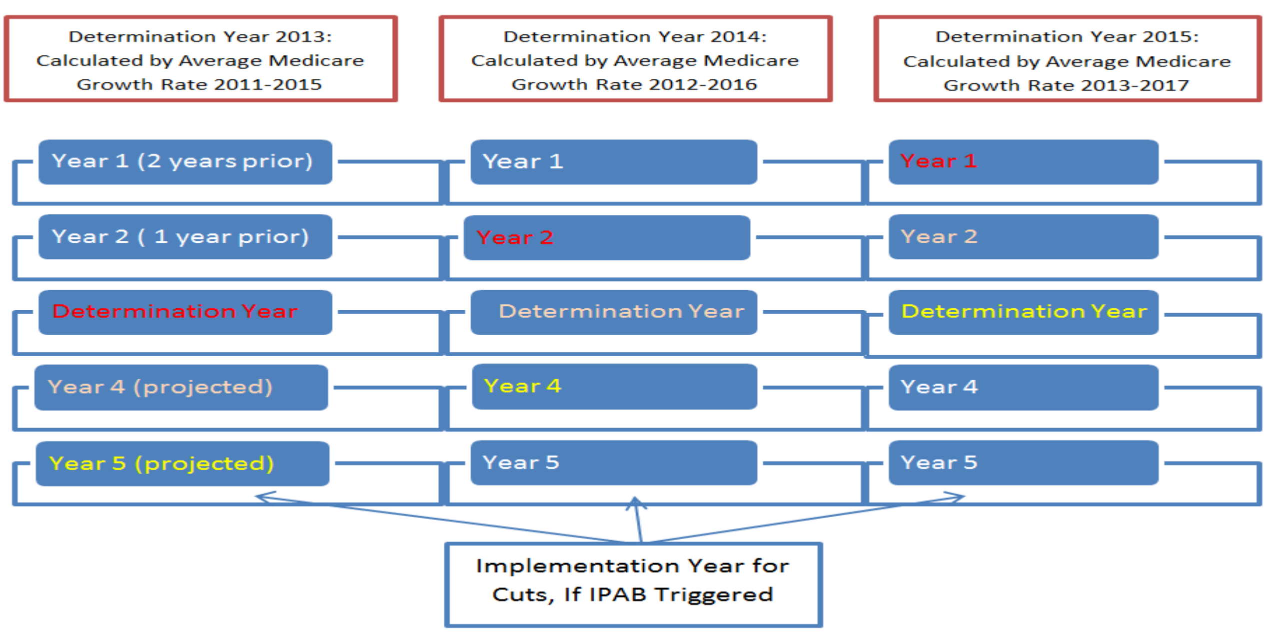
Weekly Checkup No. 71: For Now, Medicare is Free from Inane IPAB

MAY 1, 2013

In a memo to acting CMS administrator Marilyn Tavenner yesterday, the office of the Medicare Actuary announced that the Independent Payment Advisory Board (IPAB) would not yet be triggered to create Medicare savings in 2015. This is good news, considering the 15 member board has not yet been appointed, and some question who of those qualified would be willing to serve, as their full time employment, on the IPAB board. The IPAB board is only "triggered" to make policy that results in lower Medicaid spending if per-capita growth rates over a 5 year period average out to be higher than an arbitrary target growth rate. Although cuts to reimbursements for new medical technology or physician payments will not be implemented in 2015, this is an opportunity to re-examine the absurdity of IPAB 's determination formula and means to an end.

The IPAB-prescribed cuts occur in the implementation year (year 5), but the process begins in the determination year, during which the Medicare actuary determines whether the IPAB cuts are necessary (i.e. if per-capita growth exceeds targeted growth). This growth rate is based on a 5 year average, including 2 years of past data on growth rates, the current "determination" year, and 2 years of projections, including the implementation year. This gives way to several potential problems. As a quick skim through healthcare headlines displays, projections are often very wrong, which can trigger cuts that were unnecessary, or underestimate the average growth rate. In addition, a year of high per-capita growth will skew averages for several years, and may trigger the IPAB cuts unnecessarily year after year. Figure 1 represents the process of determining the growth rate from past data and projections, and shows how data from one year stays in the calculation for three years.

Figure 1: IPAB Determination & Implementation Process



Quelling the rising tide of Medicare spending is a worthwhile goal, but long-term savings are not likely to be achieved through IPAB prescribed cuts. As shown above, the process is complicated and open to skewed data from incorrect projections and outlier years. This is one more reason why the assumed savings from the wildly unpopular board were overly optimistic.