THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

OCT 17 2006

The Honorable John Warner
Chairman, Committee on Armed Services
United States Senate
Washington, DC 20510-6050

Dear Mr. Chairman:

The enclosed report is submitted as directed by section 739 of the National Defense Authorization Act for Fiscal Year FY 2006. The report provides results of a feasibility and cost effectiveness study regarding a demonstration under the Medicare Advantage Program.

The results of our review show it is doubtful that cost savings to the Department of Defense (DoD) would be realized under a Medicare Advantage/TRICARE For Life (TFL) plan due to the combination of added administrative costs and the limited promise of savings among TFL beneficiaries who would be likely to enroll in a Medicare Advantage plan. It would be very difficult to improve upon current beneficiary satisfaction with the TFL program by adding new rules and additional out-of-pocket expenses.

Given the current structure of the TFL benefit, interests of the Department and its beneficiaries are not served by pursuing a demonstration project to enroll TFL beneficiaries in Medicare Advantage plans. Such a demonstration is unlikely to improve beneficiary satisfaction or realize cost savings for the Department or the Medicare program. However, the Department does believe that joint initiatives with the Department of Health and Human Services (DHHS) targeting disease management for dual TRICARE-Medicare beneficiaries could have potential for good results in improving quality of care, beneficiary satisfaction, and program efficiency. In the past, DoD and DHHS partnered in marketing Medicare health plans to military beneficiaries in Base Realignment and Closure sites with good effect.

If Congress chose to change the nature and construct of the TFL benefit program, Medicare Advantage plans might become a more attractive option for military retirees who are Medicare eligible. However, unless this transpires, the advantages for the Department or for beneficiaries are difficult to envision. We will continue to explore opportunities with the Centers for Medicare and Medicaid Services in the coming months.

Thank you for your continued support of the Military Health System.

Sincerely,

William Winkenwerder, Jr., MD

Enclosure:
As stated

cc:
The Honorable Carl Levin
Ranking Member

Report to Congress

Demonstration Project Study on Medicare Advantage Regional Preferred Provider Organization Option for TRICARE-Medicare Dual-Eligible Beneficiaries

Study on Medicare Advantage Regional Preferred Provider Organization Option for TRICARE-Medicare Dual-Eligible Beneficiaries

Introduction:

The National Defense Authorization Act for Fiscal Year 2006 (NDAA for FY 06), Section 739, directs the Department to study the feasibility and cost effectiveness of conducting a demonstration project to enroll TRICARE for Life (TFL) beneficiaries in Medicare Advantage plans to improve quality of care, realize cost savings to DoD, and improve beneficiary satisfaction.

History:

The Department conducted a Medicare + Choice (predecessor to Medicare Advantage) demonstration, TRICARE Senior Prime (TSP), from 1998 through 2001. At the peak of the program, 35,000 beneficiaries were enrolled. This represented only 25 percent of the eligible population in the demonstration areas. In demonstration areas where there was significant market penetration by other health maintenance organizations, the TSP enrollment was significantly less than 25 percent. Many beneficiaries enrolled because, under TSP, they were able to access free health care provided within the participating military treatment facilities (MTFs). Beneficiaries may have been reluctant to enroll in a demonstration program with a scheduled end date. The demonstration placed a significant administrative burden on participating MTFs which were not accustomed to the regulations governing the Medicare program. Enrollment of TSP beneficiaries to MTFs significantly reduced access to Space–Available care for other beneficiary categories. While beneficiaries were very satisfied with the care they received, the cost of delivering the care was significantly higher than anticipated. The TRICARE Senior Prime program ended on December 31, 2001. In the same timeframe as the TRICARE Senior Prime demonstration, a Federal Employees' Health Benefits program demonstration for military retirees was conducted. That program did not include access to MTF care, and enrollment was miniscule.

The benefits for TRICARE beneficiaries who are entitled to Medicare changed significantly in October 2001, when the TRICARE for Life program began. This program provides comprehensive health care benefits for uniformed services retirees who are entitled to Medicare and have Medicare Part B coverage. Under TFL, the Department pays the Medicare cost sharing amounts (deductibles and coinsurance) for services that are covered by both Medicare and TRICARE. As a result, for services covered by both Medicare and TRICARE, TFL beneficiaries have no out-of-pocket costs. TFL beneficiaries are also eligible for TRICARE's very generous prescription drug program. The combination of TFL and the TRICARE Pharmacy program means that TFL beneficiaries have comprehensive medical and surgical benefits with no cost sharing and a comprehensive pharmacy program with a very low copay. The TFL program also

allows TFL beneficiaries to have the freedom to choose their providers. This represents a significant change from the 1998–2001 period when the TSP demonstration occurred. At that time, TRICARE's beneficiaries who were eligible for Medicare had to pay Medicare's cost sharing amounts, and there was no pharmacy benefit (except at MTFs) for TRICARE beneficiaries entitled to Medicare.

Discussion:

Possible Structure for a Medicare Advantage Demonstration

There are a number of ways in which the Department could conduct a demonstration project that would allow TRICARE for Life (TFL) beneficiaries to enroll in a Medicare Advantage plan. One option is for the Department to allow beneficiaries in a region to enroll in a regional Medicare Advantage plan. This regional Medicare Advantage plan would be established solely to enroll TFL beneficiaries. TFL beneficiaries in the region, which could be a state or a combination of states, would be given the option of enrolling in the Medicare Advantage plan.

A second demonstration option would be to allow any Medicare Advantage plan to enroll TFL beneficiaries. In this second demonstration option, TFL beneficiaries would also be allowed to choose whether they wanted to enroll in a Medicare Advantage plan. Of course, TFL beneficiaries are free to enroll in a Medicare Advantage plan today. When this occurs, the Department pays the beneficiary cost sharing in these plans, but makes no premium contribution for any TFL beneficiaries who have enrolled. Medicare Advantage plans must market to all eligible Medicare beneficiaries rather than directly market to TFL beneficiaries.

Under both Medicare Advantage demonstration options, the Department would probably require that Medicare Advantage plans offer a package of benefits that is at least comparable to the benefits offered under TFL. Under the first Medicare Advantage demonstration option, the Department and the regional Medicare Advantage plan would specially design a plan for TFL beneficiaries. The regional Medicare Advantage demonstration plan would incorporate the features of the TFL benefit that are more generous than the typical Medicare Advantage plan. The two most important differences are: 1) TRICARE's slightly more generous skilled nursing facility (SNF) benefit; and 2) the significantly more generous TRICARE Senior Pharmacy benefit (the TRICARE Senior Pharmacy benefit has very low copays for retail pharmacy—$3 for generic drugs and $9 for most brand-name drugs, and free prescriptions at the MTF and no cap on plan payments). Tailoring the Medicare Advantage plan benefits to the more generous TFL benefits would be a problem for some Medicare Advantage plans under the second Medicare Advantage demonstration option. As discussed below, the Department expects few TFL beneficiaries would choose to enroll in a Medicare Advantage plan. If a Medicare Advantage plan anticipated that it would only enroll a small number of TFL

beneficiaries, the plan might not find it feasible to have a separate nursing home and pharmacy benefit for these few enrollees.

Beneficiary Satisfaction

TRICARE for Life provides a comprehensive benefit for uniformed service retirees entitled to Medicare, at minimal cost to the beneficiary. Beneficiary satisfaction has been very high, in part because TFL beneficiaries have very little out-of-pocket expenses for their health care. Beneficiaries are required to maintain their enrollment in Medicare Part B. When services are covered by Medicare and TRICARE, the beneficiary does not have any out-of-pocket expense. For services that are covered only by TRICARE (such as care received overseas), TFL beneficiaries pay the TRICARE cost share. A second factor that has led to high beneficiary satisfaction among TFL beneficiaries is that with electronic crossover of claims from Medicare to the TFL claims processor, the beneficiary is not responsible for filing claims. Because of the comprehensiveness of the TFL benefits, and because TFL beneficiaries have such a generous pharmacy benefit with a low copay, and because they have no cost sharing for benefits covered by Medicare and TRICARE, and because most TFL beneficiaries do not have to deal with filing claims, beneficiary satisfaction is very high. The Department's surveys indicate that beneficiary satisfaction for TFL beneficiaries consistently exceeds 97 percent.

Currently, TFL beneficiaries have the same opportunity as other Medicare-eligible Americans to enroll in Medicare Advantage health plans. The Centers for Medicare and Medicaid Services (CMS) records indicate that, as of May 2006, five percent (or 102,717 out of a total of 1.9 million) of TFL beneficiaries are currently enrolled in Medicare Advantage plans. This compares to over 16 percent of Medicare beneficiaries overall. In many Medicare Advantage plans, providers can forward claims for beneficiary copayments on behalf of their patients to TRICARE for reimbursement. Other Medicare Advantage plans require beneficiaries to file claims with TRICARE for reimbursement of their copayments.

Traditional Medicare and TRICARE work superbly together to provide comprehensive medical and pharmacy benefits. As a result, our beneficiaries do not have the same incentives to use Medicare Advantage as the general Medicare population. From a financial perspective, TFL beneficiaries have little to gain and they have little or no paperwork burden because Medicare and TRICARE coordinate benefits electronically. TRICARE for Life is a comprehensive benefit with few if any out-of-pocket expenses and provides beneficiaries with the freedom to choose any Medicare participating provider. Medicare Advantage plans restrict the choice of health care providers and typically charge much higher cost sharing for beneficiaries who decide to use out-of-network care. As a result, we would expect a significantly smaller percentage

of beneficiaries to enroll in a Medicare Advantage demonstration today than enrolled during the TSP demonstration.

Quality of Care

Quality of care measurements have been in place for a number of years for the Medicare + Choice program and are now being used in the Medicare Advantage program. A recent study comparing traditional fee-for-service Medicare vs. Medicare managed care found that fee-for-service Medicare beneficiaries generally rated their care and physicians higher and reported fewer problems obtaining needed care than did Medicare managed care enrollees.[1] *The American Journal of Medicine* concluded that quality of care, as reported through Health Plan Employer Data and Information Set (HEDIS), was lower in for-profit health plans than in not-for-profit health plans.[2] MedPAC, the organization established by Congress to analyze access, quality, and payment issues in the Medicare program, concluded in its June 2005 report that, "While certain Medicare Advantage plans generally perform extremely well on the HEDIS measures, the data on overall plan scores vary considerably, suggesting that certain plans could work to improve their overall quality of care." [3] There is no current baseline measure for quality of care within the TFL program. However, because about 95 percent of TFL beneficiaries use the Medicare fee-for-service system, we believe that Medicare's fee-for-service quality findings are applicable to TRICARE. Thus, under a Medicare Advantage demonstration, the Department believes that beneficiaries who chose to enroll in a Medicare Advantage plan might have slightly more access problems and rate their care and physicians lower.

Cost Savings for DoD

An issue that would have to be resolved in any type of Medicare Advantage demonstration is the level of payment by the Department to the Medicare Advantage plan. The Department believes that a Medicare Advantage demonstration plan would require a Departmental contribution for each beneficiary enrolled because the Medicare Advantage plan would need to incorporate TFL's more generous pharmacy benefit and reduced cost shares.

Under the regional Medicare Advantage demonstration option, the Department would need to reach an agreement with the Medicare Advantage plan about the level of the Department's contribution to the plan. This would be complicated. Medicare Advantage plans now propose a capitation amount to CMS for the costs of their Medicare

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[1] B.E. Landon, M.D., M.B.A.; A.M Zaslavsky, Ph.D.; S.L. Bernard, Ph.D.; M.J. Cioffi, M.S.; P.D., Clearly, Ph.D. *Comparison of Performance of Traditional Medicare vs. Medicare Managed Care;* The Journal of the American Medical Association, April 14, 2004, Vol.291, No. 14.

[2] E.C. Schneider, M.D.; A.M. Zaslavsky, Ph.D, A.M. Epstein, M.D., M.A. *Quality of care in for-profit and not-for-profit health plans enrolling Medicare beneficiaries.* The American Journal of Medicine, Volume 118, Issue, Pages 1392-1400.

[3] MedPAC, Report to the Congress: Issues in a Modernized Medicare Program", June 2005. p. 69.

Advantage enrollees. Any savings between this bid amount and what Medicare would have paid under Medicare fee-for-service are shared between CMS and the beneficiaries. The Department could also allow the regional Medicare Advantage plan (or any willing Medicare Advantage plan under the second Medicare Advantage demonstration option) to propose an amount to the Department for the cost of caring for TFL beneficiaries above and beyond what Medicare would pay. In theory, if the Department estimated an amount that it would have paid for a TFL beneficiary (the "break-even" amount), the Department could then agree to share any savings between the Medicare Advantage plan's bid and the Department's "break-even" amount among the Department, the plan, and beneficiaries. For example, the Department could estimate that, on average, it would have paid $3,000 for a TFL beneficiary (this includes the cost of DoD's pharmacy program, the expected Medicare cost sharing amounts, and the administrative costs of processing TFL claims). If a Medicare Advantage plan agreed to provide these services for $2,900 per TFL beneficiary (including the cost of providing benefit enhancements for TFL beneficiaries), then the Department would have $100 in estimated cost "savings." This type of theoretical calculation could be done for a regional Medicare Advantage demonstration plan or "any willing" Medicare Advantage plan under the second Medicare Advantage demonstration option.

A problem with this approach to setting the Department's contribution to a Medicare Advantage plan is that the TFL beneficiaries who are likely to enroll in a Medicare Advantage plan may differ significantly from the average TFL beneficiary. The Department expects some type of selection bias because it believes that very few beneficiaries are likely to enroll in a Medicare Advantage demonstration—for the reasons discussed above, such as the high beneficiary satisfaction with TFL and the low out-of-pocket costs under TFL. As a result, the amounts paid by the Department to a Medicare Advantage plan would probably need to reflect the atypical characteristics of these enrollees. This could require using risk-adjustment procedures. Risk adjustment is a complex process, and CMS and existing Medicare Advantage plans have debated appropriate risk adjustment methodologies for some time.

The extensive administrative effort required to set up a joint program with Medicare would be a very inefficient way to improve the health of TFL beneficiaries and save money. Administrative burdens of setting up such a demonstration include drafting a Demonstration Notice for review and approval by the Office of Management and Budget (OMB), prior to publication in the Federal Register; conducting a full and open competition (in the event that DoD concludes that such a demonstration is feasible and cost effective, it is obligated to have a full and open competition. In addition, not all existing contractors have Medicare experience that would be critical to the proposed demonstration); reviewing Medicare Advantage proposals; negotiating and computing capitation rates; negotiating and computing risk adjustments to the capitation rates; drafting an Employer Group Agreement which outlines operational issues of the demonstration; drafting enrollment forms which must be reviewed and approved by

OMB; potentially modifying current contracts with managed care support contractors; and modifying the dual-eligible fiscal intermediary contract and the TRICARE Pharmacy contracts; and modifying enrollment systems to permit use of the TRICARE Pharmacy benefit, while at the same time preventing access to MTFs.

Beneficiaries who enroll in a Medicare Advantage Plan are not permitted to use MTFs because Medicare Advantage plans receive a capitation for providing all medically necessary care, and use of MTFs would involve duplicate government payment. In addition, MTFs are not Medicare certified and are not permitted to bill Medicare. Establishing a process for MTFs to bill Medicare Advantage plans would also be extremely complicated and would distract from more important MTF activities and initiatives. Regardless of the aforementioned restrictions, the MTFs do not have sufficient capacity to guarantee timely access for this beneficiary category.

The process for contract modifications and enrollment systems changes is lengthy and labor intensive. As a result, it is a costly proposition for the Department.

Is it likely that the Department would actually achieve savings under a Medicare Advantage demonstration? The Department is not confident that there would be. Medicare Advantage plans have not demonstrated that they are less expensive than Medicare fee-for-service. In a recent paper, MedPAC found that, in 2006, the average Medicare Advantage plan cost 11 percent more than Medicare fee-for-service costs.[4] TFL beneficiaries who would enroll in a Medicare Advantage plan are likely to be healthier than average. This is consistent with private sector experience where providing enhanced benefits in exchange for limiting choice of providers is attractive primarily to individuals who experience few, if any, health problems. This means that risk adjustment would be required to ensure that the Department did not pay the average price for TFL beneficiaries with below-average health care costs. CMS does not expect large savings from utilization management on Medicare beneficiaries. In other demonstrations, CMS has established a goal of five percent savings. If a five percent savings in Medicare costs were achieved, the Department would save only the cost sharing portions of these savings. This means that a five percent reduction in Medicare costs would result in approximately a one percent savings in TFL costs. Because the TFL beneficiaries expected to enroll in a Medicare Advantage demonstration are likely to be healthier than average, the potential for utilization management savings is even smaller. Under the "any willing Medicare Advantage plan" demonstration option, the Department's savings would be greatly reduced or eliminated because it would have to start contributing to Medicare Advantage plans to which TFL beneficiaries now belong. If the Department had to pay $3,000 per person per year for the approximately 100,000 TFL beneficiaries who are now enrolled in Medicare Advantage plans, it would cost the Department up to

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[4] MedPAC, "Medicare Advantage Benchmarks and Payments Compared with Average Medicare Fee-for-Service spending", 2006.

$300 million per year.[5] For all these reasons, the Department believes there would be little, if any, savings from a Medicare Advantage demonstration.

Anticipated Effect on Medical and Pharmacy Utilization

We expect utilization effects to be minimal, because enrollment is expected to be low. TFL is a comprehensive benefit with few if any out-of-pocket expenses, and provides beneficiaries with the freedom to choose any Medicare participating provider. Therefore, we would expect a significantly smaller percentage of beneficiaries to enroll in a Medicare Advantage demonstration today than enrolled during the TSP demonstration. The choice restrictions and increased out-of-pocket expenses that are an integral part of a Medicare Advantage plan are disincentives for TFL. Although Medicare Advantage plans may have an impact on utilization, the overall impact on TFL costs would likely be insignificant due to lack of participation (currently five percent of TFL eligibles are enrolled in a Medicare Advantage plan), adverse selection and increased administrative costs for the Department.

Summary

The literature does not indicate that Medicare Advantage plans would improve quality of care for TRICARE for Life beneficiaries. Coordinated care for chronic illness and disease management is already a part of the Medicare program and can be utilized by TRICARE for Life beneficiaries today.

It is doubtful that cost savings to the Department would be realized under a Medicare Advantage/TFL plan due to the combination of added administrative costs and the limited promise of savings among the healthy TFL beneficiaries who would be likely to enroll in a Medicare Advantage plan.

It would be extremely difficult to improve upon the current beneficiary satisfaction rates with the TFL program by adding new rules and additional out-of-pocket expenses.

Addressing the health care needs of the full TFL population via health promotion and disease management is likely to be of much greater utility for DoD and TFL beneficiaries than the Medicare Advantage program. Section 721 of the Medicare Modernization Act of 2003 (MMA) authorized development and testing of a voluntary chronic care improvement program, now called "Medicare Health Support," to improve the quality of care and life for people living with multiple chronic illnesses. It is anticipated that by better managing and coordinating the care of these beneficiaries, the

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[5] Some of these additional costs would be offset by a reduction in the costs that the Department now pays for Medicare Advantage enrollees who submit their Medicare Advantage cost sharing bills to TFL.

new Medicare initiative will help reduce health risks, improve quality of life, and provide savings to the program and the beneficiaries. The first program became operational in August 2005, and the eighth and final program became operational in January 2006. The programs are overseen by the Centers for Medicare and Medicaid Services and are operated by health organizations chosen through a competitive bidding process. Under the Medicare Health Support program, participation is voluntary and beneficiaries do not have to change plans or providers. Beneficiaries have the option to end their participation at any time and the program will not restrict access to care. These built-in flexibilities make this program an attractive option to TRICARE for Life beneficiaries who are accustomed to choices that are not available under a Medicare Advantage plan. TFL beneficiaries are eligible to participate in the Medicare Health Support program. DoD looks forward to the results of the Medicare Health Support program.

The interests of the Department and its beneficiaries are not served by pursuing a demonstration project to enroll TFL beneficiaries in Medicare Advantage plans. Such a demonstration is highly unlikely to improve quality of care, improve beneficiary satisfaction, or realize cost savings for the Department or the Medicare program.