

MEDICARE CONSUMER INFORMATION AND RISK SELECTION

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Summary: The Feasibility of Medicare Consumer Cooperatives

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The National Council on the Aging (NCOA) believes it is critical that the country move beyond the rhetoric of the current Medicare debate and look for real solutions to the serious problems faced by the Medicare Trust Fund and by Medicare beneficiaries. Therefore, NCOA is seeking support to explore the feasibility of a potential market-oriented solution that holds promise for protecting the basic integrity of the Medicare program, providing beneficiaries with more choices, ensuring adequate protection and coverage for individual consumers and saving the government money.

NCOA proposes to conduct a systematic feasibility study of Medicare Consumer Cooperatives (MCCs). The concept of the MCC is simple. Medicare beneficiaries would have the option of joining a state or regional group that would help them negotiate the marketplace of managed care and indemnity insurance options. At a minimum, MCCs would provide members with consumer information, counseling and advocacy services. Under certain circumstances, MCCs might also go one step further and actually negotiate preferential rates of benefits for their members.

The concept of the Medicare Consumer Cooperative has parallels in other sectors. Many companies have joined together to form purchasing alliances that negotiate with managed care plans on behalf of their employees and retirees. An important example of purchasing alliance is the Federal Employees Health Benefit Program (FEHBP) which was formed by Congress in 1959. FEHBP is a health care system that covers members of Congress, the occupants of the White House, and roughly 9 million other federal employees, retirees, and their dependents. One state-sponsored plan that has also had considerable experience with Medicare beneficiaries is the California Public Employee's Retirement System (CalPERS) which administers the retirement program for California State employees. Approximately 1 million people - active employees, retirees, and their dependents, are covered under this program. Despite these experiences, the benefits of purchasing cooperatives are not now available to the vast majority of Medicare beneficiaries.

MCCs could potentially yield significant benefits for consumers, managed care organizations, insurance companies, and the federal government. For the first time, older persons would have the benefit of a sophisticated organization screening plans to ensure adequate quality, providing important consumer protection and advocacy services, and possibly negotiating benefits on their behalf. MCCs would also be an objective source of information about various plans offered to beneficiaries in a given area, thus enabling consumers to make more informed decisions about which plan would best fit their individual needs. If the MCCs are also allowed to bargain on behalf of their members,

older persons would also be able to get the benefits of purchasing as part of a group, i.e., lower costs or enriched benefits packages.

Managed care plans and insurance companies would also benefit from MCCs. Currently, these companies typically spend between 10% and 25% of first-year premiums on marketing and enrollment costs. MCCs could allow companies to cut these costs significantly for the benefit of all involved.

MCCs could also produce substantial savings for the federal government. The efficiencies of group purchasing could be great enough to allow Medicare to reimburse MCCs at 90% or less of AAPCC. MCCs may also make it possible for Medicare to use competitive forces as an alternative of AAPC, thus encouraging HMOs to enroll more sick people.

Medicare Consumer Cooperatives have broad-based ideological and political appeal. Conservatives like MCCS because they are essentially market-oriented solution that facilitates greater consumer choice. Liberals like MCCs because they are based on collective action and group purchasing, and can be an effective means of enhancing consumer protection in a rapidly changing market place.

Despite the potential benefits of MCCs and their broad-based appeal, there are legitimate concerns and unanswered questions about how MCCs would actually operate and if they are really feasible. For example, some people are concerned that MCCs would lead to fragmentation of the Medicare market making it easier for HMOs to "skim" and enroll only healthy seniors. Others question whether it is appropriate for anyone other than the federal government to bargain on behalf of beneficiaries. There are also many design questions about the appropriate scope, governance and responsibilities of an MCC.

NCOA has received financial support to systematically examine the feasibility of Medicare Consumer Cooperatives. Over a fifteen-month period, NCOA staff will:

1. Work with a panel of leading health policy experts to consider alternative design options and to identify and address specific aspects of feasibility.
2. Work with experts at the US Health Care Financing Administration to identify and try to address their concerns and to explore issues involved in obtaining waivers or contracts necessary to implement a demonstration program of the MCC.
3. Work with representatives of managed care plans and Medigap insurance companies to learn more about their interest and potential willingness to participate in MCCs.
4. Work with grass roots consumer groups of older persons, state retirement systems, large corporations and unions to examine potential consumer interest in MCCs.
5. Analyze information and interview experts about the CalPERS, FEHBP and other purchasing alliances for employed and retired persons to determine their relevance for MCC concept.
6. Conduct selected technical analyses of key design issues.
7. Identify and systematically analyze the most promising potential approaches for Medicare Consumer Cooperatives.

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8. Develop and implement action plans for further development of MCCs.
9. Disseminate widely the findings of this project.

Key staff for the project will include Dr. James Firman, President and CEO; Jean Polatsek, Director of Health Policy; and Tom Elkin, the former director of CalPERS, who will be the project's Principal Consultant. An outstanding panel of policy and business experts, representing both conservative and liberal perspectives, will work with the project team in an advisory capacity. Key officials at the US Health Care Financing Administration have also agreed to cooperate with this feasibility study.

Expected outcomes of the project include:

1. NCOA will develop new knowledge about the feasibility of MCCs and the potential benefits and risks of MCCs for Medicare beneficiaries, insurers, managed care plans and the Medicare Program.
2. NCOA will disseminate widely to policy makers, policy analysts, and the public, new information about MCCs that could be very timely and relevant to future discussions of reforming Medicare.
3. If MCCs are found to be feasible, NCOA will likely lay the groundwork for future demonstration projects involving contracts and/or waivers from the Health Care Financing Administration.