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To: Third Way

From: Actuarial Research Corporation

Subject: Final Scoring Memo: Default Choice

Date: March 17, 2015

Policy Background

Background information on the policy issue is described below and comes from Avalere's work.[1]

> Under this proposal, new Medicare enrollees who do not actively choose to enroll either in a Medicare Advantage (MA) plan or fee-for-service (FFS) would be automatically enrolled in the highest-value plan in their region. These new enrollees who are assigned to default choice plan would then have the option to change to their enrollment to another plan, either in a MA plan or to traditional FFS.

This analysis looks at the impact of default choice on Medicaid, private health insurance (PHI)[2] and out-of-pocket (OOP). Modeling specifications for extending Medicare policies are from Third Way.[3]

> The default enrollment in the highest-value health plan for new retirees may have an impact on Medicaid costs for the non-custodial care duals.

The estimates of projected savings to Medicare, Medicaid, private health insurance (PHI) and out-of-pocket savings (OOP) are shown in Table 1. The following illustrative projected savings are based on assumed values primarily from the Avalere Health memorandum.[4] Projected Medicare savings total $56.4 billion over the ten-year period (2015-2024) and projected Medicaid savings total an additional $1.6 billion. Projected PHI savings total $5.6 and projected OOP total $2.9 billion, for a total of $66.5 billion in projected savings over the ten-year period (2015-2024).

Estimation Process and Results

Using the estimates of total Medicare savings[5] from Avalere,[6] we applied simplified assumptions to approximate potential per capita savings to the Medicare population affected by the proposed policy. We based the number

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[1] Avalere Health. (October 1, 2014). *Estimated Federal and Beneficiary Impact of Medicare Default Choice to High-Value Plans.*

[2] Private health insurance includes Medigap supplementation.

[3] D. Kendall email communication "Re: Thoughts on specs for Bundling option," November 5, 2014. Attachment: ""ARC-Extending Third Way's Medicare Policies to under-65.doc."

[4] Avalere Health. (October 1, 2014). *Estimated Federal and Beneficiary Impact of Medicare Default Choice to High-Value Plans.*

[5] Excluding Medigap

[6] Avalere Health. (October 1, 2014). *Estimated Federal and Beneficiary Impact of Medicare Default Choice to High-Value Plans.*

of new enrollees age 65 on an estimate from Avalere and baseline data on total Medicare enrollment derived from CMS projections. We calculated the Medicare population assigned to default choice using assumptions from Avalere on the percent of the population automatically assigned to an MA plan and the percent of enrollees who are expected to opt out and mortality rates.[7] Using the total savings from default enrollment of new enrollees and effect of market changes on existing MA enrollment, we approximated a per capita annual savings estimate. This savings estimate is then adjusted and applied to the Medicaid population of interest, which is explained in greater detail below.

The Medicaid population affected by this policy would be dual eligibles with no long-term care spending who are new entrants to Medicare (age 65). The total Medicaid enrollment estimates are derived from CMS projections. The projection of Medicaid beneficiaries assumed to be dual eligible, with no long-term care spending is estimated to be about 11% of total Medicaid enrollment. We assume this level remains constant through the time period. This population is adjusted to reflect Medicaid duals who are new entrants to Medicare. We assume 7.7% of total duals with no long-term care spending are first year beneficiaries.[8]

We also assume the same participation and opt-out rates for the Medicaid population of interest, as was used in the Medicare estimates. We assume that 41% of the population of interest is automatically assigned to an MA plan due to the proposed policy. It is assumed that 5% percent of the population of interest will opt out during the first 5 years, and 2.5% will opt out during the next five years of the time period examined. Mortality rates at age 65 are applied to the population assigned to default choice. The per capita savings estimate calculated from the Medicare population of interest is adjusted by a factor of 0.2 to account for the smaller savings accrued to Medicaid (being only a secondary payer) and applied to the Medicaid population of interest. This produces illustrative, projected savings to Medicaid of about $1.6 billion over the ten-year period (2015-2024). We also estimated the portion of Medicaid savings by the federal government and by states using the average Federal Medical Assistance Percentage (FMAP) for states in FY2015 (59%).[9] Of the $1.6 billion in savings to Medicaid, the federal share is $0.9 billion and the state share is $0.6 billion.

To estimate the effect of the default choice policy on PHI spending, we assumed that PHI savings is approximately 10% of Medicare savings. PHI in this setting is supplemental insurance coverage. For OOP savings, we used an estimate of how much OOP is associated with each dollar of payment through Medicare, Medicaid and PHI. The assumed distribution of OOP savings is as follows: 5% of total Medicare savings and 2% of total Medicaid savings. Projected PHI savings total $5.6 billion and projected OOP savings total $2.9 billion over ten years.

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[7] From http://www.cdc.gov/nchs/data/nvsr/nvsr63/nvsr63_07.pdf

[8] This assumption is derived from the information in the Avalere memo on default choice: "4.2 million new Medicare beneficiaries who are age 65 will enroll in Medicare in 2015." Using our baseline data on Medicare enrollment, this equates to 7.7% of the total Medicare population. This relationship is then applied to the Medicaid population of interest.

[9] Average FMAP percentage for total US (51). Accessed: http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/

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Final Estimates for Third Way

Estimated change in spending due to Default Choice

ARC

Table 1: Estimated change in spending due to Default Choice by payer ($ in billions, by fiscal year)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2024
Medicare	0.0	-1.4	-2.4	-3.3	-4.2	-5.6	-6.9	-9.5	-10.9	-12.2	-56.4
Medicaid-federal	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.9
total federal	0.0	-1.4	-2.4	-3.4	-4.3	-5.7	-7.0	-9.7	-11.1	-12.4	-57.3
Medicaid-state	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6
Private health insurance	0.0	-0.1	-0.2	-0.3	-0.4	-0.6	-0.7	-1.0	-1.1	-1.2	-5.6
Out-of-pocket spending	0.0	-0.1	-0.1	-0.2	-0.2	-0.3	-0.3	-0.5	-0.6	-0.6	-2.9
total-Medicare, Medicaid, PHI + OOP	0.0	-1.7	-2.8	-3.9	-5.0	-6.6	-8.1	-11.2	-12.8	-14.4	-66.5