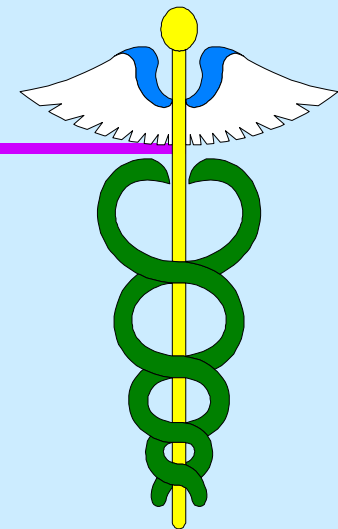


Medicare+ Choice in Rural Areas

Impact of the Balanced Budget Act of 1997



Timothy D. McBride

Associate Professor, University of Missouri-St. Louis

Member, Rural Policy Research Institute (RUPRI) Rural Health Panel

Outline

- The Balanced Budget Act (BBA) and Medicare+ Choice
- Impact of BBA on Capitation Rates
- Impact of BBA on Medicare+ Choice enrollment
 - Nonrenewing plans
 - New plans

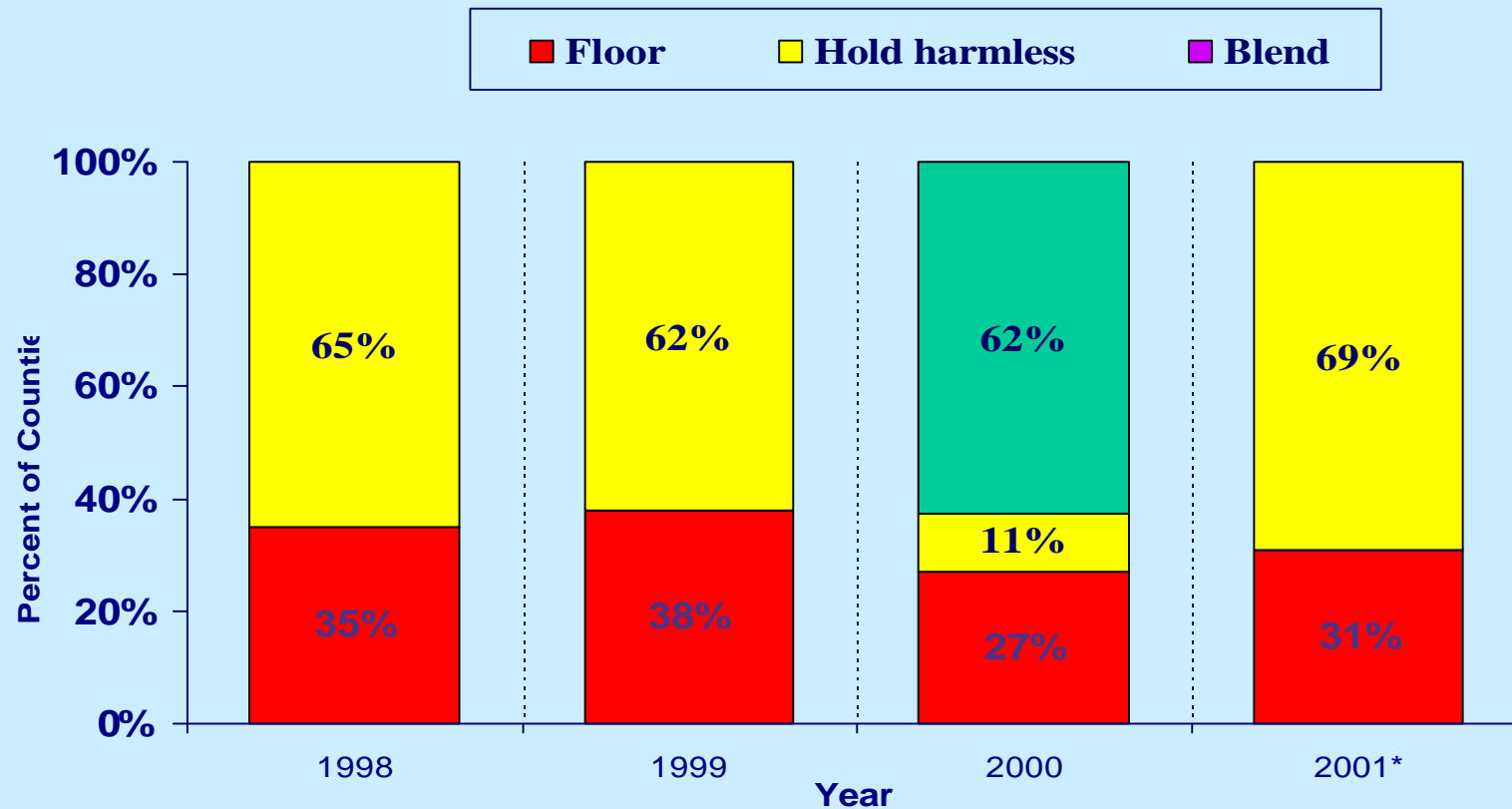
Provisions of Balanced Budget Act of 1997: Reform of Medicare Capitation Rates

<i>Provision</i>	<i>Description</i>
Blending	50% Local Area 50% National (price adjusted) Phased in by 2003
Floor	\$367 in 1998, adjusted for Medicare growth thereafter (\$402 in 2000)
Hold harmless	102% of previous year's rate
Budget Neutrality Provision	Costs "neutral" relative to 100% local area rates If adjustment needed, blended rates reduced; Floor and hold harmless rates protected
Graduate Medical Education Carveout	Fully carved out over a five year period
National Medicare per capita growth rate	Growth in per capita Medicare Less 0.8% in 1998, 0.5% in 1999-2001

Source: Rural Policy Research Institute (RUPRI) Health Panel.

Actual Experience Under BBA: Provision Determining Capitation Rates

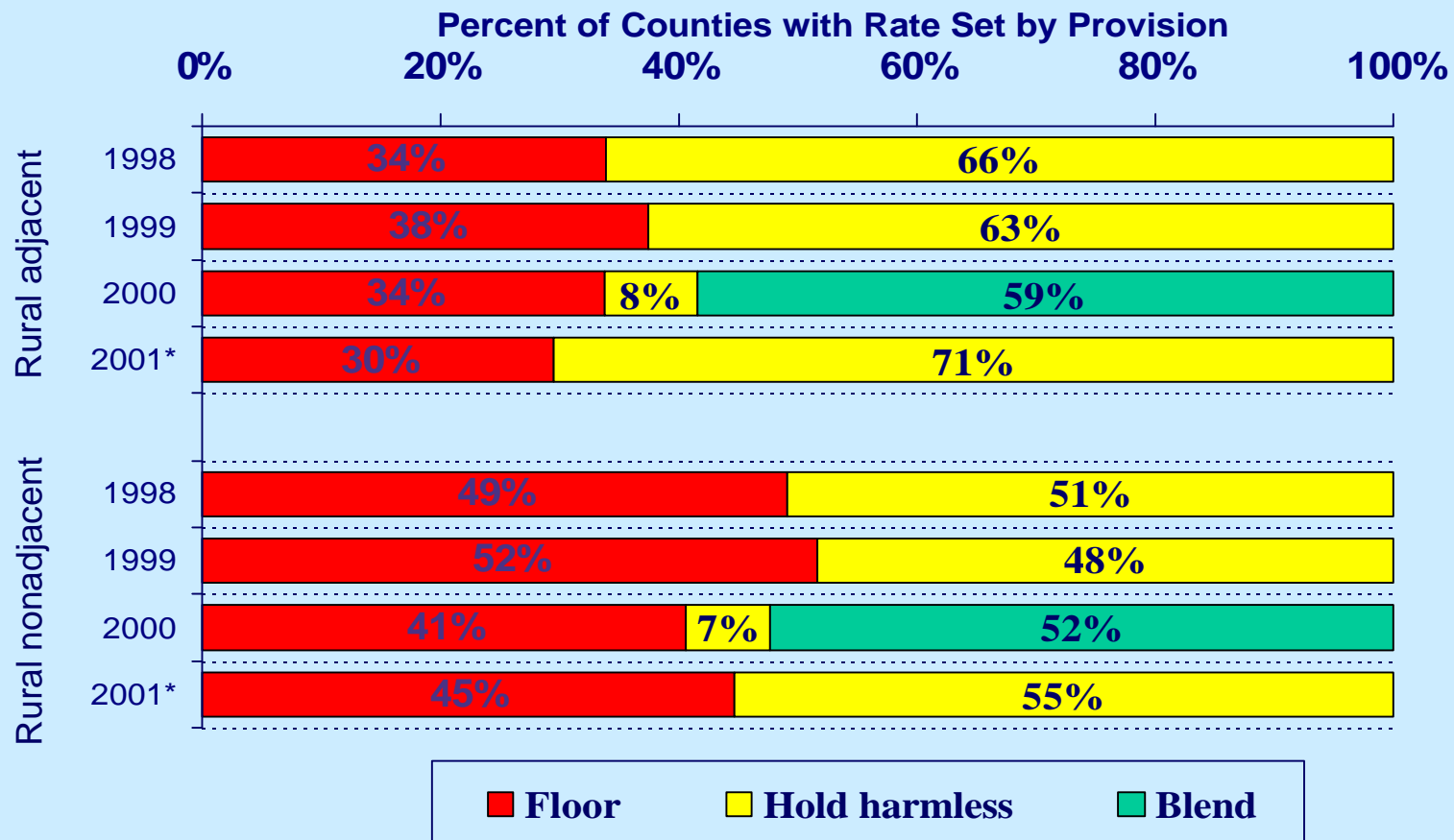
Only in 2000 has blended rate provision been fully implemented



Source: Rural Policy Research Institute (RUPRI) Health Panel

Note: *In 2001, though the rate was set in every county based on the floor and hold harmless provision, many counties received a rate that was 2% above the blended rate they received in 2000, so this was essentially a “blended rate.”

Rural Medicare+ Choice Capitation Rates: BBA Provision Determining Rate



Source: Rural Policy Research Institute (RUPRI) Health Panel

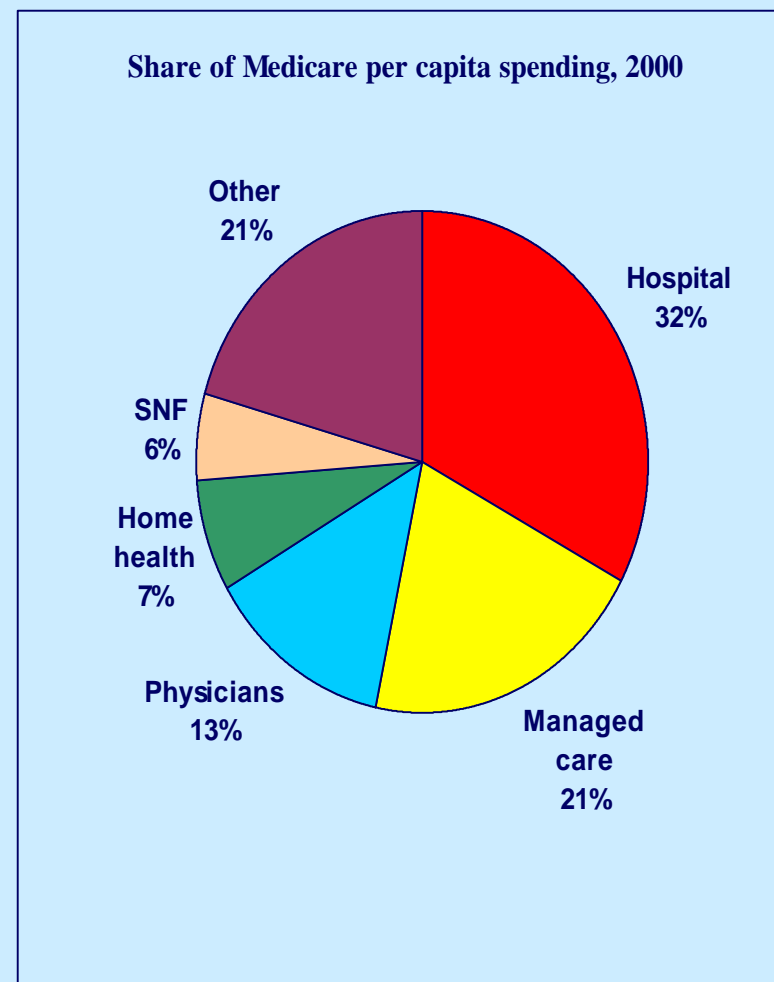
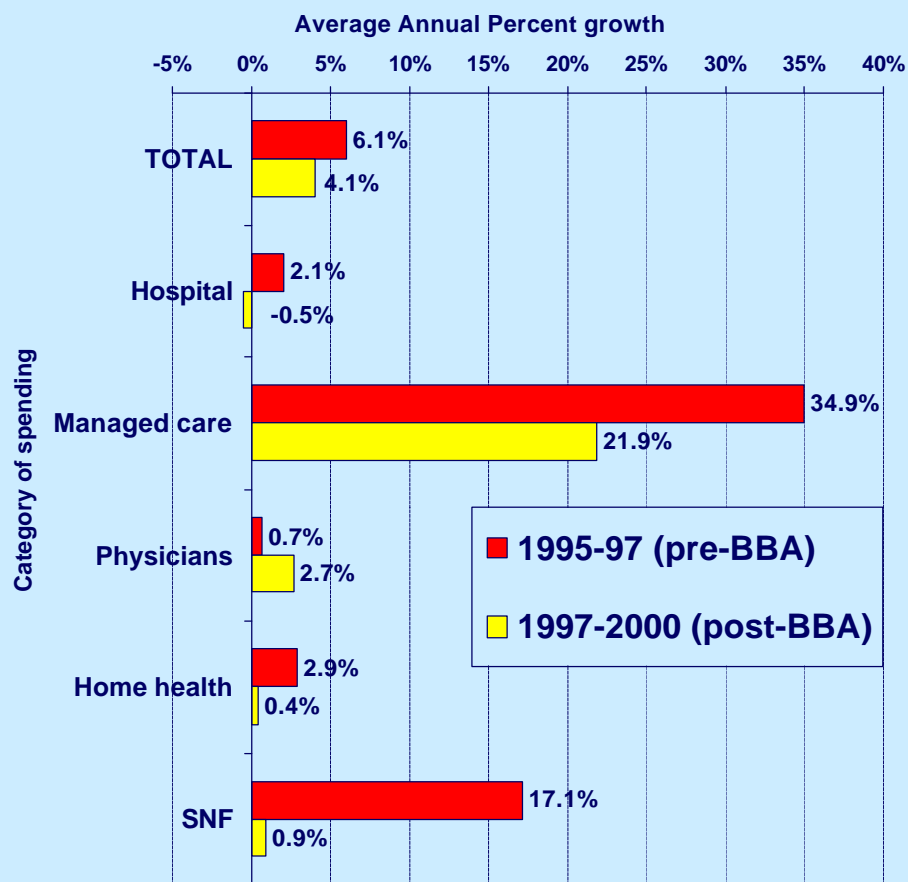
Note: *In 2001, though the rate was set in every county based on the floor and hold harmless provision, many counties received a rate that was 2% above the blended rate they received in 2000, so this was essentially a “blended rate.”

Implementation of the BBA:

Reasons Why Blend “Not Fully Implemented”

- Slow growth in traditional Medicare expenditures
 - Impact of the BBA -- reductions in growth of reimbursement to hospitals, home health, outpatient, nursing homes
- BBA budget savings provision
 - 0.8% reduction in 1998;
 - 0.5% reduction in 1999-2001
- Budget neutrality
 - Blend “funded” only after hold harmless and floor provisions applied
- Revisions of previous year’s estimates
 - Estimates further off because rates announced earlier (in March)

Change in Medicare Spending Per Capita, 1995-97 and 1997-2000



Source: Health Care Financing Administration, "Announcement of 2001 Medicare+Choice Payment Rates," January 2000.

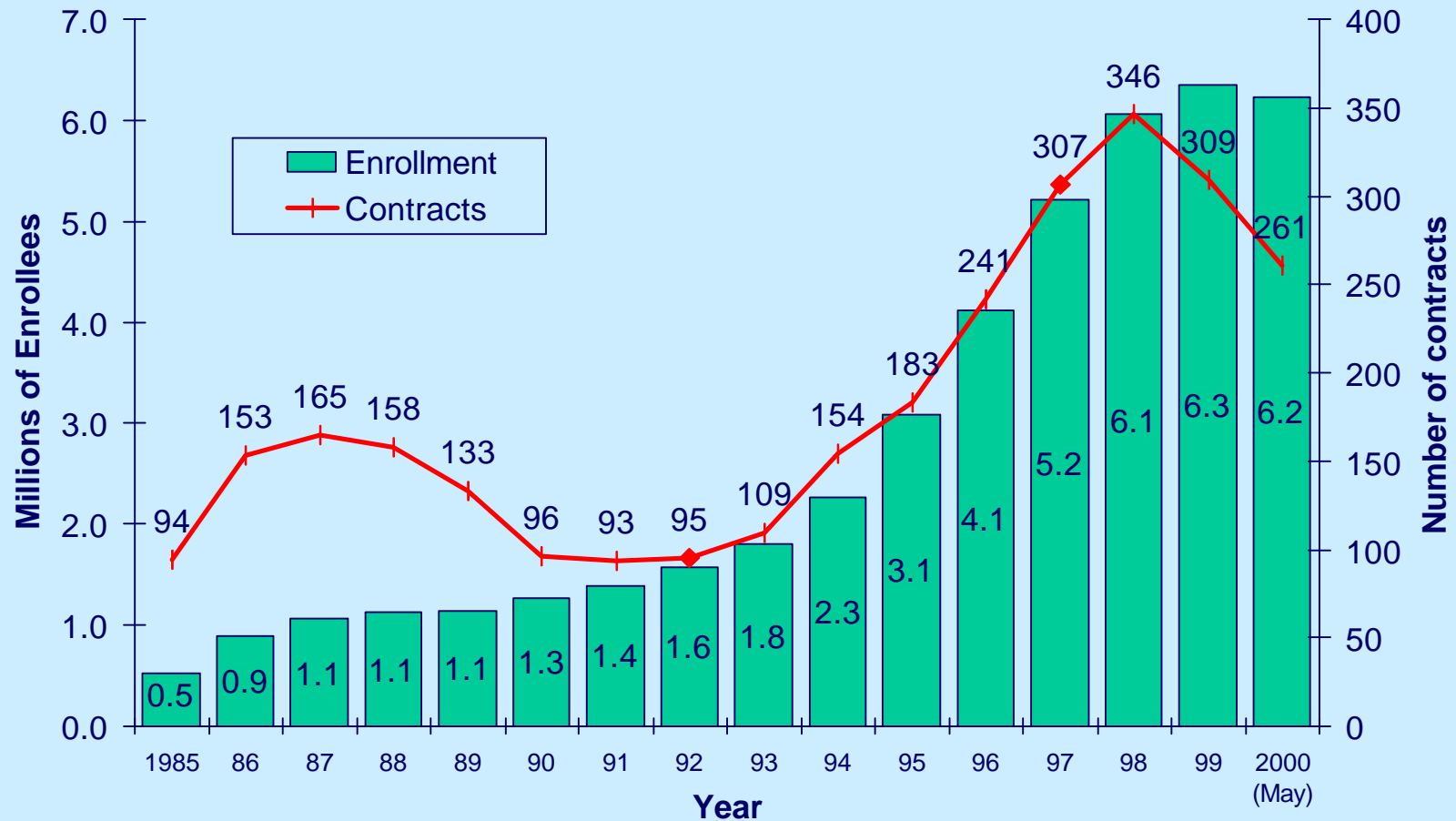
Computation of “National Per Capita Medicare+ Choice Growth Percentage”

<i>Provision</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Underlying Trend in Per Capita Costs	3.44%	4.00%	5.76%	6.00%
Adjustment for BBA (budget savings)	-0.80%	-0.50%	-0.50%	-0.50%
Adjustment for previous estimates	0.00%	-0.74%	-0.21%	-6.50%
National per capita Medicare+ Choice growth percentage	2.60%	2.70%	5.04%	-1.30%

Source: Rural Policy Research Institute (RUPRI) Health Panel, based on HCFA announcements of Medicare+Choice capitation rates, 1998-2001.

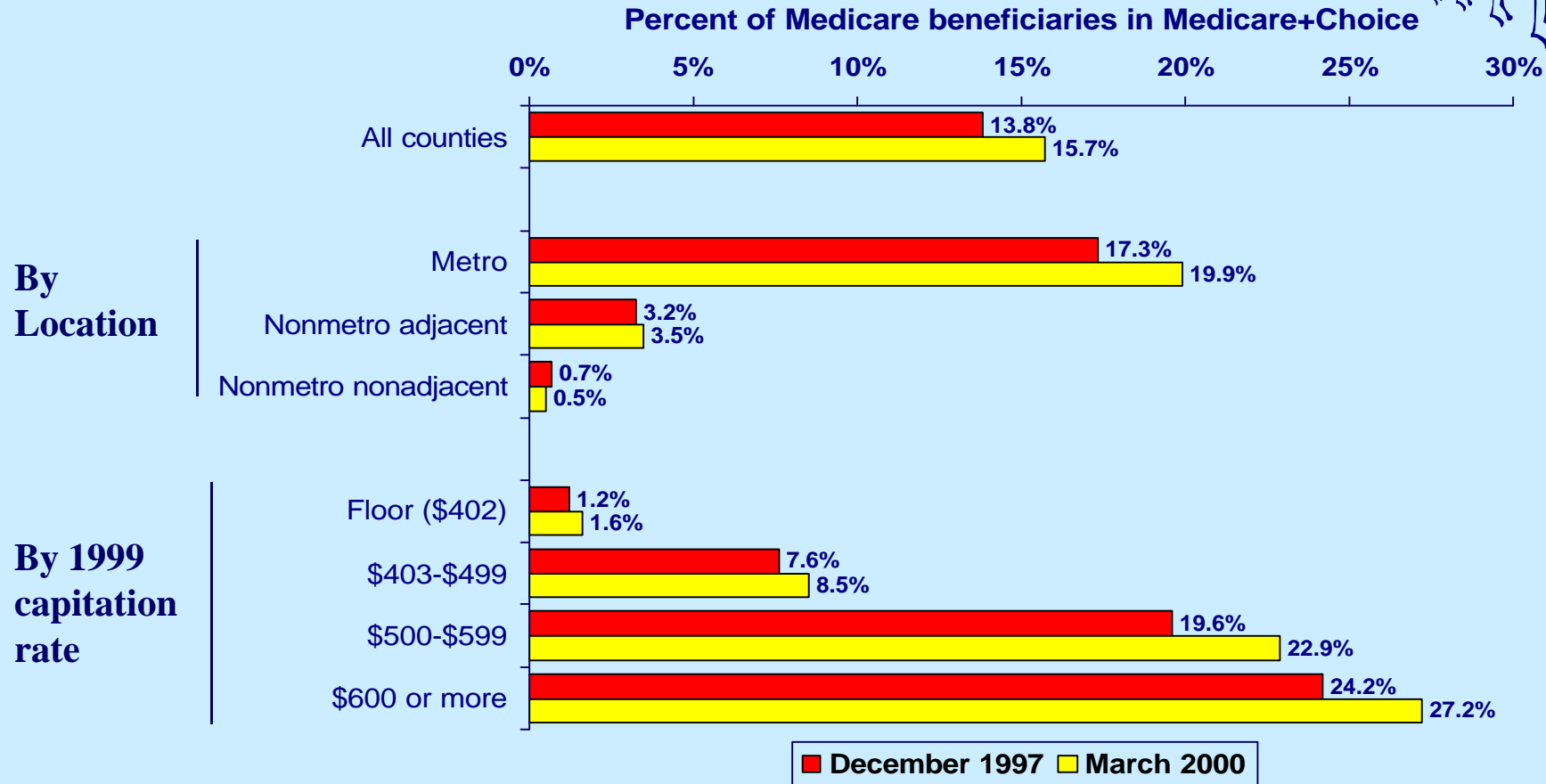
Enrollment in Medicare + Choice Contracts, 1985-2000

Enrollment and Contracts as of December of year shown (except for 2000)



Source: Health Care Financing Administration, Medicare Managed Care Contract Reports.

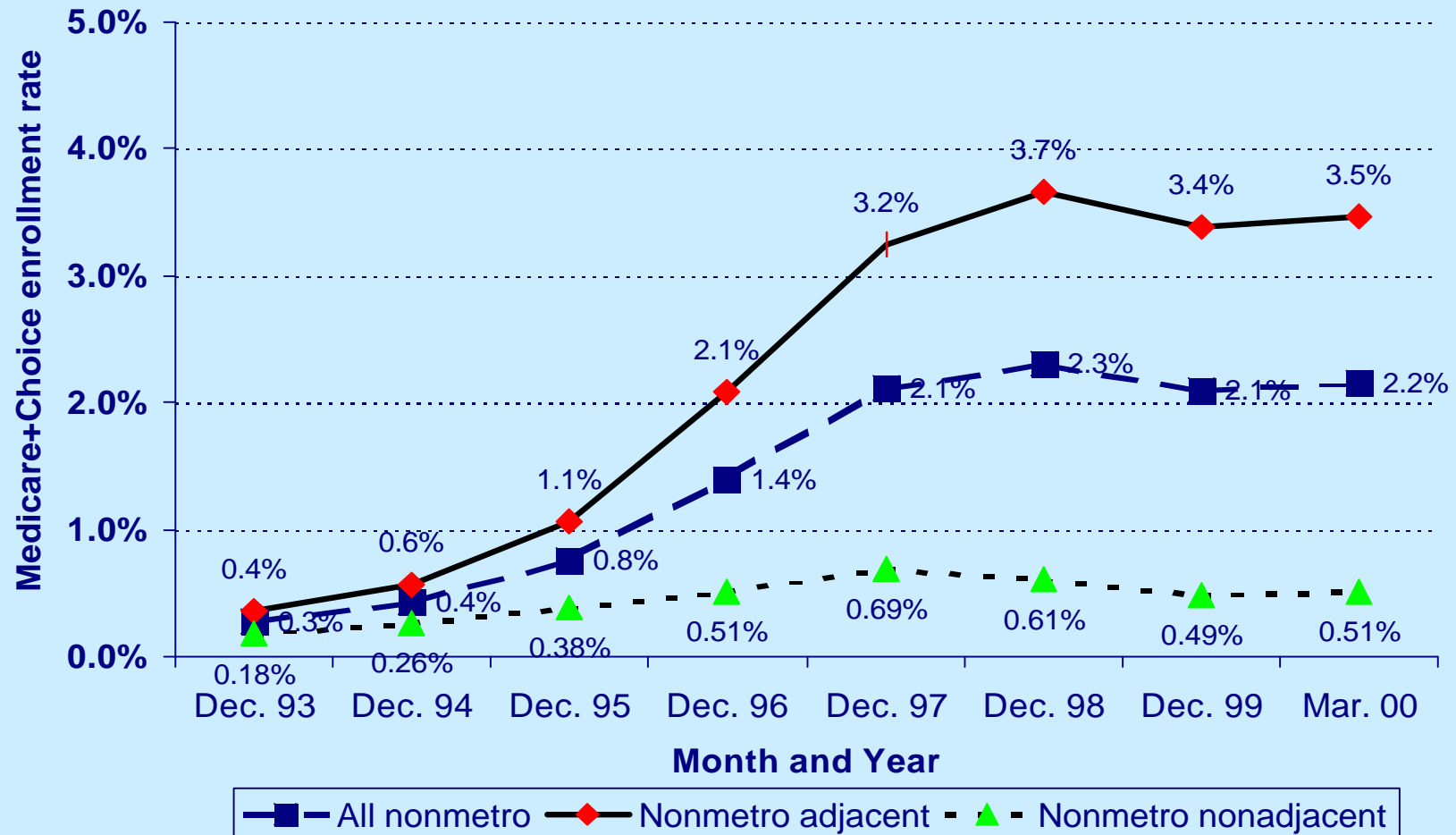
Change in Medicare + Choice Enrollment: December 1997 to March 2000*



Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: Estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.

Changes in Medicare + Choice Enrollment, by Location, 1993-2000



Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *Estimates after 1998 exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.

Medicare+ Choice in Rural Areas: March 2000

- 201,050 rural persons enrolled in Medicare+ Choice plans*
 - an increase from 187,227 as of December 1997
 - but a decrease from 212,187 as of January 1999
 - average annual growth since 1997: 3.1%
 - but growth in 1997 prior to BBA was 59%
- 17,845 rural persons living in counties at the floor are enrolled*
 - an increase from 14,975 in December 1997
 - but a drop from 18,646 in January 1999

Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.

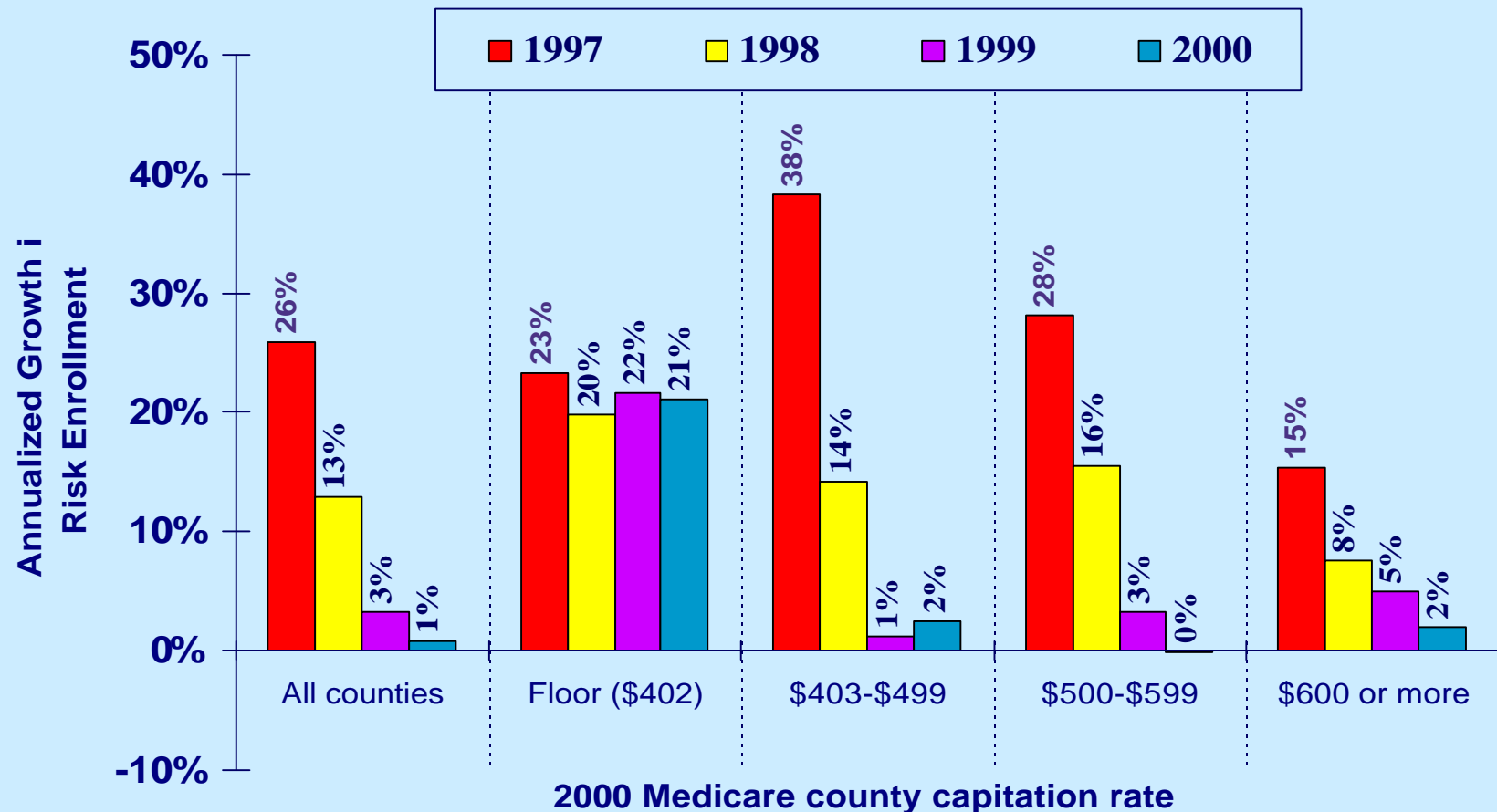
Medicare+ Choice in Rural Areas: March 2000

- 357 rural counties (15% of counties) are in the service area of a M+ C plan
- 383 rural counties (17%) have Medicare+ Choice enrollees (11 or more enrollees)*
 - 201 counties have 100 or more enrollees
 - 55 counties have 1,000 or more enrollees
- 154 plans (out of 264) have enrollees in rural counties (11 or more enrollees)*
 - but only 91 plans have 100 or more rural enrollees
 - and 40 plans have 1,000 or more rural enrollees

Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.

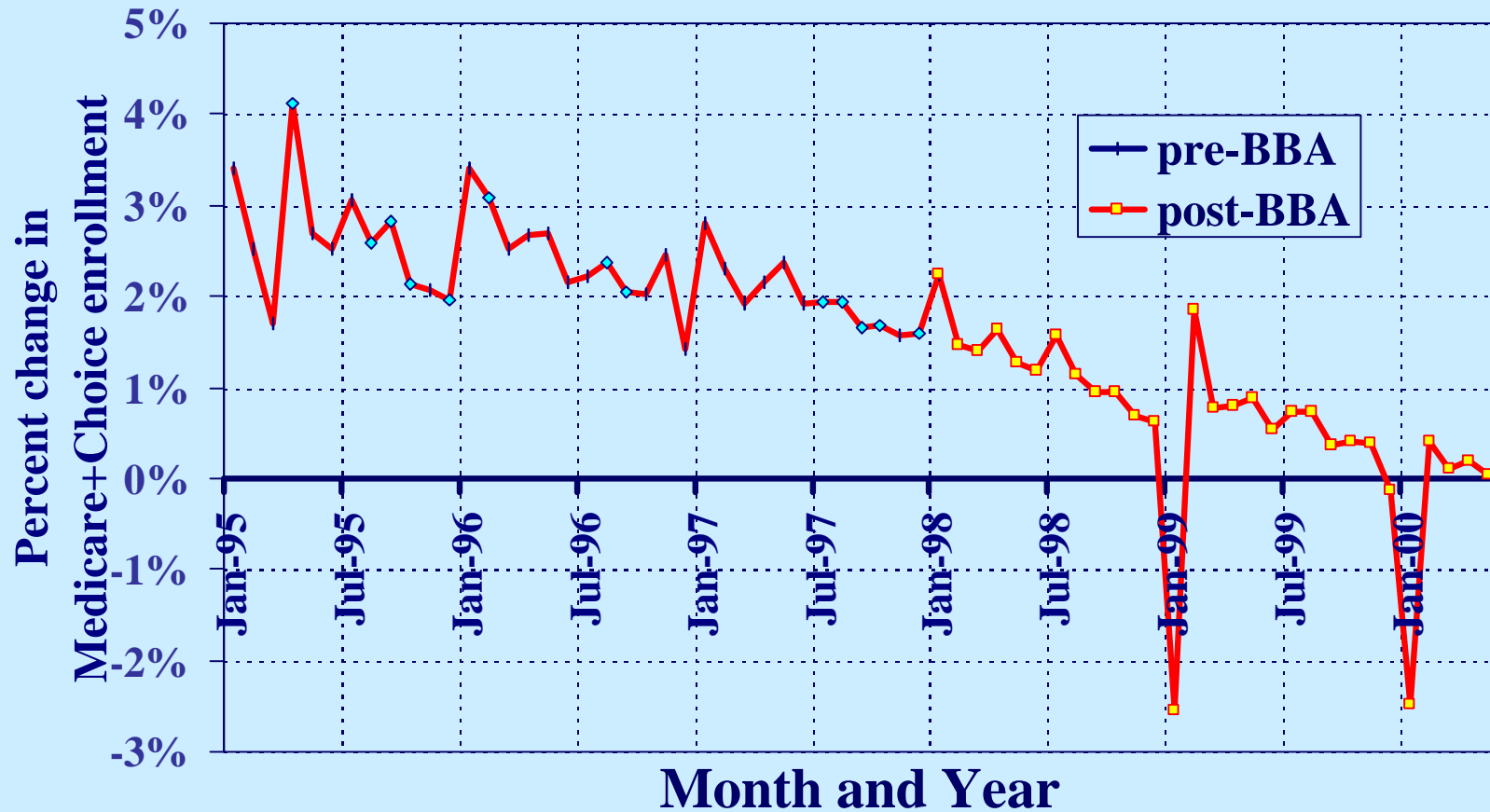
Change in Medicare + Choice Enrollment: By 2000 Medicare Capitation Rate



Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: Growth rate based on enrollment reported by HCFA, excluding enrollment for plans with less than 11 enrollees in a given county.

Monthly Percent Change in Medicare+ Choice Enrollment, 1995-2000



Source: Health Care Financing Administration, Medicare Managed Care Contract Reports.
 Note: Before 1998, risk enrollment reported.

Exits from the Medicare+ Choice Market: 1999 and 2000

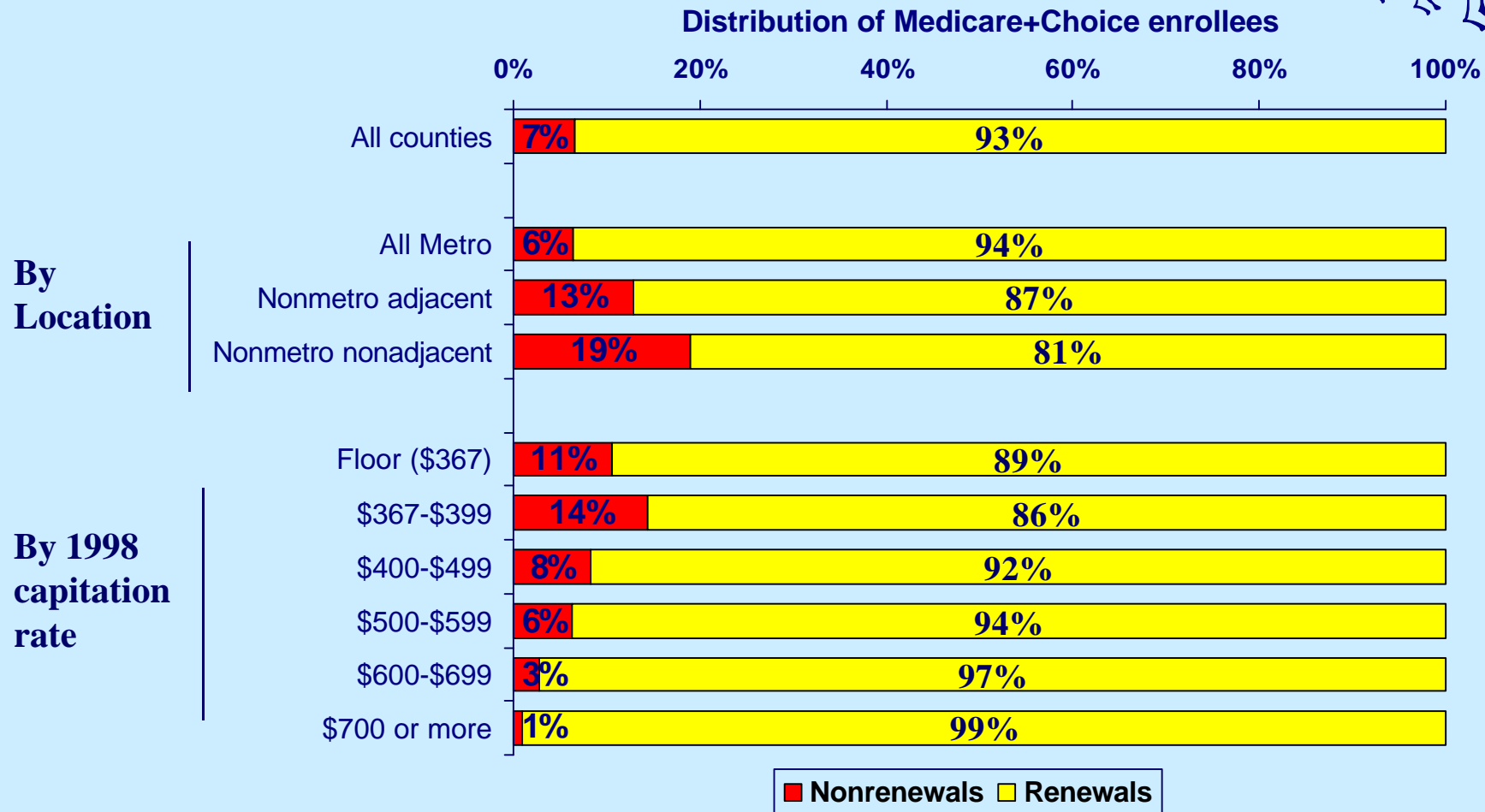
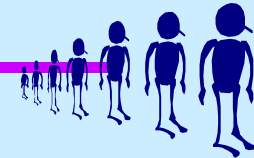
- Close to 100 Medicare plans did not renew their Medicare contracts, or reduced their service areas, in January 1999
 - and another roughly 100 plans did the same in January 2000
- These decisions reportedly affected about 407,000 enrollees in 1999 (327,000 in 2000)
 - in 1999, about 14% of those affected were in rural counties
 - in 2000, about 12% of those affected were in rural counties
(note: only about 3% of Medicare+ Choice enrollees are in rural)
- No other plan was available for 47,628 beneficiaries in 1999 (79,000 in 2000)
 - in 1999, 28% were rural beneficiaries
 - in 2000, 35% were rural beneficiaries

Change in Medicare+ Choice Plan Enrollments, 1997 to 2000

<i>Type of Plan</i>	<i>Number of plans</i>	<i>Dec. 1997</i>	<i>Jan. 2000</i>	<i>Change</i>
Continuing	212	4,459,835	6,026,928	1,567,093
Nonrenewing	95	766,603	--	(766,603)
New - continuing	52	--	163,043	163,043
New - Nonrenewing	26	--	--	--
All plans	385	5,226,438	6,189,971	963,533

Source: Rural Policy Research Institute (RUPRI) Health Panel

Beneficiaries in Nonrenewing Plans in 1999: By Characteristics of beneficiary's county



Source: Rural Policy Research Institute (RUPRI) Rural Health Panel.

Impact of the BBA on New Plans and Enrollment

- 78 new plans created since Dec. 1997
 - now serving over 163,000 enrollees
 - but only 52 still in existence
- Of these 52 plans, by January 2000* :
 - 14 plans had 100+ enrollees in rural counties
 - 98 rural counties served by these plans
 - 15,251 enrollees were in these new plans
 - 71% of these (10,797) are enrolled in 6 plans.
- In 213 rural counties, 35,110 enrollees in plans that were not there in December 1997.

Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.

Why has the BBA Not Led to Increases in Medicare+Choice Plans and Enrollment?

- Smaller growth in rates than anticipated
 - provisions slowing implementations of the blended rates discouraged plans
 - provisions are being phased in slowly
- Biggest change in rates are occurring in counties with lowest rates
 - but these counties have low Medicare risk enrollment

Why has the BBA Not Led to Increases in Medicare+Choice Plans and Enrollment?

- Increased uncertainty
- The timing and burden of the regulations
 - MCOs found it difficult to form new plans due to timing and complexity of regulations
- The effect of payment rates and their volatility on enrollment is small, according to statistical modeling
 - Penrod, McBride and Mueller study (forthcoming)

Factors Associated With Medicare Managed Care Enrollment

● Key factors influencing enrollment variation

- Enrollment in non-Medicare HMOs and managed care plans
- Payment policy and volatility in rates
- Population in county
- Factors affecting “taste” for HMOs (income, education, industry and occupation in county)

● Policy implication

- Legislated changes in payment policy will lead to only a small increase in Medicare managed care enrollment
 - all else equal, increase in enrollment of about 2 percentage points

Source: Joan Penrod, Timothy McBride, Keith Mueller, “Geographic Variation in Determinants of Medicare Managed Care Enrollment,” forthcoming in [Health Services Research](#).