

# Module 2: Physician Agency and Treatment Decisions

Current issues in health care payments

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# Major Public Payors

1. Medicare
2. Medicaid

# Background on Medicare

- Created by the Social Security Act in 1965
- Originally health insurance to those 65 years of age and older
- Expanded to include certain disabilities (20% now below age 65)
- Consists of four parts:
  1. Part A: Hospital Insurance
  2. Part B: "Medical" Insurance (physician visits and outpatient care)
  3. Part C: Private supplemental care (Medicare plus Choice, now Medicare Advantage)
  4. Part D: Prescription Drug Coverage

# Medicare Part A

- Automatic enrollment for anyone 65 and older who worked over their lifetime
- Financed with combination of payroll tax (current workers) and cost-sharing (deductibles, etc.)
- Funds exist as part of "Federal Hospital Insurance Trust Fund"...can't finance through debt
- Benefit structure:
  - Very good for short inpatient stays
  - Very bad for major problems with long stays
  - Doesn't cover nursing home care beyond 30 days

# Medicare Part B

- Voluntary, but almost everyone enrolls
- Requires monthly premium (\$144 in 2020)
- Small deductible and 20% co-insurance

# Medicare Part C

- Private insurance provision of Medicare benefits
- Formally created under Balanced Budget Act in 1997 (existed informally before)
- Heavily revised in Medicare Modernization Act in 2003
- Medicare pays insurers a risk-adjusted amount to enroll a given beneficiary
- Broader benefits than Part A and B, often with \$0 additional premiums, but restrictive networks

# Medicare Part D

- Created under the Medicare Modernization Act in 2003
- Private insurance for prescription drugs
- Insurers receive payments from Medicare to enroll a given beneficiary (much like Part C)
- Many insurers offer a combined Part C+D plan

# Privatization of Medicare

- Medicare Advantage (both Parts C and D) has been well-received and generally thought to be a success story for Medicare benefits
- Accounts for nearly 40% of total Medicare enrollees
- Some early difficulties with adverse selection and risk-adjustment
- Still slightly sicker people staying in traditional Medicare
- Could be a **big** part of any future "Medicare-for-all" type program



# Medicare payments

- Prospective payment system
- Begin with two "base" rates:
  - Operating base payment rates, \$5,797 in 2020
  - Capital base payment rates, \$462 in 2020
- Adjustments:
  - Diagnosis Related Group (higher adjustments for more complicated things)
  - Academic Medical Center
  - Disproportionate Share

# Background on Medicaid

- Also created by the Social Security Act in 1965
- Originally provided health insurance to people receiving "Aid to Families with Dependent Children", mainly extremely poor families
- Expanded over time with different rules by state
- Huge program: about 40% of births are covered by Medicaid/CHIP and 1 in 3 birhts!

# ACA and Medicaid Expansion

- Big part of ACA was Medicaid expansion
- Originally mandatory but made voluntary by Supreme Court
- Expansion covers all adults (with or without children) below age 65 and with incomes below 138% of the federal poverty line (\$35,535 for family of 4 in 2020)

# Medicaid Funding

- Paid for by states and federal funding
- State funding is matched by federal funds, and the match amount depends on the state's per capita income
- Incentivizes services to be provided by Medicaid that historically may not be

# Medicaid Benefits

- Pretty generous coverage
- Low to no copayments, deductibles, co-insurance
- Usually covers dental, vision, hospitals, and physician services
- Covers long term care (unlike Medicare). About 40% of all long term care is paid for by Medicaid.
- Growth in Medicaid managed care

# Medicaid Payments

- Works similarly to Medicare with a base rate plus adjustments
- Base rates vary by state Medicaid agencies
- Adjustments (or supplemental payments) consist of:
  - Disproportionate share adjustments
  - Other (non-DSH) adjustments
  - Account for a little less than half of total Medicaid payments on average

# Pay for performance

There are three main pay for performance programs employed in Medicare right now:

1. Hospital Readmission Reduction Program
2. Value-based Purchasing
3. Quality Payment Program for physicians: Merit-based Incentive Payment System (MIPS) and Advanced Alternative Payment Models (APMs)

# Capitated Payments

There are two forms of capitated payments in Medicare now:

1. Bundled Payments
2. Accountable Care Organizations



# Other payment issues

Information and Consumer Choice:

1. Hospital Compare
2. Penalty Information

# Reading an academic paper

Let's answer these questions for the Clemens and Gottlieb (2014) paper.

# 1. What is the main question and what is new?

## 2. What data are they using?

### 3. What is the "unit of observation"?

## 4. What is the central "identification strategy"?

## 5. What is the main takeaway?