
The Obama Effect on Medicare

Richard G. Stefanacci, DO, MGH, MBA, AGSF, CMD

Now that the President, most of the cabinet, and the head of the Department of Health & Human Services (HHS) have been selected, we are better able to sense the changes that are likely to affect Medicare patients and providers. Tom Daschle's selection as head of HHS sends a clear message about the new administration's commitment to universal health care and how that plan will be enacted.

The foundation of President Obama's health care plan is to provide affordable, accessible health care for all Americans. This plan builds on the existing health care system's providers, doctors, and plans. President Obama plans to lower health care costs by \$2500 for a typical family by investing in health information technology (HIT), prevention, and care coordination. Additional cost savings will come from investing in and extending coverage of preventive services, including cancer screenings, and from increasing state and local preparedness for terrorist attacks and natural disasters (Table 1).¹

Further insight is provided in Tom Daschle's book, *Critical: What We Can Do About the Health-Care Crisis*. In it Daschle observes, "Skeptics say we can't afford to cover everyone; the truth is that we can't afford not to because US economic competitiveness is being impeded by the large uninsured population and fast-rising health costs." His book, coauthored by Jeanne Lambrew and Scott Greenberger, proposes creating

a Federal Health Board, similar to the Federal Reserve System, whose structure, functions, and enforcement capability would be largely insulated from politics. Daschle also proposes merging employers' plans, Medicaid, and Medicare with an expanded Federal Employee Health Benefits Program (FEHBP) that would cover everyone.²

Besides focusing on development and re-enforcement of the primary care workforce, President Obama's plan includes improvement of the overall system of care. This approach is based on the belief that the most effective way to address our cost and quality challenges is to confront the root cause—that being the chaos in our everyday health care. Based on this belief, efforts are being focused on accelerating the organization of health care providers into team-like configurations so that they can adopt systems that are likely to reduce errors of overuse, underuse, and misuse, and improve the overall coordination of care.¹

One such example of coordination of care is already in place in the

Medicare Medical Home demonstration (see page 23 of this issue). This demonstration mandates a trial in up to eight states to provide targeted, accessible, continuous, and coordinated family-centered care to Medicare beneficiaries who are deemed to be high need (ie, with multiple chronic or prolonged illnesses that require regular medical monitoring, advising, or treatment). The objective is to bring greater coordination of care to the Medicare fee-for-service system.³

Transparent Data

President Obama's plan promotes transparency of data about providers and products to help payers and patients make better selections. These better selections will move demand to higher quality providers while moving reimbursement and demand away from inferior providers and products. This is being presented in two ways: a comparative effectiveness analysis and provider quality data reporting.¹

It is believed that one of the keys to eliminating waste and missed opportunities is to increase investment in comparative effectiveness reviews and research. This information is developed by reviewing existing literature, analyzing electronic health care data, and conducting simple, real-world studies of new technologies. President Obama wants to establish an independent institute to guide reviews and research on comparative effec-

tiveness, so that patients, their doctors, and payers have accurate and objective information to make the best decisions for their health and well-being. This may be accomplished through the provision of federal support for comparative effectiveness research. On top of the funding, a plan will be developed for a federal strategy for the dissemination and application of comparative effectiveness research so the information can reach and impact patients, providers, and payers in the most immediate and impactful manner possible.¹

Healthy Environments

President Obama also plans to make improvements in the environment of our communities, schools, and work. These environmental improvements are focused on providing healthier environments and using these sites to provide convenient access to care. Specifically, President Obama believes that the plan will encourage an increasing number of employers to offer worksite health promotion programs, such as onsite clinical preventive services like flu vaccinations, nutritious foods in cafeterias and vending machines, and exercise facilities through federal incentives and regulations.¹

In the same manner, school systems will be encouraged to adhere to nutritional standards for fat content in school lunches, physical education, and educational programs for students. Healthy environments also include sidewalks, biking paths, and walking trails; local grocery stores with fruits and vegetables; restricted advertising for tobacco and alcohol to children; and wellness and educational campaigns. President Obama

Table 1. Medicare's New Areas of Focus per the Obama Plan

Infrastructure

- Information Systems
- Workforce
- Transparent Data
- Healthy Environments
- Public Health

Payment

- Providers
- Federal Subsidies

Plan Changes

- Insurance Companies
- Prescription Drug Plans

plans to promote these through federal programs.¹

Public Health

President Obama's plan calls for development of a national and regional strategy for public health and alignment of funding mechanisms to support its implementation. Second, the plan calls for greater research to optimize the organization of 3000 health departments nationwide, collaborative arrangements between levels of government and its private partners, performance and accountability indicators, integrated and interoperable communication networks, and disaster preparedness and response. Third, the government will be called on to invest in workforce recruitment and modernization of our physical structures, particularly our public health laboratories. The government will examine its own policies, including agricultural, educational, environmental, and health policies, to assess and improve their effect on public health.¹

Payment

President Obama's plan includes significant changes to reimburse-

ment, based on the belief that incentives for excellence are needed. Both public and private insurers tend to pay providers based on the volume of services provided, rather than the quality or effectiveness of care. President Obama plans to accelerate efforts to develop and disseminate best practices, and align reimbursement with the provision of high-quality health care. Providers who see patients enrolled in the new public plan, the National Health Insurance Exchange, Medicare, and FEHBP will be rewarded for achieving performance thresholds on physician-validated outcome measures.¹

Provider payment structures must work to align the desires of practitioners and health organization managers to serve patients with the incentives that come from how they are paid.¹

Immediate plans call for revamping the process for updating the relative value scale used in Medicare's physician fee schedule so that relative values more accurately reflect relative costs. Beyond that there will be a reduction in the relative values for services undergoing high rates of growth in volume such as specialty and procedure-oriented services. As mentioned previously, there will be incentives for additional processes that improve patient care such as ePrescribing and electronic health records.¹

Long-term plans call for promoting bundled payments covering all providers for acute episodes of care and post-acute care. This includes a move to bundle Medicare Part A and B services so that hospital and subacute providers would be reimbursed directly by the facility rather than the federal government. This is

thought to help promote greater control over these services at a grassroots level. In addition, the plan supports capitated payment for the management of chronic disease. The medical home can be seen as a first of such initiatives. And finally there is a plan for revision or elimination of sustainable growth rates in conjunction with a major package of payment reforms.¹

Of course, President Obama's plan calls for reform of the malpractice system. Rather than focus on restrictions of payments to patients through tort reform, President Obama's plan calls for reform of medical malpractice while preserving patient rights. His approach calls for strengthening of antitrust laws to prevent insurers from overcharging physicians for their malpractice insurance. Beyond this approach, there is also a proposal to promote new models for addressing physician errors that improve patient safety, strengthen the doctor-patient relationship, and reduce the need for malpractice suits.¹

Federal Subsidies

Besides the focus on improvements in the efficiency and effectiveness of our health care system, there is a more direct plan for reducing the cost patients pay for their health care. This approach calls for the federal government to make direct payments. One such payment is planned to reimburse employer health plans for a portion of the catastrophic costs they incur above a threshold if they guarantee such savings are used to reduce the cost of workers' premiums. The belief is that by offsetting some of the cata-



strophic costs, health care will become more affordable for employers, workers, and their families.¹

Some of the costs of health care will be passed to employers too. Large employers that do not offer meaningful coverage or make a meaningful contribution to the cost of quality health coverage for their employees will be required to contribute a percentage of payroll toward the costs of the national plan. Small businesses will be exempt from this requirement.¹

President Obama's plan also extends patients' responsibilities by expanding the "means testing" of Medicare Part B to all aspects of the Medicare system. Accordingly, higher income individuals will pay more out of pocket for their health care through higher premiums and cost sharing.¹

Plan Changes

One thing that is certain is that unlike the Bush plan, which focused on allowing private plans to operate in a fairly unregulated environment, the Obama plan will be much more aggressive in patient protection at the cost of plans. As a result, insurance plans such as Medicare Advantage and other prescription drug plans will see major changes starting soon after the first of the year.

Insurance Companies

Major changes are expected for insurance companies, which Democrats typically believe add little value while increasing the burden for patients and providers and removing funds from the system for unnecessary executive compensation. The Obama plan will create a National Health Insurance Exchange

to help individuals who wish to purchase a private insurance plan. The Exchange will act as a watchdog group and help reform the private insurance market by creating rules and standards for participating insurance plans to ensure fairness and make individual coverage more affordable and accessible.¹

Insurance companies will be required to¹:

- Issue every applicant a policy, and charge fair and stable premiums that do not depend on health status
- Ensure that all the plans offered are at least as generous as the new public plan and have the same standards for quality and efficiency
- Make public the differences among the plans, including cost of services

There is also a plan to increase competition in the insurance industry. Regulations are planned that would force insurers to pay out a reasonable share of their premiums for patient care instead of keeping exorbitant amounts for profits and administration.¹

Beyond the regulations there is an attack already underway that will decrease reimbursement to Medicare managed care plans. Medicare's

private plan alternative, called Medicare Advantage, was established to increase competition and reduce costs. But it has been reported by independent reports that on average the government pays 12% more to Medicare Advantage plans than it costs to treat comparable beneficiaries through traditional Medicare.⁴ According to the Obama and Biden plan, “These excessive subsidies cost the government billions of dollars every year and create an incentive structure that has led to fraudulent abuses of seniors.”¹ The Obama plan would eliminate the excessive subsidies to Medicare Advantage plans and pay them the same amount it would cost to treat the same patients under regular Medicare. This would result in a 12% cut to these plans that would force a decrease in benefit design as well as provider reimbursement.¹ The effect would be fewer seniors enrolling in these Medicare Advantage plans.

Prescription Drug Plans

Prescription drug plans started as a result of the Medicare Part D prescription drug benefit. Since its beginning, two specific parts of the legislation have been under attack by the Democrats. These sections called for restrictions on reimportation of drugs and negotiation of pharmaceutical prices by the federal government. The Obama plan calls for allowing consumers to import safe drugs from other countries. The 2003 Medicare Prescription Drug Improvement and Modernization Act bans the government from negotiating down the prices of prescription drugs, even though the Department of Veterans Affairs’ negotiation of prescription drug prices with drug companies has gar-

nered significant savings for taxpayers. The Obama plan will repeal the ban on direct negotiation with drug companies and use the resulting savings, which are estimated to be as much as \$30 billion, to invest in improving health care coverage and quality.¹

“R” U Ready?

Extending Medicare can only be accomplished by spreading the costs of Medicare among Medicare beneficiaries, reducing provider reimbursement, and optimizing utilization and benefits through a focus on quality of care. The Obama plan attacks all of these areas with a special emphasis on improving efficiency through an investment in the US health care infrastructure. In addition to signals about what the Obama plan will include, there are also signals about what that plan will not include. Not included are options to decrease patient benefits or increase benefit eligibility age—items that were proposed by John McCain.

The foundation for the Obama plan is rooted in several “R”s—regulation, reimbursement, reporting, and resources for our health care system. These resources include in-

vestments in system improvements such as electronic prescribing and electronic health records.

While all of these are certainly tools that the Obama plan will utilize, the critical point is that Medicare’s focus must be set on quality outcomes rather than focused first on cost reduction. It is yet to be seen whether this focus can provide the savings needed to make universal health care a possibility. **MPM**

Richard G. Stefanacci is Editor-in-Chief of *Medicare Patient Management*.

References

1. Barack Obama and Joe Biden’s Plan to Lower Health Care Costs and Ensure Affordable, Accessible Health Coverage for all. Obama Web site. <http://www.barackobama.com/pdf/issues/HealthCareFullPlan.pdf>. Accessed December 10, 2008.
2. Daschle T, Lambrew JM, Greenberger SS. *Critical: What We Can Do About the Health Crisis*. New York: Thomas Dunne Books; 2008.
3. Centers for Medicare & Medicaid Services (CMS). Medicare Home Demonstration Fact Sheet. CMS Web site. http://www.cms.hhs.gov/demoprojectsevalrpts/downloads/medhome_factsheet.pdf. Published November 2008. Accessed December 10, 2008.
4. Glenn Hackbarth for the Medicare Payment Advisory Commission. Testimony: The Medicare Advantage Program and MedPAC Recommendations. Presented to the US Senate Committee on Finance. April 11, 2007. MedPac Web site. http://www.medpac.gov/publications/congressional_testimony/041107_Finance_testimony_MA.pdf?CFID=6602154&CFTOKEN=81609996. Accessed December 10, 2008.

PROVIDER ACTION

Impact to You

The Obama administration will have a significant impact on Medicare stakeholders, felt on both the financial side and the process aspect of care. On the process side, health information technology and care coordination will be the focus.

What You Need to Know

Providers need to be aware of reimbursement changes and the movement to a value-based purchasing service that provide opportunities for increased efficiency and effectiveness in care delivery.

What You Need to Do

Providers must provide evidence of their value as Medicare moves to a value-based purchasing system. They must demonstrate, for example, that patients are achieving recommended levels of blood glucose, lipids, and blood pressure.