

Project Number: BRIC-02-004
Project Title: Evaluation of Private Fee-For-Service Medicare
Principal Investigator: Steven D. Pizer, Ph.D.

Background/Rationale:

The Private Fee for Service Plan (PFFS) option for Medicare enrollees was created by the Medicare + Choice (M+C) provisions of the Balanced Budget Act of 1997. First approved for sales to Medicare enrollees in May 2000, Sterling Life Insurance of Bellingham, Washington began marketing the plan in 1220 counties in 25 states. Today, the Sterling plan enrolls about 22,000 people. The questions that are being asked in this study reflect a need for an early appraisal of the PFFS concept: Who is enrolling in PFFS? What is the impact of this enrollment pattern on the cost of the Medicare program? How is Sterling choosing markets?

Objectives:

This analysis will identify a set of factors that are empirically associated with Sterling's decision to market its PFFS product in a particular area. In addition, we will apply three approaches to determine the extent of adverse or favorable selection experienced by the PFFS plan. Finally, we will calculate the impact of PFFS on the Medicare Trust Fund, based on the selection findings.

Methods:

We will analyze county-level entry and enrollment records, merged with county characteristics gathered from a variety of secondary data sources to conduct our study of Sterling's market entry decisions. Our analysis of selection will be based on three data sources: 1) survey respondent answers to questions regarding health status and physical functioning, comparing PFFS enrollees to a sample of respondents chosen from the FFS Medicare population, 2) PIP-DCG risk scores at the plan-county level, and 3) beneficiary-level claims and encounter data.

Findings/Results:

We find that, although Sterling was substantially more likely to enter counties subject to urban and rural payment floors, enrollment was not significantly affected. We also find that Sterling was significantly more likely to enroll beneficiaries living in counties with high Medigap premiums and counties that had experienced M+C plan withdrawals. These results suggest that, after 18 months of operation, Sterling was offering important new choices in areas that could benefit from additional competition, without exploiting idiosyncrasies in the payment system.

Impact:

Study results will inform Medicare policymakers about M+C plans.