

MEMO

To: Michael Boyd  
From: Kelly Riley  
Date: February 4, 2000  
Subject:: Preliminary Cost Pooling Info

Kimber Cole of Congressman Patrick Kennedy's office (202/225-4911) referred me to Howard Bedlin of the National Council on Aging (202/479-6685). Bedlin has not returned my phone call. Attached is my preliminary research on cost pooling relative to insurance and prescription drug programs for senior citizens. I obtained the information from the Council's website.

I will advise you of additional findings as I obtain them.

A 12/21/99 study released by the National Council on the Aging found that Medicare coalitions could bargain on behalf of Medicare beneficiaries for better rates and services, help inform Americans about confusing choices, enhance consumer protections, and save the government money.

NCOA proposes two types of coalitions. Information coalitions (or Phase I MCCs) would focus on providing consumer information, helping consumers to choose plans, and protecting consumer rights. Purchasing coalitions (or Phase II MCCs) would negotiate with health plans and insurers on behalf of beneficiaries to obtain lower premiums and improved benefits.

Phase I MCCs, information coalitions, would work with HCFA to empower beneficiaries with information on benefit packages, report cards on the quality of care, and costs associated with plan options. They would help consumers to understand their rights and choices, to interpret data and information on quality and benefits, and to make decisions about HMOs, Medigap and other insurance options. Aging 2000, a nonprofit consumer organization in Rhode Island, is a model for the concept of Medicare consumer information coalitions. (*NOTE: Riley could not locate further info on Aging 2000.*)

Phase II MCCs, incorporating the purchasing function, would also negotiate benefits and premiums on behalf of beneficiary members just like benefits managers and purchasing groups in the public and private sectors have done for the under 65 population. They would negotiate with managed care organizations, Medigap plans and other providers for group rates, improved benefits and better performance data. Phase II MCCs could also perform enrollment, premium collection, and payment functions. A major advantage of Phase II MCCs over purchasing groups for younger people would be that the primary loyalty of MCCs would be to their beneficiary members. In some cases, the MCCs would contract with existing purchasing groups to provide these services.

Phase II MCCs will require enabling legislation to permit MCCs to act as purchasing groups and a clear mandate to HFCA to support the development of Phase II MCCs. Effective strategies to counteract risk selection issues in the Medicare program, although not at all unique to MCCs, must also be implemented.

Full implementation costs to Medicare of a national MCC program (both Phase I and Phase II models) are estimated at \$339 million per year (including amortization of start-up costs). This would enable funding of a full national network of Phase I MCCs and 320 Phase II MCCs with a geographic reach to provide purchasing services for up to 65% of beneficiaries. Preliminary estimates of the savings to Medicare resulting from MCCs suggest that gross savings in excess of \$730 million per year are likely. Some project staff believe the gross savings could exceed \$2.5 billion per year. Sensitivity analyses of key underlying

assumptions suggest that it is likely that, after an initial start-up phase, MCCs could be funded entirely out of direct savings to the Medicare program.

There is compelling evidence from the private sector of the feasibility and potential impact of Phase II MCCs. Select purchasing groups for working age people (including the Federal Employment Health Benefit Program, CalPERS, the Buyers Health Care Action Group of Minneapolis and the Pacific Business Group on Health) have produced savings through a combination of managed competition and effective bargaining with managed care organizations. MCCs, in collaboration with HCFA, may be able to produce comparable results.