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In Brief

Administrative Challenges in Managing the Medicare Program

This **In Brief** summarizes the AARP Public Policy Institute Issue Paper, *Administrative Chal-lenges in Managing the Medicare Program*, by Michael E. Gluck, Ph.D., and Richard Sorian.

Medicare—the federal health insurance program for persons age 65+ and certain younger persons with disabilities—is an enormous and complicated program, and effective management is critical to its success. In addition to managing Medicare, the Centers for Medicare and Medicaid Services (CMS) in the U.S. Department of Health and Human Services manages the federal-state Medicaid program and the State Children's Health Insurance Program for low-income people.

This paper describes the scope of activities necessary to manage Medicare and identifies challenges federal administrators face in performing these tasks. Emphasis is on educating beneficiaries about their benefits and rights; using information technology as a tool for tasks such as processing claims and maintaining quality; making national coverage decisions for medical services, procedures, and technologies provided to beneficiaries; and administering private Medicare plans. Because research for this paper was completed prior to passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, new responsibilities and resources created by this legislation are generally not included in the analysis. For this study, the authors performed a literature review and, in the fall of 2001, conducted structured telephone interviews with a wide mix of national experts in Medicare management and policy.

From their research, the authors found the following recurring themes:

- *Diversity and complexity of administrative tasks involved in managing Medicare.* The range of tasks involved in managing Medicare includes: determining program eligibility; collecting Part B premiums; educating beneficiaries about benefits and rights; processing claims; implementing payment policies; administering private plans; selecting and managing contractors; rendering coverage determinations for medical services, procedures, and technologies; combating fraud and abuse; ensuring quality of services provided to beneficiaries; and supporting Medicare research and demonstration projects.
- *Adequate performance by CMS and its contractors of their core responsibilities.* CMS has developed innovative payment mechanisms, complied with often difficult statutory deadlines for implementing congressionally mandated reforms, and, of late, reduced Medicare overpayments.
- *Grossly inadequate funding for Medicare administration and management.* Congressionally mandated Medicare payment reforms in the last two decades have moved Medicare from a system of reimbursement based on providers' own costs or charges to a system of administered prices. While the task of managing Medicare has grown more complex, real expenditures for Medicare management activities have declined.
- *Insufficient personnel.* The number of people CMS employs is relatively small, given the many demands made upon it. CMS has had trouble attracting individuals trained in

For full report, see AARP Public Policy Institute Paper #2004-15 (December 2004).
Summary prepared by Craig Caplan, December 2004.
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medicine and information technology, and private health insurance experience. Salary restrictions have made it difficult for CMS to compete with private firms for professional staff with needed skills or experience.

- *Inadequacy of Medicare's information technology.* CMS uses (or has the potential to use) information technology as a tool for processing Medicare claims; educating beneficiaries about their benefits, rights, and options; combating fraud and abuse in the Medicare program; supporting Medicare quality assurance and improvement activities; and providing data on the Medicare program needed for analysis and policymaking. CMS's computer systems have been antiquated, inadequate to do needed tasks, and without sufficient funding for improvement.
- *Medicare officials torn by competing roles and demands.* Medicare managers must meet the needs of beneficiaries, ensure adequate participation by providers, and make sure that providers meet performance and quality standards. They must maintain Medicare's financial viability, and guard against waste, fraud, and abuse. Because of Medicare's enormous size, its impact on the health of elderly and disabled beneficiaries, and its potentially huge effect on local and national economies, Medicare managers are often placed under an unforgiving microscope.
- *Increasing congressional involvement in Medicare policies.* In the 1990s alone, Congress enacted six major pieces of legislation affecting Medicare policy. While lawmakers have added to CMS's responsibilities, they have frequently not added sufficient resources to enable CMS to perform these responsibilities.
- *Strained relations between Medicare and health care providers.* In Medicare's early years, lawmakers were criticized for being too deferential to providers in setting payments. In recent years, the increased focus on combating health care fraud and abuse has led many providers to believe they had been unfairly targeted for investigation and penalized for errors that are more likely due to unclear guidance from CMS. Reductions in contractor funds to educate providers and respond to inquiries about billing practices increased tensions between Medicare and providers.
- *Ambiguities with respect to the functions of CMS and its regional offices.* Medicare is a national program with uniform benefits and eligibility rules, yet CMS's 10 regional offices and contractors have leeway in making decisions about coverage, contract management, and certification of facilities. Regional variations in the practice and delivery of health care mean that Medicare can vary for beneficiaries and providers. Some beneficiaries and providers complain that they often receive conflicting information from the national and regional offices.
- *Questions remaining about the role of CMS itself.* Some analysts question whether CMS should be an agency devoted solely to the management of Medicare or should also have other health policy and program responsibilities (e.g., Medicaid), as it does now.

This paper underscores the magnitude and complexity of responsibilities in managing Medicare and identifies challenges federal administrators face in performing these tasks. The challenges outlined in this paper do not include those that emerge as a result of the nation adopting substantial changes in Medicare's benefits and basic structure.