



Center for Health Transformation
Better health, lower cost

Consumer-Centric Medicare Expanding Benefits and Saving the System for Boomers and Beyond

Center for Health Transformation

Newt Gingrich
Founder

Ronald E. Bachman FSA, MAAA
Senior Fellow

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In the coming years, 78 million baby boomers will place unprecedented demands on Medicare. Baby boomers have driven the economy for the past 50 years. Predictably, their influence and dominance will extend to the next sector of their seemingly insatiable consumption -- health care. Beware, the wave of Boomers will hit an already financially distressed Medicare program.

The original Medicare plan, signed into law in 1965, did not include a prescription drug benefit. Congress added a limited drug benefit in 2004 as a part of the Medicare Modernization Act (MMA). This new program feature initiates a prescription discount card benefit for all seniors. The major features and cost of this program will become effective in 2006. The bill targets significant support for lower income Medicare enrollees, but while a major step in the right direction, the new Act will not solve the prescription drug concerns for most others. For 40 years most boomers have had comprehensive medical coverage with prescription drugs and unlimited hospital coverage through their employer. Upon turning 65, boomers are likely to accept the antiquated and still limited Medicare program.

Choice and Responsibility

Medicare must adapt to today's consumers by incorporating two guiding principles: choice and personal responsibility. Without an injection of personal responsibility, Baby boomers could turn Medicare into a financial disaster. Unless properly structured with personal responsibility, baby boomers will have no idea of the cost of prescription drugs or any other medical care they consume. We can not give them a blank check.

The government should supplement the current Medicare offering with a consumer-centric choice. Consumer-centric plans with personal care accounts (PCAs). PCAs would consist of health reimbursement accounts (HRAs) and health savings accounts (HSAs). This approach offers a new model of coverage that lets consumers, rather than government or HMOs, manage more of their health care decisions. Employers and pre-65 individuals have already embraced the June 2002 IRS announcement and guidelines that approved HRAs and the 2004 HSAs that were passed as a part of the MMA. HRAs and HSAs may be the most important changes to affect health care in 25 years. Under them, for the first time ever, health insurance can be offered with a combination of protection and savings. It time that Medicare include both these concepts in a Medicare PCA.

Empowered Patients

Medicare could dramatically lower costs and improve quality of care by harnessing the power of patients as consumers. Surveys show that within five years, 40% to 50% of employees will be covered under consumer-centric plan designs. The evidence is clear, when patients control the dollars directly, they become wise purchasers. Much of healthcare expenses are generated because patients are not compliant with accepted medical plans of care and treatment. Consumer-centric Medicare would inject personal responsibility by rewarding desired activities and direct more funds to those willing to participate in their own improved outcomes.

Paying for New Benefits from Savings

With the savings from consumer-centric Medicare, we can provide all retirees with prescription drugs and cover other new medical services without additional taxes and without shifting funds from other government programs. PCAs would be available to cover health and healthcare costs that traditional Medicare does not cover. For example, PCA funds could be used to pay for Medicare deductibles, copays, and coinsurance amounts. They would be used to pay for qualified medical expenses not otherwise covered by Medicare. In addition, PCA funds would be used to purchase health care insurance, such as, long term care, cancer coverage, supplemental healthcare, or a prescription drug only policy. Under current law, the component pieces of PCAs (HRAs and HSAs) have different rules for use and differ in how they are funded and vested. These differences should be eliminated so that Medicare beneficiaries can use either account to meet their healthcare needs. For example, at retirement employer provided HRAs could be converted to HSAs. Under this approach, all PCA funds would become HSA dollars. Any unused funds at death are passed on through estate probate.

Building a Medicare Personal Care Account

With consumer-centric Medicare, every beneficiary who chooses a this type of option, would have a personal care account (PCA) established in their name. The account could start with a zero balance and would be funded through a number of sources including employers offering post retirement healthcare supplements, tax deductible individual contributions, and Medicare deposits based upon voluntary patient participation in cost effective treatments and through compliance incentives programs.

PCAs would be individual accounts under the control of the individual. There would be many ways to increase the level of PCA funds:

1. Employers who provide for post retirement health care could contribute directly into the PCA.

The employer's contribution would be tax deductible as a business expense and received tax free by the retiree. Additional employer funding could come from HRA/HSA funds that would be rolled over at retirement from an existing consumer-centric employer plan.

2. Medicare could establish incentive programs to reward compliance with "best practices" medical care and treatments.

Voluntary disease management programs, would reward beneficiaries for compliance in following proven best practices of care. Increased compliance with PCA incentives would generate significant savings from fewer hospitalizations and re-hospitalizations.

3. Medicare could reward patients that with PCA incentives if they use hospitals with proven cost effective programs for the diagnosis being treated.

The Leapfrog Group, a consortium of employers, states that "patients who go to hospitals that frequently perform these high-risk treatments or procedures, or to hospitals that have demonstrated a good record for patient outcomes, have the best chance of surviving and successfully recovering." For example, the Agency for Healthcare Research and Quality (AHRQ) and several private companies have developed comparative statistics by hospital to show costs and quality (mortality and morbidity) that identify best practices and lower costs. Using this type of data PCA incentive award programs would drive competition among hospitals based on leading edge improvements in health care.

4. Medicare beneficiaries that use hospitals with recognized quality standards would receive a PCA incentive bonus.

The Leapfrog Group has produced several standards for recognizing higher quality hospitals. For example, they have identified that hospitals with computer physician order entry (CPOE) for prescription drugs have fewer prescription errors and lower subsequent medication complications and deaths. Studies show a computerized prescription system can reduce serious medication mistakes by up to 86 percent.

5. PCA incentives could be awarded to encourage using physicians with better outcomes.

A promising approach for consumer-centric plans reimburses physicians who provide recognized "value." Research indicates high-volume surgeons tend to have better outcomes.

6. Medicare beneficiaries could be allowed to contribute to their PCAs with tax deductible contributions. The amount of individual contribution could be limited to a multiple of the Medicare Part A deductible.
7. Medicare beneficiaries could be allowed to transfer (tax free) a certain amount of life insurance cash value directly into their PCA.
8. PCAs would accumulate tax-free. As with current HSAs, investments would be through government approved financial investment vehicles.

To meet the demand for prescription drugs and other expansions of Medicare, this nation must replace the supply-control and price-control model of Medicare with a demand-control and patient-control model. One key to a workable demand-control system is the increase in personal responsibility and more individual control over healthcare expenditures. Consumer-centric Medicare and PCAs are the basis for that transformation.

Congressional Support

If we are to have a financially viable Medicare program, this movement needs support from Congress and the Administration. Consumer-centric Medicare care offers a new direction of thinking about how to finance prescription drugs and other benefits needs of the elderly. There is no silver bullet. The problems of Medicare are huge and intimidating. Boomers and generations beyond will demand a new model of Medicare that reflects their needs. The time is right for more Medicare reform, these ideas can move an outdated plan design into the 21st Century.

About the Center for Health Transformation (CHT)

The Center for Health Transformation, founded by former House Speaker Newt Gingrich, is a unique collaboration of leaders dedicated to accelerating the adoption of transformational solutions, policies and technologies in order to create a 21st Century Intelligent Health and Healthcare System characterized by better outcomes and more choices at lower cost. The Center accomplishes this by: acting as a catalyst to accelerate transformational change; identifying better solutions that provide more choices, better health and lower cost; sharing those solutions with the widest array of opinion leaders and decision-makers across all

sectors and levels to accelerate their adoption by the system; and helping to create, advance and improve the public policies (state and federal) that will accelerate health transformation.

For more information, please visit www.healthtransformation.net.