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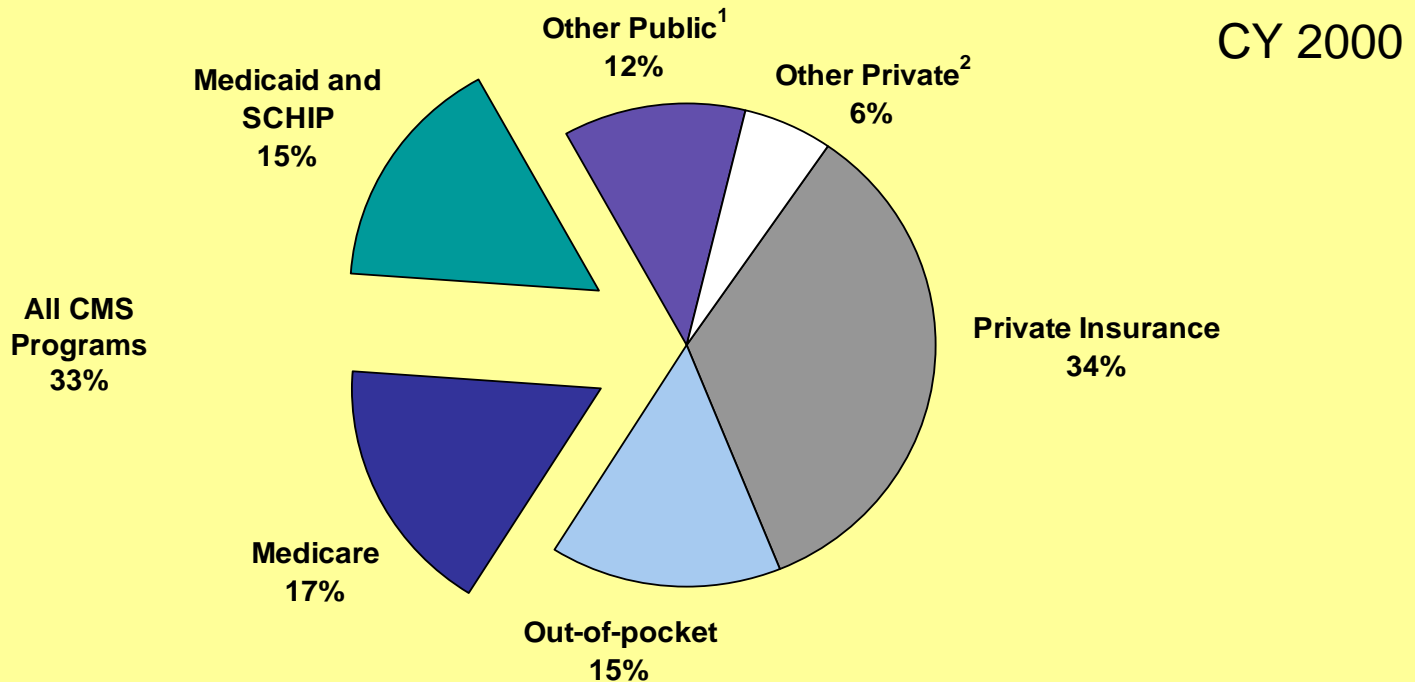
# Federal Health Care Issues Related to Older Persons

Lynda Burton

# Lecture Outline

- Share of Nation's health dollars for older persons (c. 33%)
- Where expenditures go
- Medicare reimbursement: PPS
- Managed care vs. Fee for Service
- MMA, 2003
  - Prescription drugs
  - Chronic care improvement
  - Pay for performance
  - Information technology

# Medicare, Medicaid, and SCHIP account for one-third of national health spending.



**Total National Health Spending = \$1.3 Trillion**

<sup>1</sup> Other public includes programs such as workers' compensation, public health activity, Department of Defense, Department of Veterans Affairs, Indian Health Service, and State and local hospital subsidies and school health.

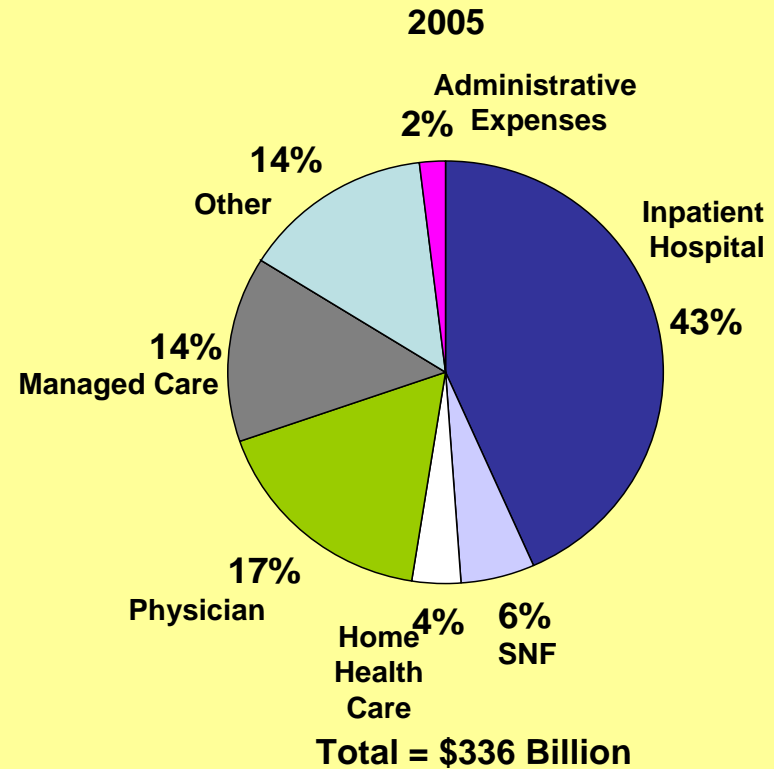
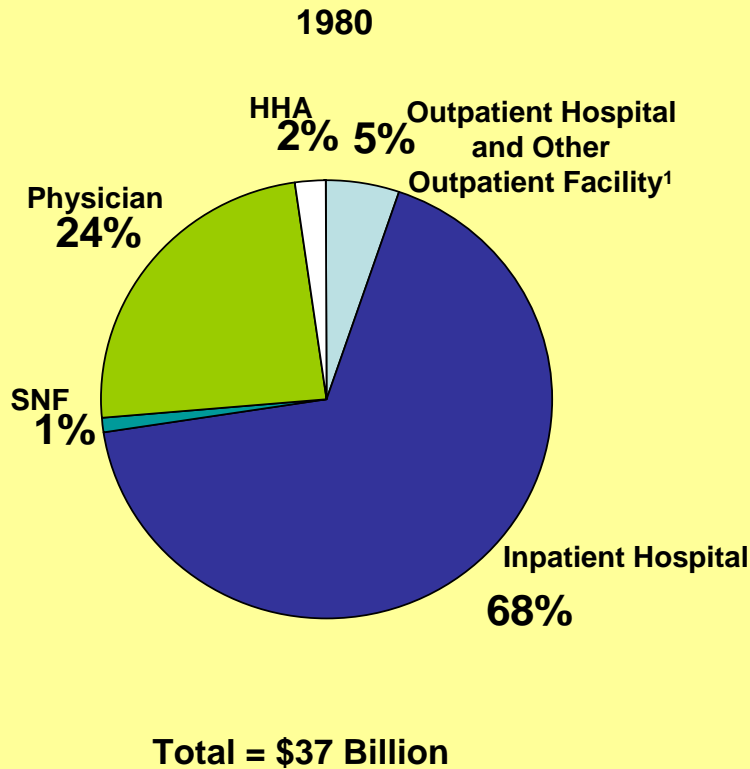
<sup>2</sup> Other private includes industrial in-plant, privately funded construction, and non-patient revenues, including philanthropy.

Note: Numbers shown may not sum due to rounding.

Source: CMS, Office of the Actuary, National Health Statistics Group.

# Where the Medicare Dollar Went: 1980 and 2005

*Medicare spending has moved from inpatient hospital services to all other settings. Managed care has grown while the physician share declined.*

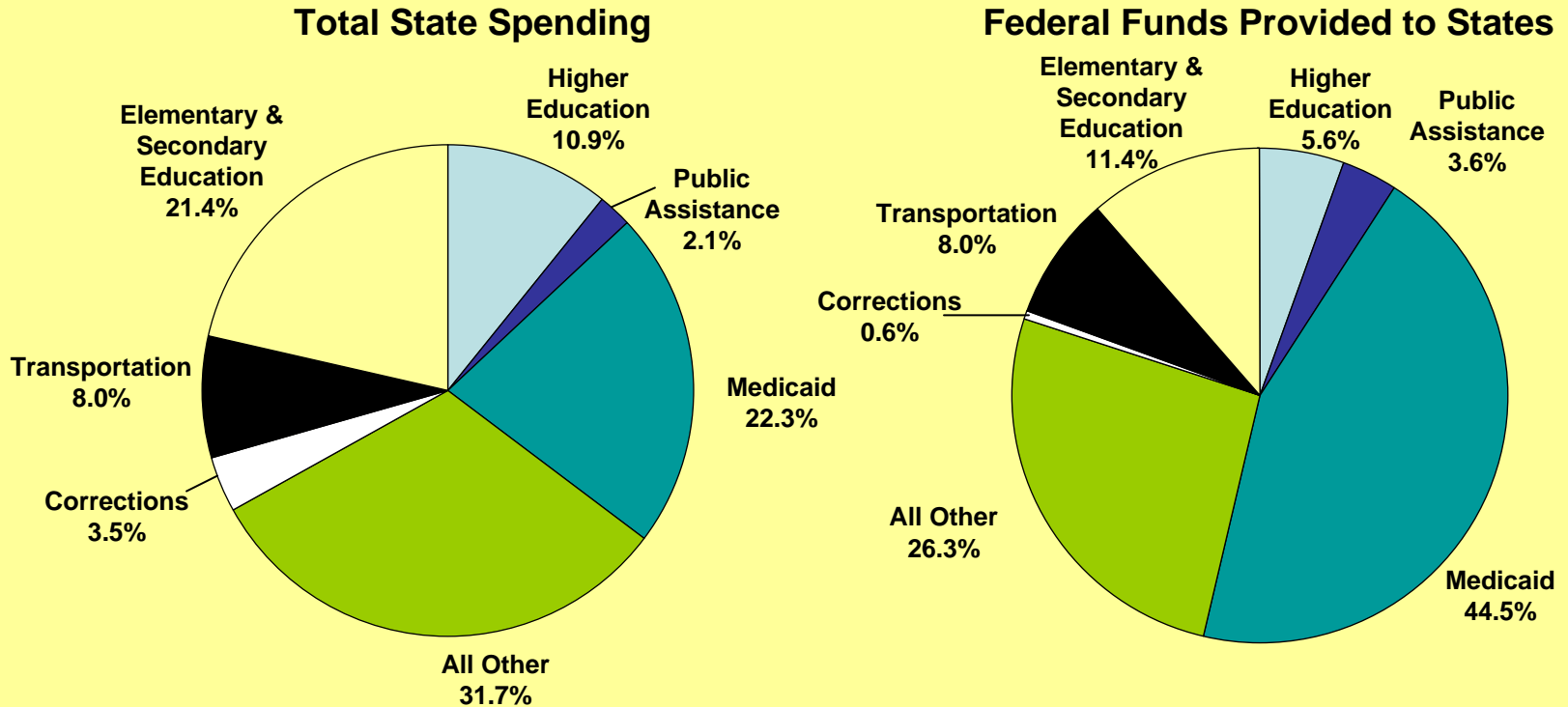


<sup>1</sup> Other services include other professional services and ambulance services.  
 Note: Data do not sum due to rounding. Spending includes benefit dollars only.

Source: CMS, Office of the Actuary, Trustees Report 2006

# Issue: Federal Funds Provided to States for Medicaid

*Over twenty-two percent of state total spending and over forty-four percent of federal funds provided to states were spent on Medicaid.*



Source: National Association of State Budget Officers, 2004 State Expenditure Report.

# Definition of Prospective Payment Systems

- A Prospective Payment System (PPS) is a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount.
- The payment amount for a particular service is derived based on the classification system of that service (for example, DRGs for inpatient hospital services).
- CMS uses separate PPSs for reimbursement to acute inpatient hospitals, home health agencies, hospice, hospital outpatient, inpatient psychiatric facilities, inpatient rehabilitation facilities, long-term care hospitals, and skilled nursing facilities.

From CMS website

# Issue: Medicare reimbursement policies

- Physician payments
  - RBRVS
- Hospital
  - PPS (DRGs) 1983
- Skilled nursing home
  - PPS 1999
- Home health
  - PPS 2000
- Hospice
  - FFS , per visit or service



# Issue: Hospital payments

- DRGs
  - Effect on length of stay
  - Rise in sub-acute care, skilled nursing care
- Maryland's unique all-payer system
- Pay for Performance (P4P) based on quality indicators

# Issue: Physician payment

- Physician payment: 17% of Medicare costs in 2005
- Physician fee schedule
  - Relative value units
  - Has it worked? MEDPAC
- Revenue from Medicare c. 20%

# RBRVS (Relative value units)

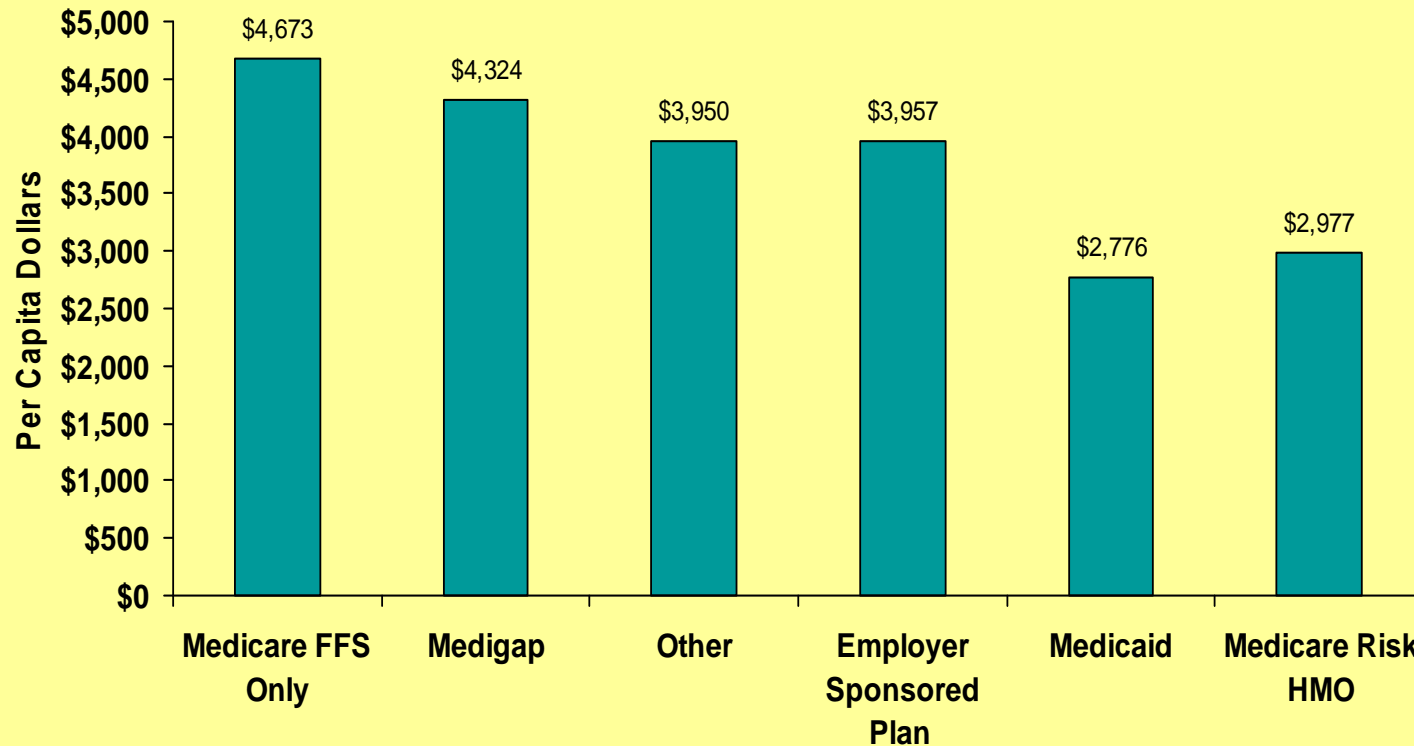
- Attempt to control rise in cost of procedures and stagnation in payments for non-procedural events
  - amount of work required to provide a service
  - expenses related to maintaining a practice
  - liability insurance costs

# Issue: Managed care vs. fee for service

- 20% of Medicare beneficiaries in MA plans
- Advantages and disadvantages
  - Integrated care
  - Risk as incentive to HMO to prevent disease
  - Payment for HMOs
    - CMS adjustments (claims-based risk adj)
    - Overpayment for MAs?
  - Medicare private fee-for-service plans

# Issue: Out-of-Pocket Expenses for Medicare Beneficiaries

*Beneficiaries without supplemental insurance and those with Medigap coverage have higher out-of-pocket spending than other groups.*



**. by Type of Insurance Coverage, 2003** Note: Premium payments are included

Source: CMS, Office of Research, Development, and Information: Data from the Medicare Current Beneficiary Survey (MCBS), 1993 and 2003 Cost and Use Files.

# Other issues: MMA 2003

- Prescription drugs
- Chronic care improvement
- Linking quality with performance
- Information technology

# Pay for Performance (P4P)

- Payment linked to whether quality indicators were achieved
- Who defines quality?
- CMS demonstrations in hospital care, physician providers
  - HaH Health Care Quality Demonstration Waiver