Medicare Advantage Multi-Product Risk Selection

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Abstract

- Background. The Centers for Medicare and Medicaid Services (CMS) has struggled to promote plan participation in the Medicare Advantage (MA) market, without overpaying plans or putting enrollees at risk of plan manipulation.
- Objectives. Explore how changes targeted at increasing operating costs for private fee-for-service (PFFS) plans had spillover effects on other parts of the MA market
- Methods. Difference-in-difference.
- Results. Counties with greater PFFS operating costs leads to increased exit among HMO and PPO plans and shuffling of consumers across plan types.
- Conclusions. The changes in PFFS did not affect the extensive margin of enrollment, but affected the allocation of enrollees across plans, which may have had welfare impacts.

Background

- Due to loopholes in CMS regulation, PFFS plans were able to restrict provider access to its enrollees, while advertising that enrollees could see any provider of their choice.
- In response, PFFS plans in markets with two or more network-based plans were required to also form explicit provider networks, increasing operating costs for all PFFS plans.
- This led to variation in PFFS operating costs across counties, depending on where the network area requirement was binding.

Hypothesis

- PFFS plans targeted the especially high risk through their marketing.
- Due to relaxed requirements, PFFS plans were able to limit access to providers by either decreasing payments or by increasing the administrative burden of receiving payments.
- In practice, PFFS plans were able to turn high risk enrollees into low financial risks, thus attracting high risks away from other plans.
- Decreased opportunities to offer PFFS plans should lead to less favorable selection in plans that were reliant on PFFS risk selection, leading to increased exit across non-PFFS plans.

Objectives

1. Establish that the increased operating costs for PFFS plans affected other plan types.
2. Establish the general effects on enrollment into Medicare Advantage and the distribution among plan types.

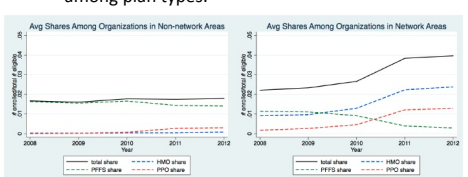

Figure 1: Comparing Market Shares for Each Plan Type Among Organizations for Non-Network and Network Areas

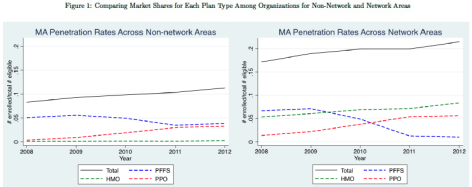

Figure 2: Comparing Penetration Rates for Each Plan Type for Non-Network and Network Areas

Methods

- Data: 2008-2012 publicly available Medicare Advantage data on plan characteristics and enrollment
- Because the network area requirement was enforced only over 2/3 of counties, there is exogenous variation in PFFS operating costs across markets and over time.
- This allows for a difference-in-difference analysis, where the treatment group is counties under the network area requirement and the controls are counties without the requirement in 2011 or 2012.
- Dependent variables included the log of market shares of each plan type by organization, to filter out consolidation, and penetration rates

Table 1: Effect of network areas on county penetration rates in decimals

Network area effect by year	PFFS	HMO	PPO	ALL
2009	-0.00219	0.00621*	0.00379	0.00509
2010	-0.0234***	0.0104***	0.0111***	0.00869
2011	-0.0359***	0.0112***	0.0213***	-0.006
2012	-0.0504***	0.0335***	0.0237***	0.0120**
R2	0.738	0.958	0.755	0.969

Dependent variables are in log form. Fixed effects for year, county are included. Interactions between premium, network areas, and year are also included for the first three columns. Interactions between year, network area, and counties with and without Humana and United's presence are included for the fourth column. 14,853 observations in each regression.

Results

- The network area requirement lead to an increase in HMO and PPO market shares, reflecting increased exit in the market for these plan types.
- Enrollment into Medicare Advantage did increase apparently in areas with the network restriction, but this is sensitive to model specification.
- On average, changes in enrollment into HMOs and PPOs in network areas were largely due to PFFS enrollees being shifted into other plan types. These shifts took place in network areas, but not substantially in non-network areas. Hence, this is not a remnant of changes in consumer preferences.

Conclusions

- The main effect of the network area requirements, which were targeted towards limiting PFFS manipulation of providers and enrollees, was to increase exit among HMO and PPO plans.
- More research is warranted in order to evaluate the welfare implications of this policy.

Policy Implications and Further Work

- PFFS plans may have facilitated the entry of other plan types, and in the absence of PFFS plans, entry thresholds may have increased for plans in Medicare Advantage.
- The exit of PFFS plans from the market may have affected how well the available Medicare Advantage plans match the variation in consumer preferences. This in turn has effects on the amount of selection taking place across place and consumer welfare.