

Illustrating the Effects of Changes in Medicare FFS Fee Levels Relative to Private Fees on Access for Medicare Beneficiaries

Introduction:

Both economic theory and empirical studies indicate the lowering the Medicare fee level, other things (including private fees) held constant, will reduce “access” for beneficiaries. Measures of Medicare access vary from willingness to take any Medicare patients at all to willingness to accept all new Medicare beneficiaries who seek care. Moreover, there are strong reasons to expect that changes in Medicare fee levels will themselves affect private sector fees (usually in the same direction). Finally measures of private sector access also vary over time and will be expected to change in the future because of the spread of narrow networks. The fraction of physicians willing to accept a given private sector patient may range from very low for a very narrow network to almost all physicians in broad networks that parallel the level of acceptability in Medicare FFS but the trend seems to be toward narrower private networks. Private fees tend to be lower in narrow rather than broad networks and so are positively correlated with private premiums,

Suggestions for presentation:

Current calculations by OAct show the trend over time in a measure of relative fees where Medicare fees are what are prescribed in current law and private sector fee level trends are projected based on forecasted trends in input prices in the Medicare Economic Index (MEI). There is no explicit modelling of the determination of private sector fees, how they might be affected by shifts in demand (demographic or income per capita), practice level responses in setting private sector fees as Medicare fees change, or the relationship to the breadth of network. Whether MEI has historically been a good instrument for projecting private fees is unknown. These observations lead to two suggestions for presentation of trends in relative fees:

- 1) Develop if possible a more theoretically grounded and empirically validated model for predicting private sector fees, potentially as a function of the breadth of network.
- 2) Whatever estimate of private fee level trends is used, show how it behaves over time relative to the (certain) projection of Medicare FFS fees.

What do changes in Medicare fees relative to private fees imply for access? There have been several estimates of the impact of Medicare fees on access, though some of them have concentrated on increases in fees (where current high levels of Medicare access leave little room for improvement) than on cuts. By my calculations, the impact of a 10% cut in Medicare fees relative to some measure of private fees ranges from a high of 5% reduction in number of primary care physicians willing to accept Medicare patients (Gillis and Lee, 1997) to a low of 1.6% reduction (Brunt and Jensen, 2013), with Rodgers and Mussachio (1983) providing an intermediate estimate of 3.8%. If a parameter value for the elasticity of access to relative fees were chosen, it could be used to provide a projection of the change in access over time.