

The Basics

Medicare Demonstrations

Medicare demonstrations are real-world tests of new ways of delivering health care services, paying health care providers, or designing benefits. They act as laboratories for policymakers to experiment with potential changes to the Medicare program. If the policy innovation tested in the demonstration is successful, Congress can make a more informed decision about whether to add it to Medicare nationally. Also, identifying necessary refinements or limitations of a policy approach before it affects millions of beneficiaries and providers nationwide reduces the disruption that a Medicare change can cause.

Demonstrations are confined to a limited number of geographic areas, or to a particular subgroup of Medicare providers or beneficiaries, and they are time-limited, commonly two years. The Centers for Medicare & Medicaid Services (CMS), the agency that oversees Medicare, directs all demonstrations.

Demonstrations in Historical Perspective — Demonstrations have led to some of the most important changes in Medicare payment or service delivery. For example, the method Medicare uses to pay hospitals for inpatient care—the inpatient prospective payment system—was developed through a demonstration project. Others include the skilled nursing facility and home health prospective payment systems and the Medicare managed care program (most notably preferred provider organizations, special needs plans, and social health maintenance organizations). In addition, demonstrations have an effect beyond Medicare because other payers often follow Medicare’s lead in adapting new payment and coverage policies. Even demonstrations that do not produce an anticipated result may contribute important information about health care delivery as well as help Medicare avoid costly, national mistakes.

Initiating Demonstrations — Both Congress and the Department of Health and Human Services (HHS), usually acting through CMS, may initiate Medicare demonstration projects. About 60 percent of the 31 current or upcoming demonstrations listed on CMS’s Web site in January 2008 were legislated by Congress. By mandating a demonstration, Congress can test a policy approach or idea that may be premature to implement on a program-wide basis. HHS has authority to initiate demonstration projects under section 402 of the Social Security Amendments of 1967. HHS undertakes demonstrations that reflect its policy priorities.

Demonstrations Versus Research — When considering how to evaluate a potential Medicare policy option, Congress or HHS may choose to conduct research, undertake a demonstration, or both. Research involves trying to assess the likely impacts of an innovation that has not been tried in the program. It is generally a data-driven enterprise, drawing on experiences from the program or elsewhere that mimic the innovation. Demonstrations are experiments in which the innovation is applied on a small scale, changing how Medicare operates in a geographic area or for a particular group of beneficiaries. Demonstrations most often require some level of research to support their development and to evaluate their results. Research can be undertaken without conducting a demonstration, but a demonstration generally cannot be undertaken without supporting it with research. Before implementing a demonstration, CMS uses research to develop and test the methodology and measures to be used. After a demonstration is completed, an evaluation assesses the impact of the project. In general, if sufficient data and experience exist to examine an issue, policymakers will choose research over a demonstration because it can be less expensive, quicker, and can avoid disrupting beneficiaries and providers.

Considerations — There are a number of considerations to take into account in designing, implementing, and evaluating Medicare demonstrations.

- **Time.** Designing, implementing, and evaluating demonstrations can take years. The time investment required to carry out a demonstration sometimes offsets the usefulness of the lessons learned through the project.
- **Budget Neutrality.** Most demonstrations are required by statute or administration directive to be budget neutral, which means that total benefit payments under the demonstration are expected to be no more than they would be under the existing policy. Determining budget neutrality requires making many assumptions about the costs and savings associated with the policy change; often information to make the assumptions is limited, making the determination difficult and sometimes controversial.
- **Participation.** Beneficiary and provider participation in demonstrations is most often voluntary, and sufficient participation is not guaranteed. In addition, results can be affected by which beneficiaries choose to participate.
- **Evaluations.** Isolating the effect of the policy innovation can be difficult and time-consuming. There is also a tension between the desire for comprehensive evaluations that take into consideration factors such as the long-term effects of a change and the need to produce timely results.
- **Results.** If results from a demonstration prompt policymakers to incorporate the change into Medicare, the Medicare statute needs to be

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changed and the innovation needs to be implemented nationally, which can be a lengthy process.

- **Controversy.** Demonstrations may be controversial because even though some providers or beneficiaries may benefit from the approach being tested, others may be adversely affected (or fear being adversely affected). In some instances, Congress or the courts have intervened to delay or stop a demonstration.

For an abbreviated list of recent demonstrations and their purposes, see the Appendix, next page.

*For more detailed information on **Medicare demonstrations**, see Amanda Cassidy, “The Fundamentals of Medicare Demonstrations,” at www.nhpf.org/pdfs_bp/BP63_MedicareDemos_07-22-08.pdf.*

*For information on **Medicaid and SCHIP waivers**, see Cynthia Shirk, “The Basics: Medicaid and SCHIP Waivers,” at www.nhpf.org/pdfs_basics/Basic_MedicaidSCHIP.Waivers_07-30-08.pdf; and Cynthia Shirk, “Shaping Medicaid and SCHIP Through Waivers: The Fundamentals,” at www.nhpf.org/pdfs_bp/BP64_MedicaidSCHIP.Waivers_07-22-08.pdf.*

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APPENDIX
Examples of Demonstrations by Subject

QUALITY OF CARE	
Demonstration Title	Description
Premier Hospital Quality Incentive	Tests impact on quality of care of providing financial incentives to hospitals that demonstrate high quality in five acute care areas: heart attack, heart failure, pneumonia, coronary artery bypass graft, and hip and knee replacements.
Physician Group Practice	Tests impact on quality measures of providing incentive payments to physicians that are allocated based on cost efficiency and performance and are generated from coordinating care under Parts A and B of Medicare.
ALTERNATIVE PAYMENT METHODS	
Demonstration Title	Description
Demonstrations Serving Those Dually Eligible for Medicare and Medicaid	Evaluates impact of combining Medicare and Medicaid funding pools at the health plan level and different approaches to managing care on expenditures and quality of care for dual-eligible beneficiaries.
Rural Community Hospital	Tests whether reasonable cost reimbursement for certain small rural hospitals enhances the ability of those hospitals to meet the needs of their communities.
NEW PROVIDER TYPES AND / OR BENEFITS	
Demonstration Title	Description
Low Vision Rehabilitation	Allows for coverage of vision rehabilitation services by additional types of practitioners, such as low-vision therapists, orientation and mobility specialists, and vision rehabilitation specialists.
Medical Adult Day Care Services	Allows for coverage of services provided in an adult day care center as a substitute for some home health services.
CARE COORDINATION AND PREVENTION	
Demonstration Title	Description
Medicare Health Support	Tests the impact of disease-management/care-improvement programs on quality, beneficiary satisfaction, health outcomes, and cost of fee-for-service Medicare beneficiaries with chronic conditions.
Senior Risk Reduction	Tests the effect on Medicare beneficiaries of health promotion and health management approaches used in the private sector.

Source: Centers for Medicare & Medicaid Services (CMS), "Demonstration Projects and Evaluation Reports: Medicare Demonstrations," available at www.cms.hhs.gov/DemoProjectsEvalRpts/MD/list.asp#TopOfPage; and CMS, "Medicare Health Support," available at www.cms.hhs.gov/CCIP.

More examples of demonstrations are listed in the full background paper by Amanda Cassidy, "The Fundamentals of Medicare Demonstrations," available at www.nhpf.org/pdfs_bp/BP63_MedicareDemos_07-22-08.pdf.