

**2016 TECHNICAL REVIEW PANEL
ON THE MEDICARE TRUSTEES REPORT
Minutes of the Meeting Day February 8, 2017**

The Technical Review Panel met on February 8, 2017 at 9:00 AM in Room 738G of the Hubert Humphrey Building in Washington, D.C. In attendance were the following panel members and presenters:

- Ellen Meara (Professor, The Dartmouth Institute for Health Policy and Clinical Practice), co-chair
- Michael Thompson (President & CEO Elect, National Business Coalition on Health), co-chair
- Kate Bundorf (Associate Professor, Stanford School of Medicine)
- Melinda Buntin (Professor and Chair, Department of Health Policy at Vanderbilt University School of Medicine)
- Austin Frakt (Health Economist, Department of Veteran Affairs and Boston University)
- Mark Pauly (Professor, Wharton School of the University of Pennsylvania)
- Geoffrey Sandler (Senior Actuary, Health Policy at Aetna)
- Greger Vigen (Independent Health Actuary)
- Dale Yamamoto (Founder and President, Red Quill)
- Don Oellerich (Deputy Chief Economist, Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services)
- Paul Spitalnic (Center for Medicare & Medicaid Services (CMS), Office of the Actuary (OACT))
- Clare McFarland (CMS, OACT)
- Stephen Heffler (CMS, OACT)

Draft Recommendations on Sustainability and the Illustrative Alternative – Kate Bundorf and Mark Pauly

Kate Bundorf and Mark Pauly presented changes in the recommendations regarding the illustrative alternative since the last meeting. The text provides background on how the illustrative alternative has changed over time and what it does now. The first finding confirms what the Trustees have said, that is that payment changes are going to be large relative to historical trends, and there may be issues. The recommendation was that the Trustees continue to present one or more illustrative alternatives that forecast Medicare spending, assuming less than full implementation of the provider payment reductions.

Kate Bundorf noted placeholders for further consideration including the topic of assumptions underlying the illustrative alternative, the bundling of policies underlying the alternative (physician payment, MACRA, hospital productivity, and IPAB), and presentation of material.

A panel member raised the question of whether it is a good idea to have more than one illustrative alternative. The group discussed if it is valuable to understand the relative magnitude of the impact of these different factors. After discussion between panel members and OACT, the panel concluded that it makes sense to continue bundling these policies in the presentation of the illustrative alternative but a recommendation might include additional language to potentially explain some of the issues around unbundling.

The panel moved on to discuss that current law will lead to large reductions in provider payments and it is difficult to forecast the implications of this magnitude of reductions on health care delivery. There was some discussion about how physician payment has changed over time and may be a different payment system by 2025. Paul Spitalnic noted the need to be careful because the projections are relative to current law which reflect the current payment systems.

The panel members discussed some sensitivities around wording, for example the word reductions implies an absolute decrease so it may be necessary to word things more precisely. A panel member noted that it will also be important to communicate that current law is not static.

Kate Bundorf turned to discussion of a recommendation around addressing sustainability in the report. Specifically, the recommendation addresses that the report contain a more balanced discussion of the sustainability of the productivity of the MACRA payment reductions building from a broader base of evidence on the likely impact. Paul Spitalnic encouraged the panel to go back to the report to identify specific areas where the wording might be revised. Kate Bundorf will consider revising the recommendation after additional review of current language in the report.

The final recommendation on this topic is related to Medicare spending and marginal tax rates, specifically that the report provide impact of Medicare spending on the marginal tax rate. Mark Pauly noted that this addressed the issues that spending as a percent of GDP may not be clear to non-economists so this may be another way to communicate impact. Is there a way to relate this to the share of the taxpayer's budget?

A panel member raised the point that this implies that the solution to the issue is to raise taxes when there may be different approaches to doing it, for example lower benefits, increase the deficit, or increase revenue, but taxes may be just one potential approach. Paul Spitalnic noted that there is some discussion of options in the report and asked for recommendations regarding changes noting that the Trustees are not likely to be comfortable suggesting specific effects on taxes, the deficit, or benefits.

A panel member shared a graph from the CBO that shows what happens to deficit spending if nothing else changes. Kate Bundorf noted that the marginal tax rate personalizes the deficit though others noted that the increased burden is not likely to be applied to everyone equally.

The panels discussed a way forward with this recommendation. Mark Pauly noted that there should be a recommendation on how to present the implications of this problem. Kate Bundorf noted that this is the flip side of the concerns regarding increasing costs and it is relevant to address. Paul Spitalnic asked the group to consider the most impactful way of presenting the issue without taking a side on the issue. Kate Bundorf agreed to revisit these issues and the write-up based on the group discussion.

Assumptions around Sustainability – Greger Vigen and Michael Thompson

Greger Vigen and Michael Thompson presented the memo on the alternative projection and went through several findings and recommendations. The alternative projection has been used in recent years to offer an alternative view of the future Medicare program outlays in the event that current law assumptions are unsustainable. Originally developed to reflect the reality that the legislated annual fee cutbacks were often reversed based on a pattern of “Doc Fix” requirements, the alternative projection most recently reflects concerns that the long term low increases in basic provider fees might be unsustainable without creating long run access problems. A key issue for consideration by the Technical Panel is whether the sustainability of

the current law projections will be directly related to the “inputs” as reflected by the Medicare Economic Index or the payments when considering other factors (intensity, utilization) that are reflected in the overall provider projections. Payments are a partial attempt to measure “total compensation.” Michael Thompson and Greger Vigen presented their draft materials.

Observation 1: The Medicare Trustees Report plays a critical role in educating the public and policymakers on the short and long term financial sustainability of the program. While there is a need to respect the legislated requirements to ensure that the formal projections reflect a best estimate of the Current Law projections, it is appropriate to inform on financial implications of the public policy risks associated with those projections if the sustainability of those policy assumptions is questionable. The alternate projection serves this purpose appropriately and should be continued.

Recommendation 1: The alternate projection makes an explicit assumption related to the 2025 changes to MACRA which eliminates items like bonus payments to providers as of that date. The alternate projection explicitly recognize this change and it is reasonable to assume that an immediate reduction of 5% in total compensation will be visible and may not be sustained. This will be very visible to providers, and, if these provisions have a positive impact on CMS, they may be continued rather than terminated. An assumption that the savings assumed in the Current Law projection in the year 2025 may not be fully realized would be reasonable either based on the likelihood that this reduction would likely be offset or by policy reversals.

Following discussion of the first recommendation, the panel concluded that the text needs additional clarification.

Recommendation 2: The alternate projection from last year assumes higher increase in provider compensation lest serious provider access issues would arise. However, there is still a significant positive slope in Part A and Part B payments in the 2025-2035 period. There is also likely to be some added compensation to providers if the benefits of gains in efficiencies in alternate payment models under current law are passed along to them. Consequently, we recommend that the other adjustment for the alternate projection (beyond the small adjustment in 2025), commence after 2035 when the Current Law projections become very flat and that the slope continue at a level commensurate with the Current Law projection for the 2025-2035 period.

Following the discussion of the second recommendation, Paul Spitalnic noted that the current effective payment updates are not taking place until year 2030 anyway, so it is not that different from the above recommendation. Paul Spitalnic will send out the assumed payment updates, and then based on that, Greger Vigen and Michael Thompson will reassess the recommendation.

Observation 2: The discussion of the analysis under the Medicare Trustees Report compares fee schedules under the traditional Medicare program related to fees payable under the Commercial fee-for-service schedules. Medicare is likely to continue to evolve in the short, medium, and long term to encompass more alternative payment arrangements (e.g., bundled payments, etc.) both under traditional Medicare and under Medicare Advantage programs, which puts less emphasis on fee-for-service payments. Similarly, commercial payers are actively

moving to non-traditional alternative payment arrangements that are less focused on a pure fee-for-service model. These payment models will often include incentives for providers to earn additional income based on elimination of waste in other parts of the system. And, private sector plan designs and enrollment continues to drop. Future discussions of sustainability under the Medicare Trustees Report should acknowledge and more directly consider the total compensation of providers from diverse sources and their future ability to realize enhanced income from supporting enhanced efficiency and value from other parts of the health system.

Recommendation 3: We recommend that OACT continue to build more multi-dimension models that consider the evolution of the overall health care payment market (Medicare) over time. The model should consider the maturity of different markets as they move toward alternative payment systems and the collective impacts on healthcare costs growth, technology innovation, and reduction in waste both from a behavioral standpoint and from a compensation sustainability perspective. The Current Law projections for intermediate and long term (which tend to be more favorable than historical trends) could then be explained in the context of an assumed evolving marketplace that is permissible under Current Law.

Following the discussion of the third recommendation, Greger Vigen said that he could provide a one- or two-page overview about the above recommendation. Paul Spitalnic noted that the current long-range model is a factors model that is agnostic to demand shifts or any particular models, but OACT can consider take into account the physician payments and market dynamics when constructing the model. Panelists also discussed the concept of technology and how it might affect the rate of growth in volume and intensity relative to historic trends and will identify potential speakers that might be able to address this topic further.

Discussion of Access – Mark Pauly and Kate Bundorf

Mark Pauly started the discussion by showing two graphs depicting the relationship between Medicare relative fee levels and the access to care. As the excess of private fees goes up (or as the gap between Medicare and private payment rates widens), the percentage of primary care physicians accepting new Medicare patients is expected to fall.

Dr. Pauly also wrote up a short memo on the impact of Medicare relative fee levels on access to care, and his recommended finding is as follows. Projections of Medicare payment rates for hospitals and physicians based on current law are projected to decline over time (adjusted for input prices). Private sector payment rate trends are much more difficult to predict. However, if they increase from current baseline at the rate of increase in practice input prices (or some proportion of it), there will be an increasing gap between public and private payment levels, and the difference will increase even more if there is cost shifting. The committee finds that current methods do not provide a rigorous conceptual analysis of what will happen to private rates (and how they may be affected by Medicare rates), nor does it provide an estimate of the impact of payment divergence on beneficiary access to care. It also ignores the likelihood that impacts on access will differ between hospitals and physicians and other health professionals, with the latter more likely to refuse to take new Medicare patients. There is empirical evidence on the relationship of Medicare and Medicaid payment rates and physician willingness to accept patients (Jensen, etc.), and we could potentially come up with an elasticity measure.

The recommendation that Mark Pauly outlined is that OACT staff explore a more extensive modeling and projection methodology for forecasting payment gaps and their consequences on beneficiary access, especially to primary care physicians.

Paul Spitalnic responded that currently OACT focuses on the demand side when modeling both the short-range and long-range projections, and as a result, they project volume and intensity increases. He asked whether Dr. Pauly is suggesting that OACT should effectively lower the Medicare cost projections due to an expectation that in the future Medicare patients will not have their demand realized by the provider. Dr. Pauly said he was not thinking of that and instead, he was just trying to focus on access and whatever its consequences might be in order to make the findings more transparent. Mark Pauly will think about how to integrate the physician access issue into the other independent analyses the panel has looked at and how it is related to the way the market evolves.

On the topic of how the difference between Medicare and private sector payments can affect the access of Medicare beneficiaries, Stephen Heffler mentioned that currently in the model OACT uses the Medicare Economic Index (MEI) to model the growth in Medicare prices, which essentially is almost in lockstep with the rate of growth in the GDP deflator. Private physician payment rates are going up at the rate that the rest of prices in the economy are going up, and the question is whether it is okay that Medicare is not increasing at the rate of the economy growth.

Mark Pauly will try to find more current literature on the relationship between relative payment rates and access before the next meeting. Austin Frakt volunteered to help out as well.

Simulation Model – Ellen Meara and Stephen Heffler

The panel discussed the topic of excess burden and tax rates earlier under the first agenda item. There is no update from OACT, but the Maryland simulation model could inform the discussion around the topic of excess burden if the panel wants to explore further, although this may complicate the earlier discussion. The panel decided that they would steer away from the simulation model.

General Panel Discussion and Next Steps – Ellen Meara and Michael Thompson

The panel opened up for general discussion and reviewed the current status and the next steps for the following six topic areas:

1. Long-term rate of growth

The 75-year long-range projection is required by law and there is a use for it in terms of the trust fund projections. Paul Spitalnic suggested that the panel address: 1) whether the factors model is reasonable, and 2) whether the slight reduction of 0.1 in volume and intensity growth rate that price reductions will cause is reasonable. Currently the panel has no concerns that the assumptions or factors are inappropriate, and in general the panel thinks they are reasonable.

2. Sustainability/access/excess burden/illustrative alternative

The panel has been discussing the sustainability topic this morning, and will fold the access and excess burden discussion into this topic. Kate Bundorf, Mark Pauly, Michael, and Greger Vigen will work on this topic.

3. Future changes in service/site shifting

These may appear in the short and immediate term, but not in the long term model. Ellen Meara will assign people to write up this topic.

4. Transition from short term to long term

The panel has decided to continue with the current methods used in the Trustees Report as a result of their discussions on the topic.

5. Current methodology in terms of uncertainty and high/low cost

Melinda Buntin will continue to work on this topic and tie in the data visualization aspect as well. She will pull in other people to work on the topic as needed.

6. Areas of future research

The panel has several recommendations for areas of future research. Ellen Meara will assign people to write up this topic.

Plan for reporting writing and future meeting logistics:

- Ellen Meara and Michael Thompson will work on the framework of the report, and will set up a phone call.
- March 7th in Baltimore might work better for people for the next one-day meeting.
- Michael Thompson, Geoffrey Sandler, and Melinda Buntin will work on coming up with the story narrative of the report.
- Dale Yamamoto will talk to OACT to refine his thinking on prescription drugs.
- Kate Bundorf and Ellen Meara will look for people who are experts in technology adoption (such as Jonathan Skinner and Amitabh Chandra) and possibly invite them to speak at the next meeting.
- RTI can assist the panel in linking the excel source data to key figures in the report. Paul Spitalnic also suggested the panel can also contact OACT directly.
- For the March meeting, the panel expects to have the report framework and the above assignments completed, and then the panel will start editing the report.

Public Comments

There were no public comments.

The Technical Review Panel adjourned at 12:25 PM on February 8, 2017. The Panel will meet again for a one-day meeting in March.