



# **Lowering Medicare Costs: Regions or Beneficiaries?**

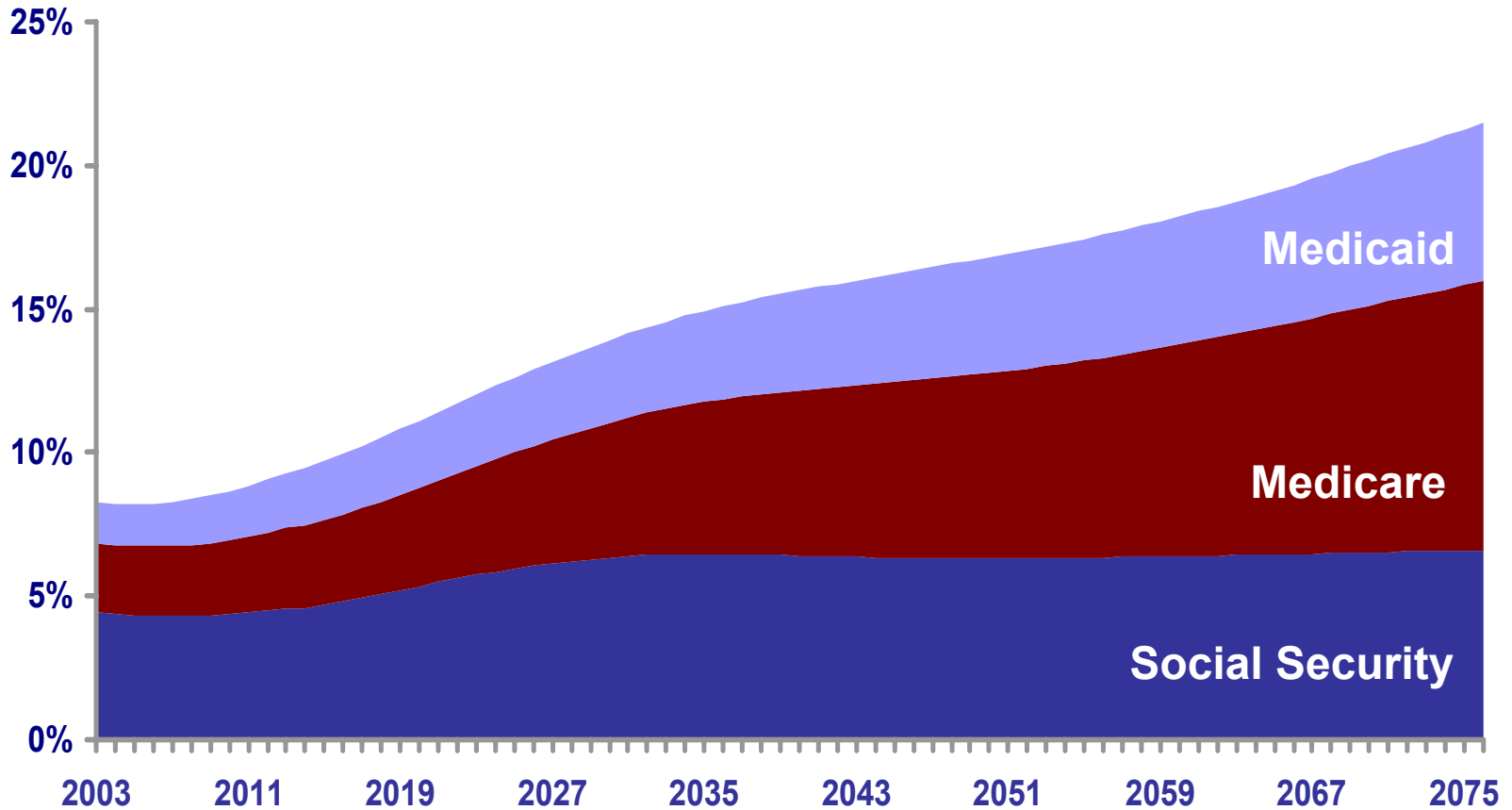
**Conference on  
Regional Disparities in Health Spending: Implications for  
the Private Market and Medicare**

**May 15, 2003**

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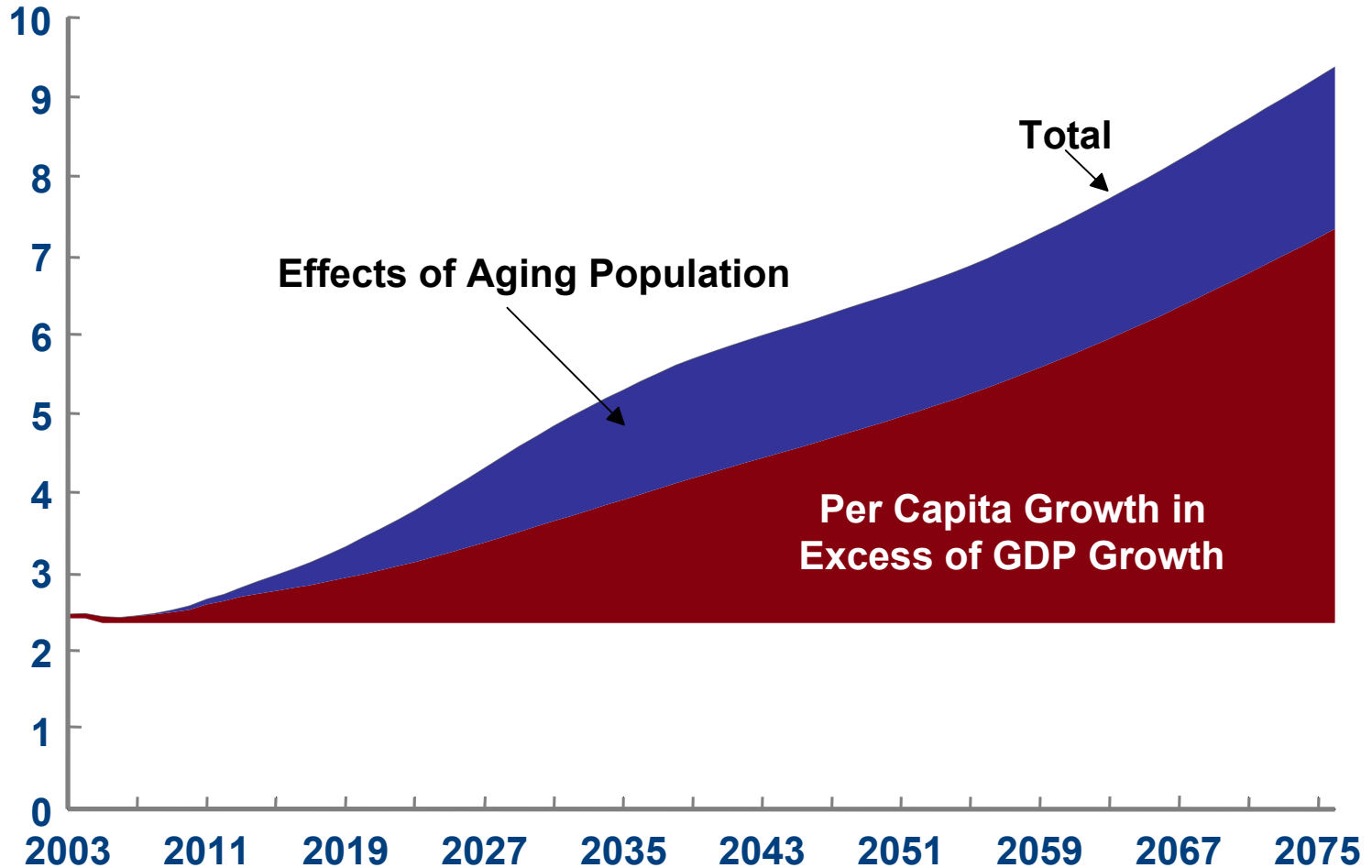


# Projected Federal Spending for Social Security, Medicare, and Medicaid (percentage of GDP)





# Projected Long-Term Growth of Medicare Spending (percentage of GDP)





# Slowing Growth of Medicare Spending

## “Excess Cost Growth”

- Averaged 2.8 %+ GDP/capita (1970-2002) after legislative cuts
- Future projections assume 1 % rate

Innovations needed to slow growth below 1 %

Two broad approaches currently advocated

- High-cost *beneficiaries* (disease management)
- High-cost *regions* (geographical variations)



# Concentration of Medicare Spending

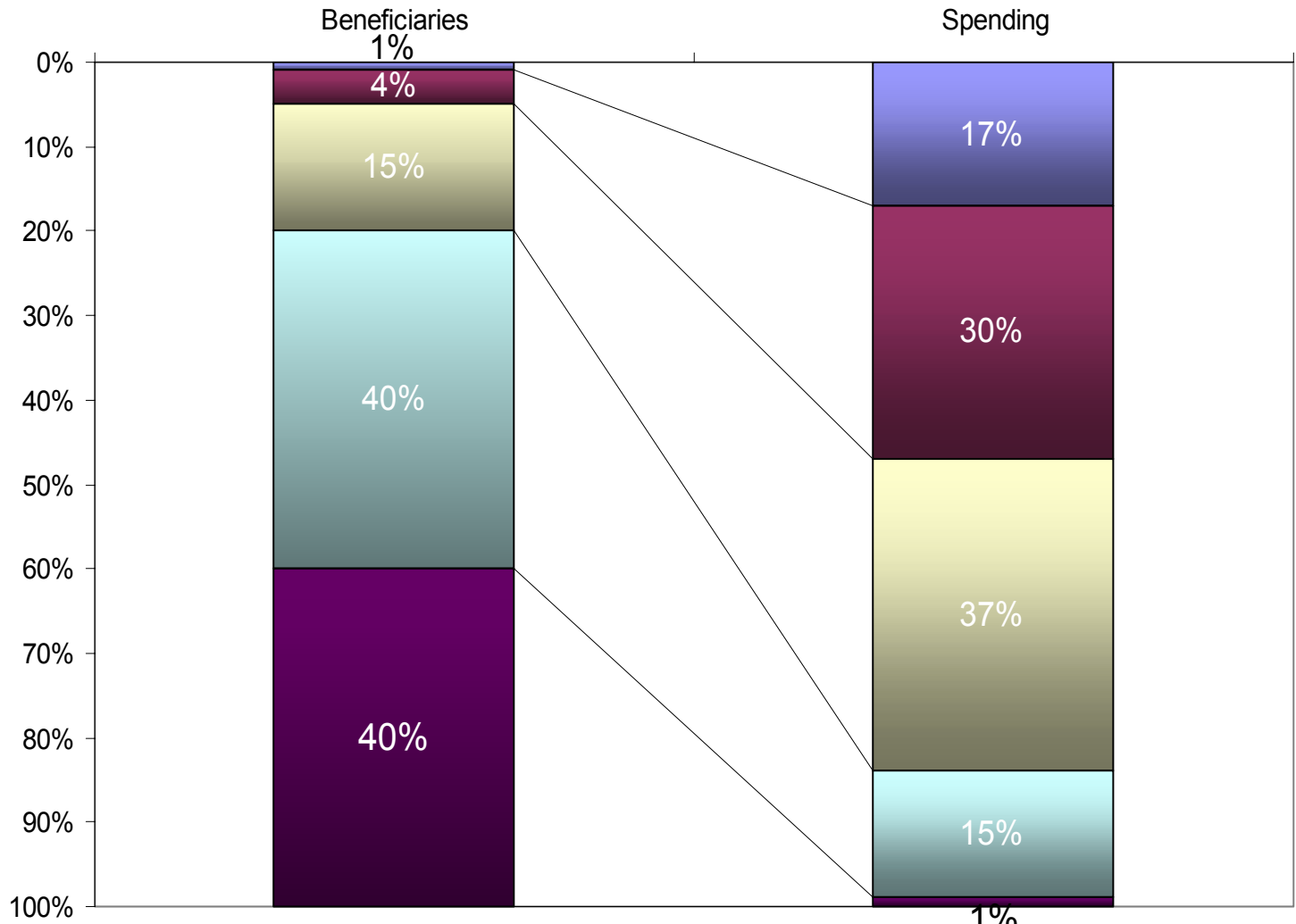
| <u>Medicare Spending</u> |             |                |
|--------------------------|-------------|----------------|
| Beneficiaries            | % of Total  | Mean           |
| Top Quintile             | 84%         | \$24,161       |
| Fourth Quintile          | 12%         | \$3,353        |
| Third Quintile           | 3%          | \$943          |
| Bottom Two Quintiles     | 1%          | \$197          |
| <b>Total</b>             | <b>100%</b> | <b>\$5,753</b> |

| <u>Medicare Spending</u> |            |          |
|--------------------------|------------|----------|
| Beneficiaries            | % of Total | Mean     |
| Top 1 %                  | 17%        | \$98,074 |
| Top 5 %                  | 47%        | \$53,538 |
| Top 10 %                 | 66%        | \$37,855 |

**Notes:** Data from a 5 percent random sample of fee-for-service (FFS) beneficiaries between 1995 and 1999. Spending reported in 1999 dollars.



# Distribution of Medicare Spending and Beneficiaries



**Notes:** Data from a 5 percent random sample of fee-for-service (FFS) beneficiaries between 1995 and 1999. Spending reported in 1999 dollars.



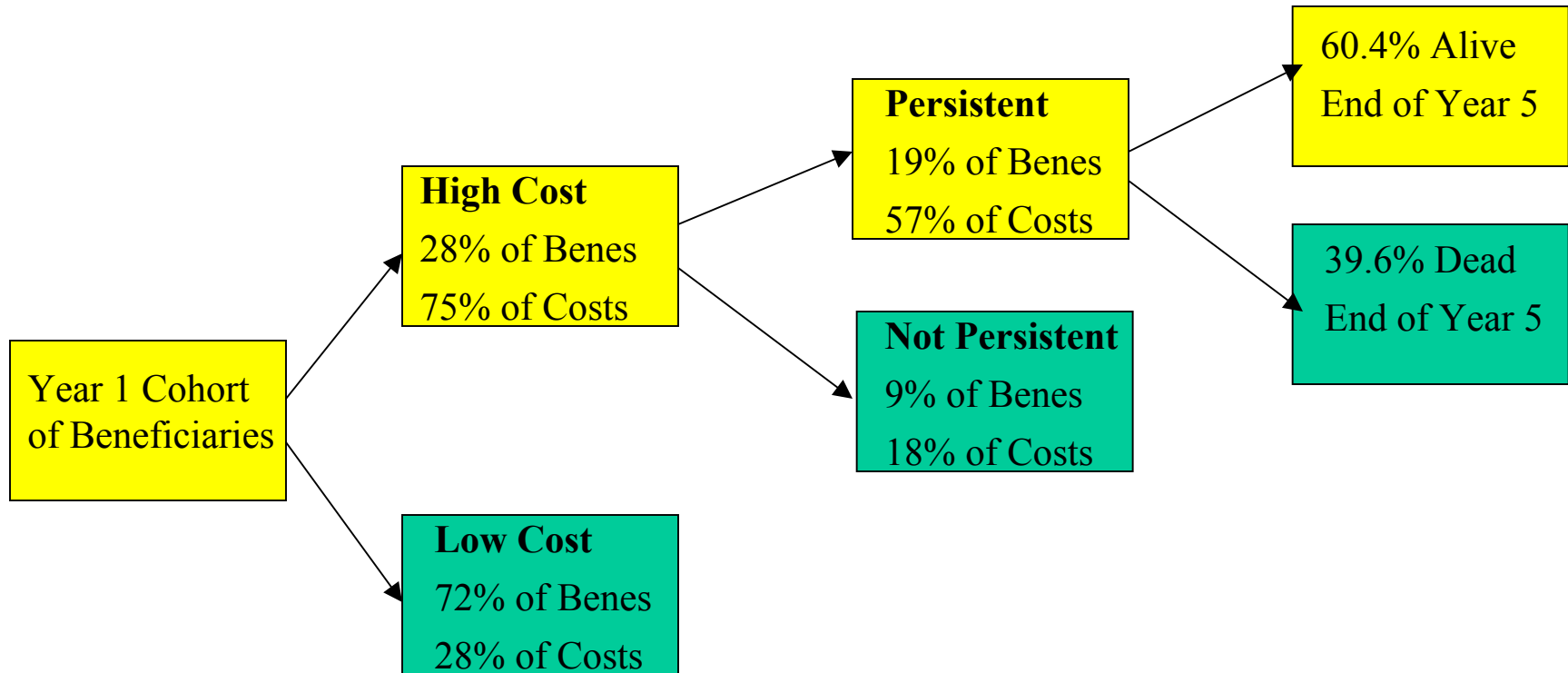
# Profiles of Beneficiaries by Spending Group

| Spending Group<br>(Mean Spending)          | Top 5 Percent<br>(\$53,538) | Top 20 Percent<br>(\$24,161) | Bottom 40<br>Percent (\$197) |
|--|-----------------------------|------------------------------|------------------------------|
| Inpatient PPS<br>Spending /<br>Beneficiary | \$25,309                    | \$11,119                     | None                         |
| Physician Spending /<br>Beneficiary        | \$8,872                     | \$4,934                      | \$165                        |
| Chronic Conditions                         |                             |                              |                              |
| •Diabetes                                  | 43%                         | 36%                          | 14%                          |
| •CHF                                       | 59%                         | 47%                          | 9%                           |
| •Cognitive impairment                      | 30%                         | 24%                          | 5%                           |

**Notes:** Data from a 5 percent random sample of fee-for-service (FFS) beneficiaries between 1995 and 1999. Spending reported in 1999 dollars.



# Persistence of Medicare Spending



**Notes:** CBO analysis in "Concentration and Persistence of Expenditures among Medicare Beneficiaries."  
Persistently high-cost group is defined as those who were in top 25 % of spending for at least 2 consecutive years during the 5-year period, 1993-1997.



# Challenges of the High-Cost Beneficiaries Approach

**Generating savings from high-cost beneficiaries requires:**

– **Identifying who is, or will be, high cost**

- Who survives but remains high cost?
- Could interventions change cost or outcome?

– **Developing and implementing effective interventions**

- Requires achieving lower costs or improved outcomes
- Should interventions be provider or patient focused?

– **Rigorously demonstrating net savings**

- Possibly use randomized control groups
- Capture costs of intervention and changes in benefit spending



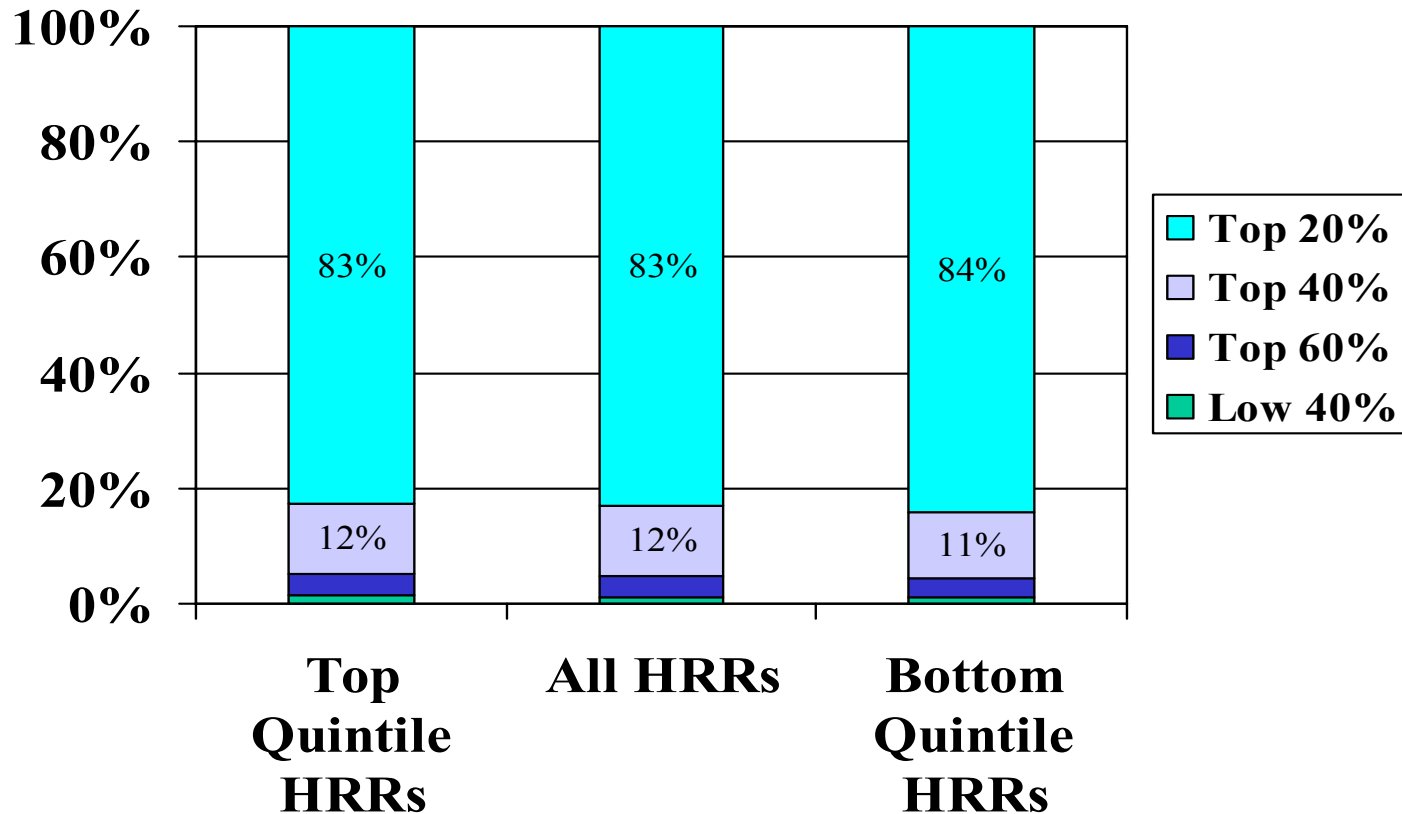
# Regional Variations in Medicare Spending

| Spending Groups | Correlation<br>(EOL-EI &<br>Spending) | Mean<br>(Standard Deviation) | % Total<br>Spending | % with Inpatient PPS |
|-----------------|---------------------------------------|------------------------------|---------------------|----------------------|
| Top 1 %         | 0.72                                  | \$90,558 (\$17,000)          | 16%                 | 96%                  |
| Top 5 %         | 0.77                                  | \$50,809 (\$9,122)           | 45%                 | 92%                  |
| Top 10 %        | 0.79                                  | \$36,389 (\$6,541)           | 65%                 | 89%                  |
| Top 20%         | 0.82                                  | \$23,514 (\$4,240)           | 83%                 | 80%                  |
| 20 - 40%        | 0.82                                  | \$3,456 (\$768)              | 12%                 | 7%                   |
| 40 - 60%        | 0.75                                  | \$972 (\$244)                | 4%                  | 0%                   |
| Bottom 40 %     | 0.50                                  | \$177 (\$53)                 | 1%                  | 0%                   |
| Total           | 0.84                                  | \$5,656 (\$1,026)            | 100%                | 19%                  |

**Notes:** End-of-Life Expenditure Index from Fisher et al. (2003). Data from a 5 percent random sample of fee-for-service (FFS) beneficiaries for years between 1995 and 1999. Excluded are beneficiaries who could not be assigned an HRR. Spending reported in 1999 dollars.



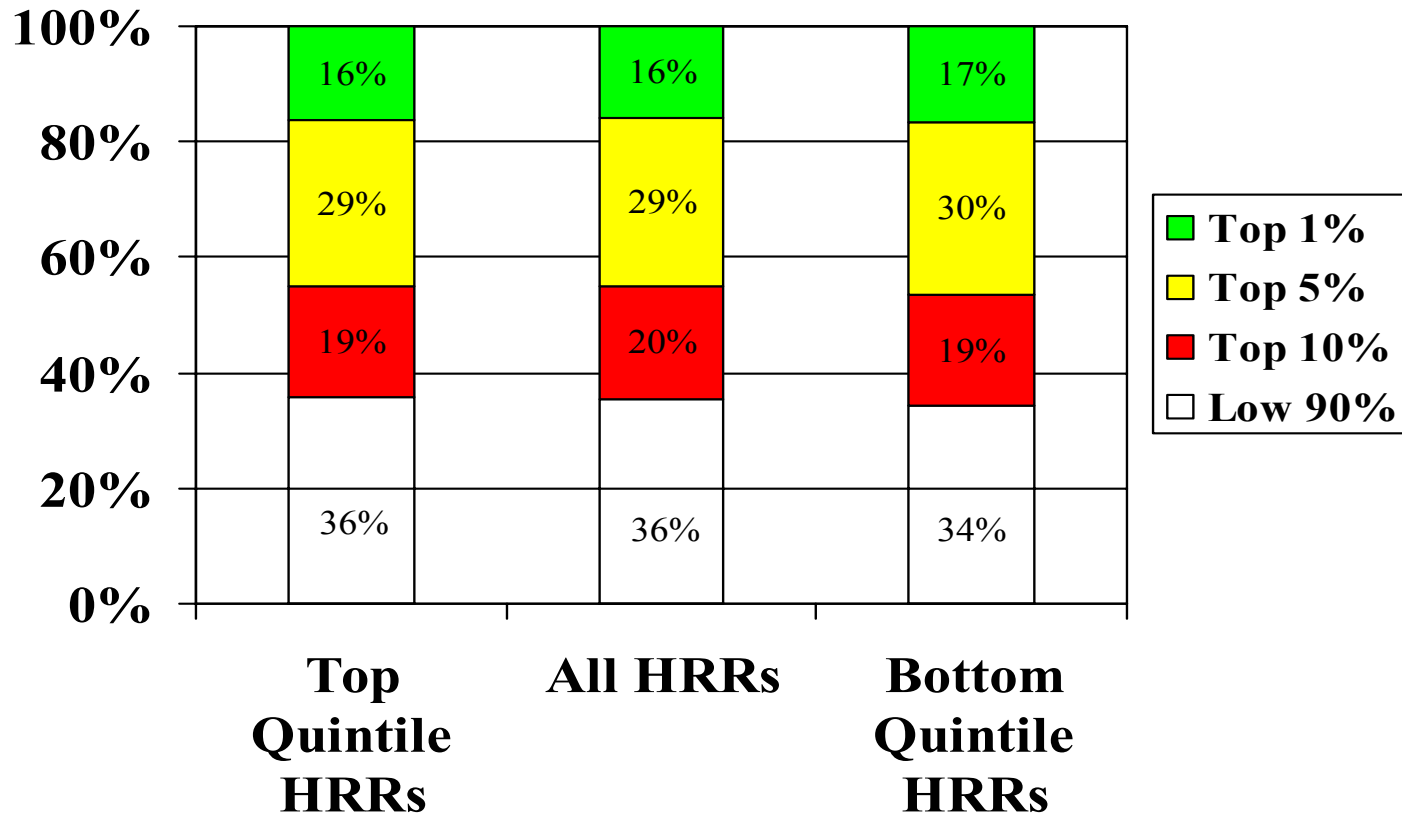
# Distribution of Medicare Spending among HRRs



**Notes:** Data from a 5 percent random sample of fee-for-service (FFS) beneficiaries between 1995 and 1999. Excluded are beneficiaries who could not be assigned an HRR. Spending reported in 1999 dollars.



# Distribution of Medicare Spending among HRRs



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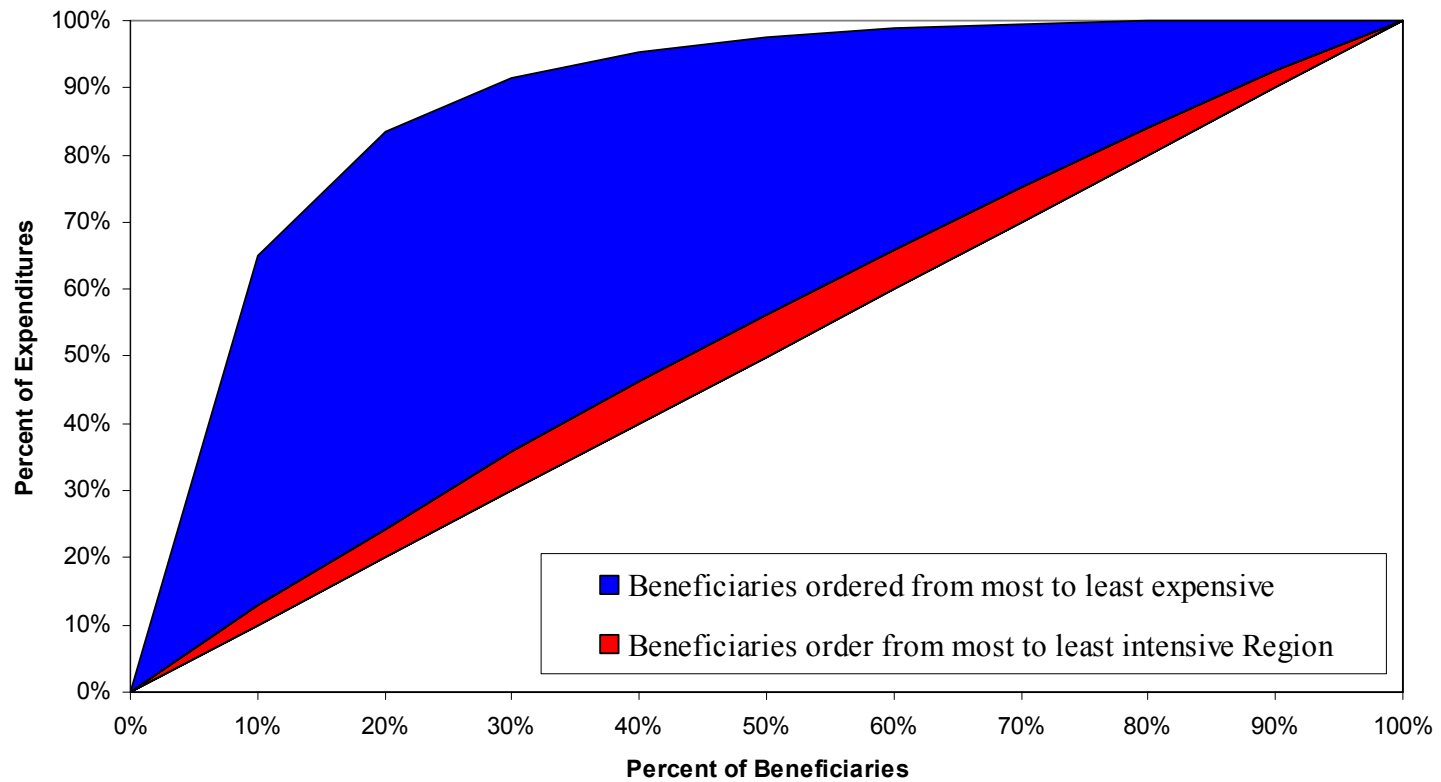


# Potential Pay-Offs from Targeting Beneficiaries vs. HRRs

| <u>By Beneficiary</u> |               | <u>By HRR</u>      |               |
|-----------------------|---------------|--------------------|---------------|
| % of Beneficiaries    | % of Spending | % of Beneficiaries | % of Spending |
| Top 1%                | 17.0 %        | Top 0.7 %          | 1.2 %         |
| Top 5%                | 46.5 %        | Top 4.9 %          | 7.0 %         |
| Top 10%               | 65.8 %        | Top 9.8 %          | 13.1 %        |
| Top Quintile          | 84.0 %        | Top 19.4 %         | 24.4 %        |
| Fourth Quintile       | 11.7 %        | 20.3 %             | 21.9 %        |
| Third Quintile        | 3.3 %         | 20.1 %             | 19.6 %        |
| Bottom Two Quintiles  | 1.1 %         | 41.2 %             | 43.8 %        |



# Potential Pay-Offs from Targeting Beneficiaries vs. HRRs





# Challenges of High-Intensity Region Approach

## Generating savings from high-intensity HRRs requires:

- **Identifying who/ what will change practice patterns / utilization**
  - What to target?
  - Could interventions cause changes in cost or outcome?
- **Developing and implementing effective interventions**
  - Requires achieving lower costs or improved outcomes
  - Where or on what should interventions be focused?
- **Rigorously demonstrating net savings**
  - Possibly use randomized control groups
  - Capture costs of intervention and changes in benefit spending