Medicare+ Choice in Rural Areas

Impact of the Balanced Budget Act of 1997

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The Balanced Budget Act (BBA) and Medicare+ Choice

Impact of BBA on Capitation Rates

Impact of BBA on Medicare+ Choice enrollment
  - Nonrenewing plans
  - New plans
## Provisions of Balanced Budget Act of 1997: Reform of Medicare Capitation Rates

<table>
<thead>
<tr>
<th>Provision</th>
<th>Description</th>
</tr>
</thead>
</table>
| Blending                          | 50% Local Area  
50% National (price adjusted)  
Phased in by 2003                  |
| Floor                             | $367 in 1998, adjusted for Medicare growth thereafter ($402 in 2000)       |
| Hold harmless                     | 102% of previous year’s rate                                               |
| Budget Neutrality Provision       | Costs “neutral” relative to 100% local area rates  
If adjustment needed, blended rates reduced;  
Floor and hold harmless rates protected |
| Graduate Medical Education Carveout | Fully carved out over a five year period                                  |
| National Medicare per capita growth rate | Growth in per capita Medicare  
Less 0.8% in 1998, 0.5% in 1999-2001                                   |

Source: Rural Policy Research Institute (RUPRI) Health Panel.
Actual Experience Under BBA: Provision Determining Capitation Rates

Only in 2000 has blended rate provision been fully implemented.

Source: Rural Policy Research Institute (RUPRI) Health Panel
Note: *In 2001, though the rate was set in every county based on the floor and hold harmless provision, many counties received a rate that was 2% above the blended rate they received in 2000, so this was essentially a “blended rate.”
Rural Medicare+ Choice Capitation Rates: BBA Provision Determining Rate

Percent of Counties with Rate Set by Provision

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural adjacent</th>
<th>Rural nonadjacent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>34% 66%</td>
<td>40% 51%</td>
</tr>
<tr>
<td>1999</td>
<td>38% 63%</td>
<td>45% 48%</td>
</tr>
<tr>
<td>2000</td>
<td>34% 8% 59%</td>
<td>41% 52%</td>
</tr>
<tr>
<td>2001*</td>
<td>38% 71%</td>
<td>48% 55%</td>
</tr>
</tbody>
</table>

Floor | Hold harmless | Blend

Source: Rural Policy Research Institute (RUPRI) Health Panel
Note: *In 2001, though the rate was set in every county based on the floor and hold harmless provision, many counties received a rate that was 2% above the blended rate they received in 2000, so this was essentially a “blended rate.”
Implementation of the BBA: Reasons Why Blend “Not Fully Implemented”

- Slow growth in traditional Medicare expenditures
  - Impact of the BBA -- reductions in growth of reimbursement to hospitals, home health, outpatient, nursing homes

- BBA budget savings provision
  - 0.8% reduction in 1998;
  - 0.5% reduction in 1999-2001

- Budget neutrality
  - Blend “funded” only after hold harmless and floor provisions applied

- Revisions of previous year’s estimates
  - Estimates further off because rates announced earlier (in March)
## Change in Medicare Spending Per Capita, 1995-97 and 1997-2000

<table>
<thead>
<tr>
<th>Category of Spending</th>
<th>Average Annual Percent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>6.1%</td>
</tr>
<tr>
<td>Hospital</td>
<td>2.1%</td>
</tr>
<tr>
<td>Managed care</td>
<td>21.9%</td>
</tr>
<tr>
<td>Physicians</td>
<td>0.7%</td>
</tr>
<tr>
<td>Home health</td>
<td>2.9%</td>
</tr>
<tr>
<td>SNF</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

### Share of Medicare per capita spending, 2000

- Hospital: 32%
- Managed care: 21%
- Physicians: 13%
- Home health: 7%
- SNF: 6%
- Other: 21%

## Computation of “National Per Capita Medicare+ Choice Growth Percentage”

<table>
<thead>
<tr>
<th>Provision</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Trend in Per Capita Costs</td>
<td>3.44%</td>
<td>4.00%</td>
<td>5.76%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Adjustment for BBA (budget savings)</td>
<td>-0.80%</td>
<td>-0.50%</td>
<td>-0.50%</td>
<td>-0.50%</td>
</tr>
<tr>
<td>Adjustment for previous estimates</td>
<td>0.00%</td>
<td>-0.74%</td>
<td>-0.21%</td>
<td>-6.50%</td>
</tr>
<tr>
<td>National per capita Medicare+ Choice growth percentage</td>
<td>2.60%</td>
<td>2.70%</td>
<td>5.04%</td>
<td>-1.30%</td>
</tr>
</tbody>
</table>

Enrollment in Medicare + Choice Contracts, 1985-2000

Enrollment and Contracts as of December of year shown (except for 2000)

Source: Health Care Financing Administration, Medicare Managed Care Contract Reports.
Change in Medicare + Choice Enrollment: December 1997 to March 2000*

Percent of Medicare beneficiaries in Medicare+Choice

By Location
- All counties
  - December 1997: 13.8%
  - March 2000: 15.7%
- Metro
  - December 1997: 17.3%
  - March 2000: 19.9%
- Nonmetro adjacent
  - December 1997: 3.2%
  - March 2000: 3.5%
- Nonmetro nonadjacent
  - December 1997: 0.7%
  - March 2000: 0.5%

By 1999 capitation rate
- Floor ($402)
  - December 1997: 1.2%
  - March 2000: 1.6%
- $403-$499
  - December 1997: 7.6%
  - March 2000: 8.5%
- $500-$599
  - December 1997: 19.6%
  - March 2000: 22.9%
- $600 or more
  - December 1997: 24.2%
  - March 2000: 27.2%

Source: Rural Policy Research Institute (RUPRI) Health Panel
NOTE: Estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.
Changes in Medicare + Choice Enrollment, by Location, 1993-2000

<table>
<thead>
<tr>
<th>Month and Year</th>
<th>All nonmetro</th>
<th>Nonmetro adjacent</th>
<th>Nonmetro nonadjacent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 93</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Dec. 94</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Dec. 95</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.38%</td>
</tr>
<tr>
<td>Dec. 96</td>
<td>1.4%</td>
<td>2.1%</td>
<td>0.51%</td>
</tr>
<tr>
<td>Dec. 97</td>
<td>3.2%</td>
<td>2.1%</td>
<td>0.69%</td>
</tr>
<tr>
<td>Dec. 98</td>
<td>3.7%</td>
<td>2.3%</td>
<td>0.61%</td>
</tr>
<tr>
<td>Dec. 99</td>
<td>3.4%</td>
<td>2.1%</td>
<td>0.49%</td>
</tr>
<tr>
<td>Mar. 00</td>
<td>3.5%</td>
<td>2.2%</td>
<td>0.51%</td>
</tr>
</tbody>
</table>

Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *Estimates after 1998 exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.
Medicare+ Choice in Rural Areas: March 2000

- 201,050 rural persons enrolled in Medicare+ Choice plans*
  - an increase from 187,227 as of December 1997
  - but a decrease from 212,187 as of January 1999
  - average annual growth since 1997: 3.1%
    - but growth in 1997 prior to BBA was 59%

- 17,845 rural persons living in counties at the floor are enrolled*
  - an increase from 14,975 in December 1997
  - but a drop from 18,646 in January 1999

Source: Rural Policy Research Institute (RUPRI) Health Panel
NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.
Medicare+ Choice in Rural Areas: March 2000

- 357 rural counties (15% of counties) are in the service area of a M+ C plan

- 383 rural counties (17%) have Medicare+ Choice enrollees (11 or more enrollees)*
  - 201 counties have 100 or more enrollees
  - 55 counties have 1,000 or more enrollees

- 154 plans (out of 264) have enrollees in rural counties (11 or more enrollees)*
  - but only 91 plans have 100 or more rural enrollees
  - and 40 plans have 1,000 or more rural enrollees

Source: Rural Policy Research Institute (RUPRI) Health Panel

NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.
Change in Medicare + Choice Enrollment: By 2000 Medicare Capitation Rate

Source: Rural Policy Research Institute (RUPRI) Health Panel
NOTE: Growth rate based on enrollment reported by HCFA, excluding enrollment for plans with less than 11 enrollees in a given county.
Monthly Percent Change in Medicare+ Choice Enrollment, 1995-2000

Source: Health Care Financing Administration, Medicare Managed Care Contract Reports.
Note: Before 1998, risk enrollment reported.
Exits from the Medicare+ Choice Market: 1999 and 2000

- Close to 100 Medicare plans did not renew their Medicare contracts, or reduced their service areas, in January 1999
  - and another roughly 100 plans did the same in January 2000

- These decisions reportedly affected about 407,000 enrollees in 1999 (327,000 in 2000)
  - in 1999, about 14% of those affected were in rural counties
  - in 2000, about 12% of those affected were in rural counties
    (note: only about 3% of Medicare+ Choice enrollees are in rural)

- No other plan was available for 47,628 beneficiaries in 1999 (79,000 in 2000)
  - in 1999, 28% were rural beneficiaries
  - in 2000, 35% were rural beneficiaries

# Change in Medicare+ Choice Plan Enrollments, 1997 to 2000

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Number of plans</th>
<th>Dec. 1997</th>
<th>Jan. 2000</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing</td>
<td>212</td>
<td>4,459,835</td>
<td>6,026,928</td>
<td>1,567,093</td>
</tr>
<tr>
<td>Nonrenewing</td>
<td>95</td>
<td>766,603</td>
<td>--</td>
<td>(766,603)</td>
</tr>
<tr>
<td>New-continuing</td>
<td>52</td>
<td>--</td>
<td>163,043</td>
<td>163,043</td>
</tr>
<tr>
<td>New-Nonrenewing</td>
<td>26</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>All plans</td>
<td>385</td>
<td>5,226,438</td>
<td>6,189,971</td>
<td>963,533</td>
</tr>
</tbody>
</table>

Source: Rural Policy Research Institute (RUPRI) Health Panel
Beneficiaries in Nonrenewing Plans in 1999:
By Characteristics of beneficiary’s county

By Location

- All counties: 7% Nonrenewals, 93% Renewals
- All Metro: 6% Nonrenewals, 94% Renewals
- Nonmetro adjacent: 13% Nonrenewals, 87% Renewals
- Nonmetro nonadjacent: 19% Nonrenewals, 81% Renewals

By 1998 capitation rate

- Floor ($367): 11% Nonrenewals, 89% Renewals
- $367-$399: 14% Nonrenewals, 86% Renewals
- $400-$499: 8% Nonrenewals, 92% Renewals
- $500-$599: 6% Nonrenewals, 94% Renewals
- $600-$699: 3% Nonrenewals, 97% Renewals
- $700 or more: 1% Nonrenewals, 99% Renewals

Source: Rural Policy Research Institute (RUPRI) Rural Health Panel.
Impact of the BBA on New Plans and Enrollment

- 78 new plans created since Dec. 1997
  - now serving over 163,000 enrollees
  - but only 52 still in existence

- Of these 52 plans, by January 2000*:
  - 14 plans had 100+ enrollees in rural counties
  - 98 rural counties served by these plans
  - 15,251 enrollees were in these new plans
  - 71% of these (10,797) are enrolled in 6 plans.

- In 213 rural counties, 35,110 enrollees in plans that were not there in December 1997.

Source: Rural Policy Research Institute (RUPRI) Health Panel
NOTE: *These estimates exclude enrollment not reported by HCFA because of privacy concerns -- for plans with less than 11 enrollees in a given county.
Why has the BBA Not Led to Increases in Medicare+Choice Plans and Enrollment?

- Smaller growth in rates than anticipated
  - provisions slowing implementations of the blended rates discouraged plans
  - provisions are being phased in slowly

- Biggest change in rates are occurring in counties with lowest rates
  - but these counties have low Medicare risk enrollment
Why has the BBA Not Led to Increases in Medicare+Choice Plans and Enrollment?

- Increased uncertainty
- The timing and burden of the regulations
  - MCOs found it difficult to form new plans due to timing and complexity of regulations
- The effect of payment rates and their volatility on enrollment is small, according to statistical modeling
  - Penrod, McBride and Mueller study (forthcoming)
Factors Associated With Medicare Managed Care Enrollment

Key factors influencing enrollment variation

- Enrollment in non-Medicare HMOs and managed care plans
- Payment policy and volatility in rates
- Population in county
- Factors affecting “taste” for HMOs (income, education, industry and occupation in county)

Policy implication

- Legislated changes in payment policy will lead to only a small increase in Medicare managed care enrollment
  - all else equal, increase in enrollment of about 2 percentage points

Source: Joan Penrod, Timothy McBride, Keith Mueller, “Geographic Variation in Determinants of Medicare Managed Care Enrollment,” forthcoming in Health Services Research.