

In Brief

The Medicare Preferred Provider Organization Demonstration: Overview of Design, Characteristics, and Outstanding Issues of Interest¹

This *In Brief* summarizes the findings of the above referenced AARP Public Policy Institute Issue Paper that presents a detailed description of the Preferred Provider Organization Demonstration project initiated by the Centers for Medicare and Medicaid Services (CMS) in January 2003. The purpose of the demonstration is to test alternatives to the payment methods used in the Medicare+Choice program. The PPI study provides information about the geographic scope of the demonstration; plan sponsors and profiles of participating PPOs; benefits, premiums, and cost sharing; payment methods and risk sharing; and other issues to consider in evaluating the effects of the demonstration.

Major Findings

- CMS has mounted a major payment demonstration over a short period of time and with a high degree of plan participation. CMS limited plan participation to state-licensed, risk-bearing entities. Initially, 17 organizations in 23 states were selected to participate, although eventually there will be 35. CMS estimates that 150,000 Medicare beneficiaries will enroll in the PPO demonstration plans.
- Most of the participating PPOs are not new entrants to Medicare and have participated in the Medicare+Choice (M+C) program before.
- Although the demonstration PPOs are geographically distributed, they are disproportionately located along the East Coast and much more limited on the West Coast. Moreover, they are concentrated in areas that already have an existing M+C plan.
- Under the demonstration, PPOs may receive the greater of 99 percent of the Medicare fee-for-service payment in each county or the M+C payment amount. In most counties, the PPOs are paid at the M+C rate. However, in 41 of the demonstration counties (where approximately 25 percent of the Medicare beneficiaries in the demonstration counties live), the PPOs are paid at 99 percent

¹ AARP Public Policy Institute Issue Paper #2003-07 (June 2003). The publication was written by Marsha Gold, ScD., Lori Achman, M.P. P., and Jim Verdier, J. D. of Mathematica Policy Research, Inc.

of fee-for-service. On average, the payments to the PPO demonstration plans are 5 percent higher than M+C payments.

- In contrast to the M+C program, plans in the PPO demonstration share risk with CMS for medical costs. However, the PPOs are at full risk for administrative costs.
- CMS imposes fewer administrative requirements on demonstration PPOs than on M+C plans. For example, demonstration PPOs do not have to file adjusted community rate proposals (ACR); need not conduct Quality Assurance Performance Improvement projects (QAPI); and are only required to submit select HEDIS performance measures.
- Of the 17 firms operating a demonstration PPO in February 2003, all but one operated an M+C plan in 2002. All but two of the national firms that account for more than half of M+C enrollment are participating in the PPO demonstration.
- Firm strategies appear to differ with respect to their product offerings, and their benefits reflect different interests with respect to targeting group versus individual accounts.
- For 2003, the average monthly premium is \$84 for a “basic” plan option and \$92 per month for all options. In most cases, PPO premiums are higher than M+C premiums in the same markets.
- Almost 80 percent of the PPO demonstration plans offer prescription drugs, although in most cases, the benefit is limited to generic drugs.
- Typically, beneficiaries pay fixed dollar copayments for in-network services and coinsurance (20 percent of the plan’s payment) to out-of-network providers for physician and hospital services.
- As of February 2003, of the 17 participating firms, only 5 were at full risk. The remaining plans shared risk with the Medicare program. Under the risk-sharing arrangements, the PPOs are at risk for plus or minus 2 percentage points around a target medical loss ratio.

Conclusions

- The demonstration will provide valuable insights for policymakers considering Medicare reform proposals that involve private health plans in such areas as costs (both program costs and beneficiary out-of-pocket costs), geographic distribution, beneficiary choices, and quality. Accordingly, the experience of beneficiaries and health plans in the demonstration should be monitored for lessons that could be applicable to reform efforts.