The Daily Dish

July 23rd Edition

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The Senate voted in favor of taking up the Highway Trust Fund bill. The Senate's legislation will authorize the Trust Fund for six years, but with only three years of funding. The House also has their version of a bill that would pay for the Trust Fund for five months while a deal is made to make the program sustainable over the next six years. Click here for AAF's policy menu of options for Congress to find a solution to funding the program.

A new package of bipartisan bills in the Senate aim to reduce the burden cumbersome regulations can have on individuals and the economy. The three bills address individual issues in our current regulatory state including adding full retrospective reviews to major rules, ensuring that targets are actually met. To put perspective on just how much regulators have been ramping up the speed of rules, just last week the administration issued $34.5 billion in new regulations.

Eakinomics: Medicare Advantage Stars

Medicare Advantage (MA) is the alternative to traditional Medicare that offers seniors a one-stop option for hospital care, outpatient physician visits, and prescription drug coverage. MA is popular with seniors. Enrollment has increased every year since 2004 and reached 16 million individuals in 2014, which represents 30 percent of the Medicare population. MA plans receive a fixed payment from the federal government to cover all the services that each enrollee uses. One concern has been that this might provide an incentive for plans to offer low-quality services in order to keep down their costs and improve their earnings. This concern is heightened because a disproportionately high number of enrollees are lower-income and minority beneficiaries. Among minority beneficiaries, Hispanics are twice as likely and African–Americans are 10 percent more likely to enroll in MA.

Since 2008 MA plan performance has been rated on a 5-star scale to inform beneficiaries of the quality of plan options. Since 2012, the incentives for quality have been raised because plans with higher ratings receive bonuses (part of which is returned to beneficiaries as lower premiums or more services). This is fine if the Stars program accurately reflects the quality of plans. However, concerns have been raised that the Stars rating system penalizes plans that have large enrollments of lower-income beneficiaries (as measured by those receiving the Low-Income Subsidy or LIS).

New research by AAF investigates this concern. Our primary finding is that there is indeed cause for concern. On average, MA contracts with over 30 percent LIS enrollment have a lower rating than other plans by one-half a Star. Using a battery of more refined statistical techniques does not eliminate this finding; the bottom line is a statistically and quantitatively significant penalty to observed Stars ratings when there is a substantial LIS enrollment.

These findings imply a considerable financial penalty to those MA plans with high LIS enrollment, which in turn reduces the resources available to those vulnerable populations. At the upper end of the spectrum, we estimate a total of more than $470 million in bonus payments lost due to reduced ratings. For individuals, our estimates range from a reduction of $380 to $410 per senior.

The real question is what to do about this penalty. Over the long-term, revising the methods used to assign Star ratings is the obvious answer. In the near term, however, Congress and the administration could provide a simple adjustment of up to one-half of a Star in the ratings of plans with significant numbers of LIS beneficiaries.

From the Forum

The Medicare and Medicaid Programs will Cost $2 Trillion in Just 8 Years by Tara O'Neil, AAF Health Care Policy Analyst

Keystone XL: A Fiscal Win by Kim VanWyhe, AAF Director of Energy Policy

Medicare Advantage Stars: Are the Grades Fair? by Douglas Holtz-Eakin, AAF President; and Conor Ryan, AAF Senior Health Care Data Analyst