Policy Alternatives, outlines the main topics in each subpart of the rule, along with issues raised in the preamble corresponding to each subpart in the regulation. The summary is intended to help interested readers quickly obtain information about how CMS plans to implement the drug benefit. The summary is available online at: www.kff.org.

NEWLY RELEASED RESEARCH STUDIES NOT PREVIOUSLY DESCRIBED

- **Heffler, Stephen, Sheila Smith, Sean Keehan, Christine Borger, M. Kent Clemens and Christopher Truffler. "U.S. Health Spending Projections for 2004 – 2014."** ***Health Affairs,*** **web exclusive, vol. 5, no. 74, February 2005.**

  In this article, the authors present projections of U.S. health spending between 2004 and 2014. These projections take into account the effects associated with the introduction of Medicare Part D in 2006, which is expected to result in a substantial shift in funding from Medicaid and the private sector to Medicare. The authors estimate that national health spending will grow by an average of 7 percent per year through 2006, slowing to 6.7 percent by 2013. They also estimate that by 2014, total health spending is projected to constitute 18.7 percent of gross domestic product (GDP) (up from 15.3 percent in 2003). With regard to prescription drug spending, the authors find that Part D will have only a minor effect on spending because they anticipate price discounts associated with the benefit to offset increased usage associated with extending drug insurance coverage to the Medicare population. The authors estimate that 30 percent of Medicare beneficiaries will be enrolled in an MA plan by 2014 because they believe that the introduction of regional PPO plans will provide beneficiaries with greater access to MA and that MMA legislated payment increases are likely to cause plans to reduce supplemental premiums and/or increase benefits. The full article is available at: www.healthaffairs.org.

OTHER SIGNIFICANT EVENTS

X This month, AARP launched a website that allows U.S. residents to compare the safety, effectiveness and costs of prescription drugs. The site currently offers data on drugs for nine medical conditions, but will be expanded to 20 conditions in the coming months. The site includes information about generic alternatives and prices. AARP Policy Director John Rother said " its our hope that the online information will raise awareness among members and consumers about the relative effectiveness of prescription drugs, while helping them identify lower cost, yet equally effective, alternatives." The website can be accessed at: www.aarp.org/health/comparedrugs. (*CQ HealthBeat*, February 24th)