

MEDICARE+CHOICE IN PALM BEACH: WATCHING AND WAITING?

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December 2003

Introduction

The 1997 Balanced Budget Act created the Medicare+Choice program to foster a wider role for managed care plans in Medicare with the expectation that the plans would offer beneficiaries more benefits at lower costs than traditional Medicare and Medigap. At the same time, it was thought that plans would use managed care strategies to limit Medicare spending growth. Initially plans and beneficiaries responded favorably to Medicare+Choice and Medicare managed care enrollment grew to 16% in 1998, where it remained through 2000.

However, Medicare+Choice has not been as successful as policymakers had hoped-- enrollment dropped between 2000 and 2003 as significant numbers of health plans withdrew from the program or reduced benefits and service areas. In 2003, only eleven percent of beneficiaries remain enrolled in a Medicare HMO. In many communities beneficiaries face uncertainty about the stability of their plan, increased cost sharing and rising premiums. Moreover, across the country, health plans' efforts to negotiate low rates with physicians and hospitals while requiring strict utilization review, have created increasingly strained relationships with providers.

Report

In some communities, however, Medicare+Choice appears successful relative to the national experience. In these areas, local beneficiaries still have a choice of plans and managed care participation levels remain high. Given the recent attention to the role of private plans in Medicare reform, lessons that can be learned from seemingly successful M+C programs are important. The Medicare Prescription Drug Improvement and Modernization Act of 2003 relies heavily on private firms to provide both prescription drug and comprehensive Medicare benefits across multi-state service areas.

Under the Medicare+Choice program, firms have been able to offer products on a county-by-county basis, making participation decisions based on factors such as county payment rate, strength of local provider networks, and beneficiary's affinity for managed care.

In 2003, Medicare+Choice payment rates paid to plans range from \$495 in rural floor counties to a high of \$872 in Staten Island, NY.¹ Consequently, there is large national variation in benefits, premiums, and plan participation.² A recent site visit to Palm Beach county and neighboring Miami-Dade highlighted many of the differences between counties which may pose challenges to firms trying to enter large service areas.

Medicare+Choice in Palm Beach County

Palm Beach county (PBC) was selected for a site visit because the local Medicare+Choice program appears successful relative to other areas of the country. In 2003, PBC has a relatively high rate of M+C penetration (27% compared with a national penetration rate of 11%), a choice of plans (5 insurers offer 10 plans in 2003, including a PPO demonstration): and at a modest payment rate (\$644, 74% of the national high). The Palm Beach rate is much lower than plans in neighboring Miami-Dade and Broward counties receive).³

At first glance, Palm Beach county is a site which might offer lessons from a successful M+C market at a time when other communities have lost M+C plans and enrollment.

Medicare+Choice has had a tumultuous history in many communities, which have been characterized by plan withdrawals, provider pushback, and increasing beneficiary dissatisfaction. PBC's high market penetration and multiple M+C plans suggest a community that has avoided national trends.

Instead, managed care leaders and local experts indicate that appearances can be deceiving. Plans and providers are hanging in the market as best they can, but feel that they may need to withdraw from M+C if payment rates are not increased substantially. Benefits have been scaled back and many beneficiaries have changed plans over the past five years. Plan administrators, providers, and beneficiaries are all aware of the Medicare plan payment differentials between Palm Beach and neighboring counties and report that there is no difference in medical costs across the area. Seniors desperately feel the need for a drug benefit.

Plan Withdrawals and Consolidation: Less Choice for Beneficiaries

Palm Beach residents looking for M+C plans using the online Medicare Personal Plan Finder feature are presented with ten possible plans from which they can choose. However, the ten plans are offered by only five firms and some plan characteristics further reduce feasible choices for many beneficiaries.

United only offers two PPOs (and no HMO), which have high monthly premiums of \$130 and \$170. America's Health Choice entered the market in 2002 and locals say that it is still establishing its network and primarily relies on small clinics. Foundation Health, WellCare Choice, Vista and Neighborhood Health Partnership have been recently purchased by the same buyer and observers are uncertain about their futures.

Currently, the market is dominated by two plans- Humana's Gold Plus and Health Options' Medicare& More. In early 2003, 69% of the county's M+C beneficiaries were enrolled in Humana's plan and another 23% were Health Options enrollees and the remaining 8% were

scattered across the other eight plans.⁴ Appendix 1 presents the changes in plan availability over time in Palm Beach.

Humana and Health Options have traditionally dominated the market, although their combined shares of M+C enrollees have steadily increased from 55% in 1998 to 89% in 2003. As these two plans have increasingly taken over the market, beneficiaries have found fewer plan choices and providers do not need to contract with multiple firms in order to serve M+C patients, which makes it more difficult for new plans to establish networks.

In Palm Beach, current Medicare+Choice market penetration is only 80% of its late-1990s high enrollment level of 35%, indicating that many beneficiaries have responded to the changes in benefit packages and plan availability

Deterioration of Benefit Packages

Virtually all Palm Beach M+C beneficiaries are enrolled in one of two plans- Humana's Gold Plus \$0 plan which offers a generic-only drug benefit and Health Options, the local Blue Cross plan which has a \$45/month premium and no drug benefit. Those familiar with local conditions said that benefits have been decreasing over time as these two plans try to remain in the market.

Humana made several changes to its plan for 2003 that will raise out-of-pocket spending considerably for beneficiaries. Formulary brand drugs were eliminated in PBC and copays were increased for generic drugs. Cost-sharing was also introduced for ambulatory surgery, durable medical equipment, and skilled nursing stays beyond day 7, benefits which had previously been fully covered for Gold Plus members. Humana offers a choice of three \$0 premium plans in Miami-Dade, all with much more generous benefits than their Palm Beach M+C package.⁵

Health Options conducted several focus groups with beneficiaries before making a difficult decision to eliminate the drug benefit for 2003 in both Palm Beach and Miami-Dade.

By eliminating the drug benefit, Health Options was able to avoid increasing cost-sharing for many other services.

America’s Health Choice and Foundation Health also increased copays associated with hospital stays.

Table 1 presents some of the more significant benefit reductions that were made to Palm Beach County Medicare+Choice plans for 2003. While the benefit reductions serve as a cost-cutting mechanism for plans, they may also serve as a risk-selection mechanism. Healthy beneficiaries who do not anticipate significant drug or hospital utilization in the upcoming year will not have to rethink their enrollment decision, while sicker and costlier beneficiaries will be more likely to consider leaving a M+C plan that covers less of the cost of their medical care.

Table 1: Selected Benefit Changes in Palm Beach County M+C Plans, 2002-2003

Health Plan	Benefit	Change from 2002-2003
America’s Health Choice	Outpatient hospital visit Inpatient hospital care	Copay increased from \$20 to \$100 \$200/stay copay added, plus \$150/day charge for days 61-90
Health Options/BCBS Medicare& More	Prescription drug benefit	Coverage Eliminated
Humana Gold Plus	Skilled nursing facility Prescription drug benefit Inpatient hospital care	\$100/day copay added for days 7-100 Eliminated brand drug coverage Copay raised from \$250/stay to \$250/day for days 1-5
Foundation Health Senior Value Medicare	Outpatient rehabilitation services Inpatient hospital care	Copay raised from \$20 to \$50 per treatment Copay increased from \$150/stay to \$300/day for days 1-5

Source: GWU analysis of Medicare Health Plan Compare plan descriptions for 2002 and 2003.

Humana patients see specialists affiliated with their “family” of doctors, which some elderly feel offers a very limited choice. Since Humana doctors have full-risk contracts, which make them responsible for the cost of care used by their patients, beneficiaries perceive that they are hesitant to provide costly referrals.

Local Market Conditions

Beneficiaries' Perspective

Project staff conducted two focus groups with seniors in Palm Beach to assess beneficiary experiences with Medicare+Choice.¹ Beneficiaries reported that they are unable to depend on their health plans and have seen availability of plans, doctors, and additional benefits change dramatically over time. A local Medicare counselor commented that beneficiaries in Palm Beach “can’t depend on their HMOs- they’re here today, gone tomorrow. The benefits are also here today gone tomorrow.” Overall they report that, local market conditions have created a very shaky Medicare HMO market in Palm Beach county.

Beneficiaries who are currently enrolled in Palm Beach M+C plans indicated that they would return to fee-for-service Medicare if a drug benefit was added as many are dissatisfied with their managed care experiences.

Elderly counselors and beneficiaries also reported that sicker patients had repeatedly changed providers as plans withdrew or changed networks. Focus group participants observed that plans had increased copayments and refused to reimburse previously covered expenses. One woman’s plan abruptly stopped covering her multi-year experimental treatment. One elderly counselor summed up the local M+C experience as a time of uncertainty for beneficiaries; “People are on the cusp- they know that they can’t depend on their HMOs since plans change what benefits and doctors are offered all of the time. But as long as you’re healthy, Medicare+Choice is a success for beneficiaries.”

¹ Focus groups were arranged by the SHINE counselors (Serving Health Insurance Needs of Elders, the State Health Insurance Counseling and Assistance Program) and members of the Delray Alliance, a local senior group.

Providers' View

Local health plan and hospital executives referred to Palm Beach as the “wild, wild west” of the managed care market. The county lacks large employers whose contracts could give managed care companies bargaining power with area hospitals and has a large population of wealthy retirees who are unwilling to join HMOs. In the early 1980s Florida Medicare HMOs were tarnished by the experience with International Medical Centers (IMC). IMC was the largest Medicare HMO in the country when it went out of business after failing to pay its providers and denying patients necessary care.⁶ Thousands of subscribers lost their plan when IMC was declared insolvent in 1987, owing providers more than \$300 million in medical claims.⁷ Some providers hypothesized that the IMC scandal made providers and beneficiaries in Palm Beach hesitant to trust and contract with HMOs. However, Medicare+Choice appears to have been successful in enrolling beneficiaries and contracting with providers, suggesting that many people have been able to look past the IMC incident.

Doctors and hospital administrators agree that managed care plans have historically held the upper hand in negotiations for both M+C and commercial plans in Palm Beach.

Physicians' View

Most physicians contract with plans for a single rate which is the same for M+C and commercial patients. Managed care has reduced payment levels to a point providers view as unsustainable. Health Options recently renegotiated with providers to pay them 80 percent of Medicare, down from 100 percent of the FFS rate. In response, the Palm Beach physicians are encouraging patients to leave their HMO, especially as plans are no longer providing many supplemental benefits. One doctor counsels his patients that as of January 1, 2003, there is essentially no benefit to the Humana plan over FFS Medicare.

Most of the doctors contract with several managed care companies, which they feel is the best way to maintain their practices. Plans seem willing to contract with all providers and doctors report that plans do little quality screening. Initially, M+C plans demanded capitation contracts, where doctors assumed the risk that a per capita payment would cover all of the costs of a patient's care during a contract period. Local doctors rebelled against capitation payments; only a few large groups in the area currently accept such payments.

Some physicians have responded to payment and practice restrictions by refusing to contract with managed care plans. Providers reported that the only urology group in Palm Beach now limits its practice to FFS Medicare and private insurance. Local doctors find traditional Medicare to be both a more reliable and often a more generous payer than the M+C plans. Doctors in Palm Beach remain content with FFS Medicare, unlike some parts of the country where providers are reluctant to see new Medicare patients.

The skyrocketing price of malpractice insurance is a major issue in the local market. Florida is one of the initial states that the American Medical Association classified as a crisis state in response to doctors' difficulties in obtaining affordable coverage.⁸

Hospitals' View

The majority of the thirteen hospitals in Palm Beach are owned by large, national chains—five are owned by Tenet and three are HCA facilities. Multi-hospital networks are able to effectively bargain with Medicare HMOs because they represent a large share of the area's facilities. Hospital administrators commented that local hospitals drew the “line in the sand” in 2002-2003—they were no longer willing to live with low rates from the HMOs. Previously, many had accepted lower rates in anticipation of greater patient volume, but this approach was unsuccessful. Hospitals and HMOs now battle over billing issues, with hospitals reporting payment delays of over 67 days in some cases. Hospitals and plans also clash over billing styles,

with some plans preferring a global DRG payment that covers all services used by a patient and hospitals preferring payment based on a per diem rate with additional payments for expensive procedures.

Managed care in Palm Beach has driven medical treatment out of hospitals to less costly independent centers including; radiation oncology centers, eye centers, podiatry, ambulatory surgery centers. Humana has increased enrollee co-pays if they get services at hospital outpatient units, but not if they receive the same services from freestanding clinics. Hospitals still have leverage with trauma care, where they remain the only option- clinics and outpatient facilities are not equipped to provide some of the specialized emergency services available at area hospitals.

Innovations in the Local Market

While the Palm Beach market has seen its share of plan withdrawals, plan departures are being partially offset by the introduction of a PPO plan and consolidation of some of the small, local plans (see Appendix 1).

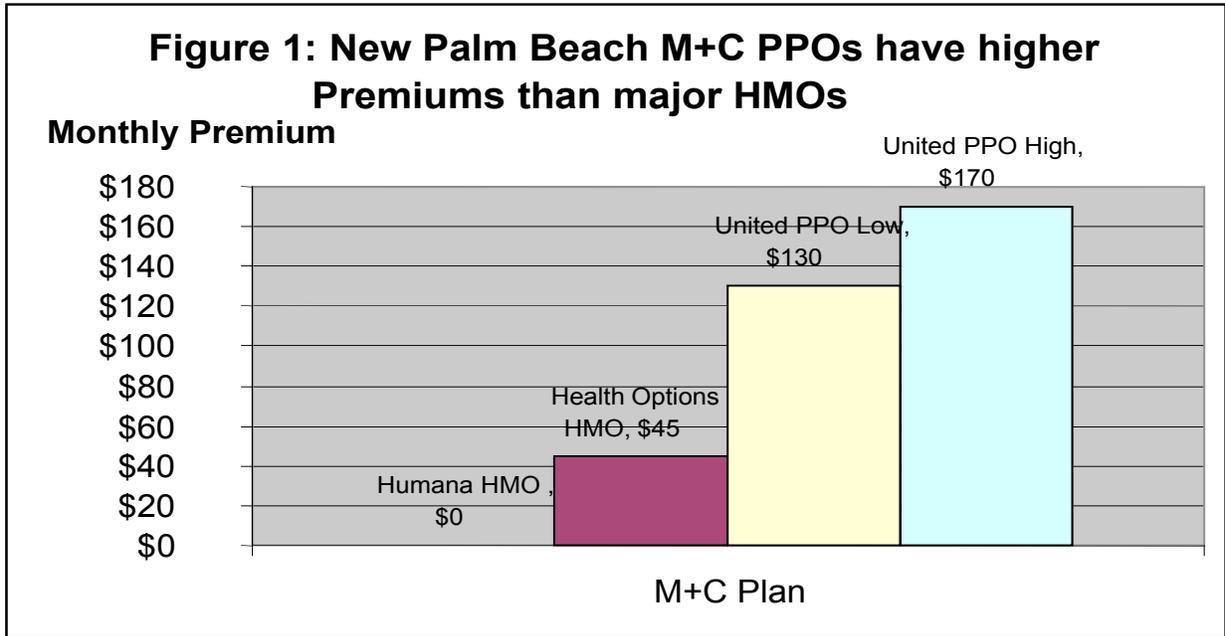
After exiting the M+C market in 2001, United decided to test the market by offering Encore-Encore, a PPO plan in the second quarter of 2002. A second plan, Medicare Complete Choice, was added in January 2003 as part of CMS's new PPO demonstration. Plans participating in the PPO demonstration receive the higher of the local M+C rate or 99 percent of average county FFS spending. Palm Beach is one of the few counties with an M+C rate that is lower than the 99 percent FFS amount, making the PPO demonstration financially attractive to plans.⁹

United Health Group contracts with the Palm Beach School District, a relationship that allowed the company to piggyback its PPO demonstration onto its commercial market network. A plan leader reported that enrollment in the PPOs has been "exploding," particularly the

EncorEncore plan, which has been better advertised. However, CMS data show that by September 2003, only 405 beneficiaries had enrolled in United's PPOs.¹⁰

United's PPOs provide a modest drug benefit (up to \$500/year for generic drugs only) and cover outpatient doctor and specialist visits in-network with a \$10 co-pay.¹¹ Beneficiaries face high cost-sharing for out-of-network visits. This PPO is viewed as particularly competitive against Medigap supplemental policies, whose prices have been going "through the roof," recently. Although it is too early to know whether the PPOs are profitable, United is optimistic about its success. The company believes that the copayments prevent adverse selection by older, sicker beneficiaries who might find a PPO more affordable than an age-rated Medigap policy.

The PPOs are more expensive than Medicare HMOs. With monthly premiums of \$170 and \$130 respectively in addition to the Part B premium, EncorEncore and Medicare Complete Choice are not strong options for many lower-income beneficiaries. Although the demonstration PPOs are designed to attract beneficiaries who would not enroll in an M+C HMO, the plans being offered in Palm Beach are some of the most expensive in the demonstration- only 15.1% of PPO options have monthly premiums of \$130 or more.¹² Plans offered under the PPO demonstration are designed to appeal to beneficiaries who are not part of the HMO target audience. Rather than lure current M+C benes away from their plans, the PPOs are designed to increase overall managed care participation.¹³ Figure 1 illustrates the difference in monthly premium for the PPOs and the two most popular Medicare HMOs in the Palm Beach market.



Source: GWU analysis of Medicare Personal Plan Finder 2003 Data.

Senior counselors indicated to the broad choice of doctors and hospitals in the PPO networks would be attractive to the elderly. If doctors were reimbursed at higher levels in the PPO they might encourage their patients to join. Representatives from one M+C plan suggested that they had also considered participating in the PPO demonstration, a natural extension of their commercial network. They indicated some doubt that a PPO product would work in the Palm Beach market, however, where “we can’t make M+C work,” noting that the PPO places more risk on the insurer by removing most of the utilization controls that characterize HMOs. Thus far, the M+C plan has not seen its customers leave for the PPO. Seniors who have remained with their HMOs are looking for stability at this point.

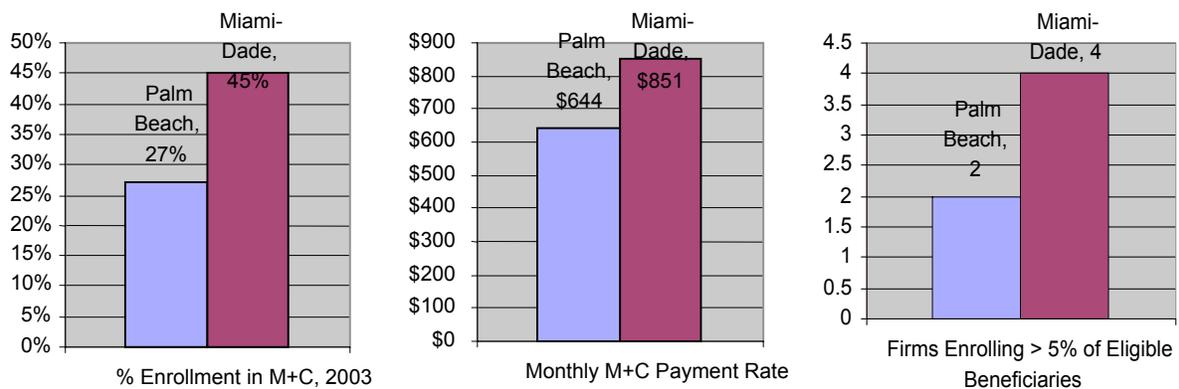
The PPO may be an example of the features of a managed care-reliant Medicare reform package. Insurers may structure plans that appeal to certain segments of the market, interfering with the program-wide risk pooling. Traditional FFS Medicare effectively community-rates the nation’s over-65 population, which ensures low administrative costs and makes coverage more affordable for the sickest beneficiaries. Policies that are attractive to the healthiest beneficiaries

avoid adverse selection issues as a beneficiary who is likely to require expensive prescription drugs or healthcare costs will self-select out of this market.

Palm Beach County vs. Miami-Dade

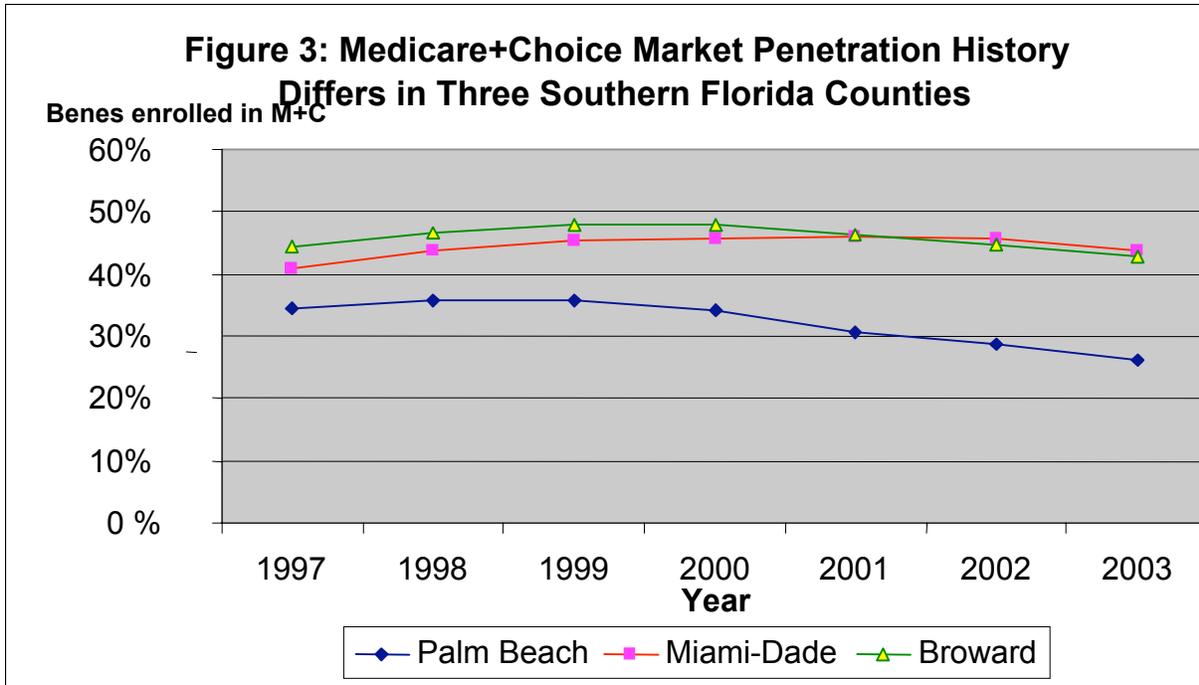
Most HMO leaders and observers in Palm Beach county compared Medicare+Choice in Palm Beach with the M+C experiences in Miami. Medicare+Choice is more popular in Miami-Dade county than Palm Beach, enrolling nearly half of the county’s Medicare beneficiaries in 19 plans offered by eight different firms. Plans in Miami and Palm Beach report similar costs of doing business, but those in Miami receive substantially higher Medicare+Choice reimbursement rates. Plans receive \$850/beneficiary/month in Miami, but only \$643/beneficiary/month in Palm Beach. Figure 2 summarizes some of the differences between the two markets.

Figure 2: Comparison of Palm Beach and Miami-Dade Medicare+Choice Markets, 2003



Source: Medicare Personal Plan Finder and GWU analysis of Medicare Managed Care State, County, Plan data files.

Compared to Palm Beach, M+C remains more popular in Broward and Miami-Dade counties, where enrollment trends have been more stable. Figure 3 presents market penetration histories for the three counties.



Source: GWU analysis of Medicare Managed Care State, County, Plan data files 1997-2003. All data is year-end except 2003, which is enrollment as of September, 2003.

Average Medicare spending per beneficiary in Miami is amongst the highest nationally, a fact that is largely attributed to physician practice style rather than beneficiary health status.¹⁴ Palm Beach has a larger percentage of older adults; 23.2% of the population is 65+, the age of Medicare eligibility, while only 13.5% of Miami's population is over 65.¹⁵ Within the elderly populations, a larger proportion of Palm Beach beneficiaries are 80 or older (30% versus 28% in Miami). Miami-Dade, has higher rates of disability among elderly adults, (45.5%, Palm Beach is 34.7%) which may indicate a population that is more costly to treat.¹⁶ However, Palm Beach county also has a higher estimated Alzheimer's disease prevalence rate, which is also indicative of a less healthy population.¹⁷

Higher payments allow plans in Miami to offer more generous benefit packages and experiment with different types of plans. Humana, the largest Medicare HMO in the area, continues to offer formulary brand prescription drug coverage in Miami-Dade but only provides

a generic benefit in Palm Beach.¹⁸ Health Options, the area’s Blue Cross Blue Shield provider, has eliminated drug benefits in both counties, but charges lower copayments for most covered services in Miami.¹⁹ Table 2 illustrates the major differences between Humana’s Gold Plus benefit packages in Miami and Palm Beach. Gold Plus is a zero-dollar plan in both counties, but provides more generous benefits including unlimited brand drug coverage and \$0 copayments for hospitalization and specialist visits in Miami that are not available to Palm Beach enrollees.

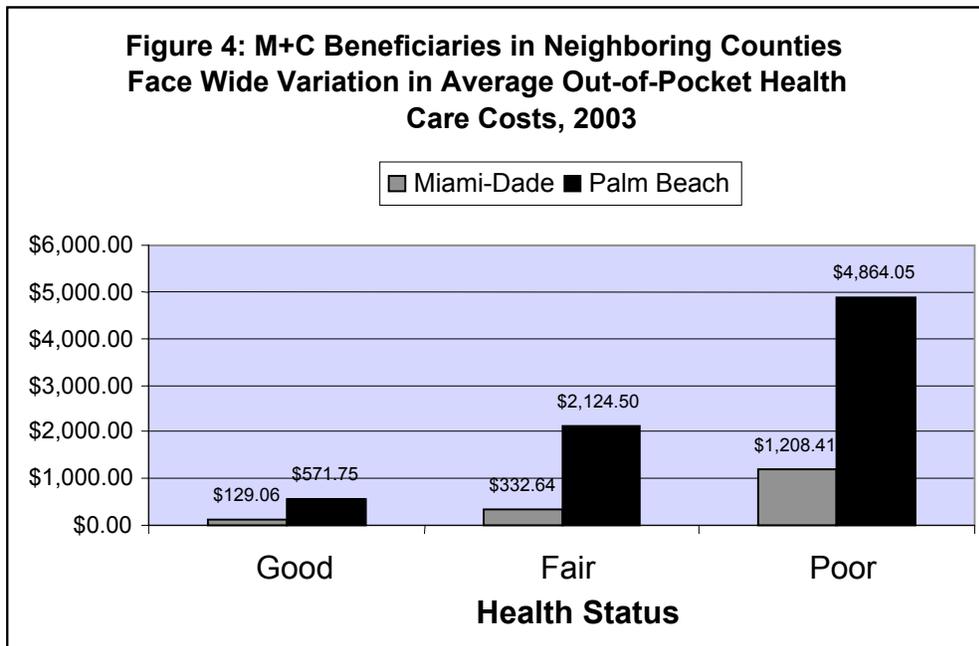
	Miami-Dade	Palm Beach
Inpatient hospital care	\$0	\$ 250/day for days 1 - 5 \$ 0 for days 6 – 90
Skilled nursing facility	\$ 0 for day(s) 1 - 6 \$ 50 for days 7 – 25 \$ 0 for days 26 - 100.	\$ 0 each day for day(s) 1 - 6 \$ 100 each day for day(s) 7 - 25 \$ 0 each day for day(s) 26 - 100.
Doctor Office Visits	\$ 0 for primary care doctor visits. \$ 0 for specialist visit.	\$ 0 for primary care doctor visits. \$ 30 for specialist visit.
Outpatient Surgery	\$ 50 for each visit to an ambulatory surgical center. \$ 100 for each visit to an outpatient hospital facility.	\$ 100 for each visit to an ambulatory surgical center. \$ 200 for each visit to an outpatient hospital facility.
Ambulance Services	\$ 50	\$ 100
Outpatient Prescription Drugs	Unlimited generic drugs (no copay) Unlimited brand (\$10-\$30 copays) \$200/month preferred brand with 20% copay	Generic Only \$10 pharmacy 30-day supply \$30 mail-order 90-day supply

Source: GWU analysis of CMS Medicare Health Plan Compare data, 2003.

While plans in Palm Beach struggle to provide cost-effective benefit packages that are attractive to beneficiaries, plans in Miami-Dade are experimenting with new offerings that take advantage of the higher M+C payment rates. CarePlus Health Plans started offering a rebate plan in Miami in 2003 that refunds beneficiaries’ Part B premiums. Medicare charges the plan \$80 per beneficiary per month to rebate their Part B premiums of \$58.80, with the difference representing the government’s administrative cost.²⁰ The plan offers very limited drug coverage (\$25 generic/month). Some observers believe the plan targets the younger, healthier low-income beneficiaries and segments the Medicare population by providing financial incentives for the “best risks” to opt-out of traditional Medicare.

CarePlus tries to keep its members healthy by combining its medical centers (where beneficiaries receive most of their care) with social centers that offer exercise classes and daily activities for beneficiaries. Beneficiaries can choose between the CareFree plan, which offers the rebate of \$59/month, or the CarePlus plan which offers drug benefits of \$500 generic/6 months and \$300 brand/6 months. Beneficiaries appear reluctant to enroll- by mid-2003, only about 1,600 beneficiaries from Miami and neighboring Broward counties had joined CareFree.²¹

The difference in plan offerings in Southern Florida reflects the geographic disparities in benefits that characterize M+C plans nationwide. M+C beneficiaries in Miami-Dade and Palm Beach counties face considerable variation in their out-of-pocket expenditures as a result of the M+C plan payment differences. Figure 4 contrasts the average annual healthcare spending of beneficiaries by health status and county. Palm Beach county residents face much higher out of pocket costs than their neighbors, regardless of health status.



Source: GWU computations based on enrollment-weighted average annual out of pocket spending using estimates prepared by HealthMetrix, available at www.hmos4seniors.com. Spending estimates exclude the monthly Part B premiums paid by all beneficiaries.

Beneficiaries in Palm Beach are very well-educated about the differences in plans and inexpensive forms of prescription drug coverage. The Delray Alliance, a group representing

more than 60,000 seniors living in Delray Beach, seeks to have Palm Beach county reclassified as part of a regional metropolitan district with Miami-Dade and Broward counties in order to qualify for higher payment rates.²² Group leaders understand that the higher payments in other counties result in more generous benefit packages and feel unfairly penalized by the current county-by-county rate structure. Alliance members feel that they are being forced out of their Medicare HMOs by high copayments and the lost drug coverage, benefits that they would still enjoy in neighboring counties.

Members of the Delray Alliance and their State Representative, Anne Gannon, have met with state officials, but have not been successful in getting the area reclassified. The Palm Beach delegation was told that the governor would not designate a Southern Florida region.²³ Local representatives' requests to the United States General Accounting Office have not led to a study of the difference in rates between the counties.²⁴

Market conditions in Broward and Miami-Dade counties are more receptive to managed care. Plans report surpluses of primary care physicians who are willing to accept capitation payments and bear risk. Such favorable conditions enable plans to form provider networks and give the plans greater leverage in negotiations. Providers report that beneficiaries in other counties are more comfortable with managed care because it resembles delivery systems in their area. Fifty-one percent of Miami residents are foreign-born and therefore potentially more receptive to managed care.²⁵ However, researchers have found considerable evidence of service overutilization among Miami's Medicare population, particularly in end-of-life care.²⁶

Despite the generous payment rates Southern Florida plans receive, firms struggle to keep their M+C products viable in light of the high cost of care, practice patterns and escalating malpractice insurance premiums. Several of the plans indicated that even Broward and Miami-Dade's HMOs may participate in Medicare for only another few years if rates do not increase.

The new plans coming out on the market may prove to be short-lived if current conditions persist. It also seems unlikely that firms that are already doubting sustained participation in high-payment areas will be interested in offering new products in other areas under new legislation calling for large national regions.

Prescription Drugs

Many beneficiaries in Palm Beach expressed frustration with the high cost of prescription drugs. Beneficiaries were very knowledgeable about local price differences, explaining that Eckerdt's, a local chain, tended to charge the highest prices and that reimported drugs from Canada could be easily purchased through a mail-order pharmacy with an outlet in a local mall. One senior reported saving 35% by ordering her drugs through Canada. Many beneficiaries acknowledged that buying the Canadian drugs was "probably illegal," but felt that policymakers looked the other way because they understand the seniors' need for drug coverage. Doctors reported that one local candidate for the state senate offered a hotline, 1-800-RX CAROL, that gave seniors information about buying cheaper Canadian drugs.

Recently, the Food and Drug Administration has taken actions to limit drug reimportation, although many state governors are considering adopting such policies as a way to gain access to low-cost medication. The FDA has taken legal action against Rx Depot, one of the storefront reimportation chains and cautions Americans against making "illegal and potentially dangerous" purchases.²⁷ Estimates suggest that 2 million Americans currently purchase drugs illegally from Canada and other foreign countries where national price controls hold prices well below American prices.²⁸ Though FDA statements indicate that the southern Florida mail-order pharmacies may soon also be challenged, their current prevalence provides evidence of local seniors' need to access affordable prescription drugs.

The Florida Agency for Health Care Administration operates the Silver Saver program under a Section 1115 Medicaid waiver. The program provides prescription drug coverage for seniors up to 120% of the Federal Poverty Level. Enrollees pay \$2 co-pays for generic drugs, \$5 for brand drugs on the state's preferred list, and \$15 for drugs not on the preferred list, up to a \$160 monthly benefit. Program officials indicated that enrollment was quickly reaching its cap. Some enrollees were referred directly to the program by HMOs which had dropped drug coverage effective January 2003. While it provides important coverage for some seniors who lacked a drug benefit, the program office receives many inquiries from seniors who are unable to afford their prescriptions but do not qualify for the program.

Changes for 2004

In many parts of the country, Medicare+Choice appears relatively stable for 2004 as plans await changes adopted as part of Medicare reform legislation. Overall, CMS reports that "we are seeing more stabilization in the program than ever before and the trend is heading in the right direction," with only 16 plans reducing service areas or completely withdrawing from M+C for 2004.²⁹ These withdrawals include three of the smaller plans in Palm Beach- Neighborhood Health Partnership, Vista Healthplan and United Healthcare's non-demonstration PPO. Altogether, 1,012 beneficiaries will lose their plan in 2004, although they all have the option of selecting another Medicare HMO or PPO if they wish to remain in Medicare+Choice.³⁰

Although the Palm Beach market will lose some of its smaller M+C plans, competition between the market leaders stands to intensify as Health Options reintroduces a drug benefit, possibly in response to a further decline in market share in the latter part of 2003—by September 2003, Health Options retained only 5.59 percent of M+C eligibles.³¹ In Palm Beach, the pharmacy benefit will be a \$500/6 months generic cap, which will be accompanied by a \$13 increase in the monthly premium (up to \$58/month in 2004). In comparison, the Health Options

plan in Miami-Dade will have a \$0 premium with unlimited generic coverage and \$250/6 months brand prescription benefit. The reintroduction of the drug benefit in Palm Beach and Miami-Dade suggests that plans are seeking ways to offer drug benefits in order to attract and retain beneficiaries.³²

Conclusion

The current experience with Medicare+Choice in Palm Beach is not the success story that might be expected. Although Medicare+Choice is a national program, experiences vary considerably across local markets depending on individual decisions made by three important groups: health plans, providers, and beneficiaries. Recent evidence collected during our visit reveals signs of Palm Beach following national trends of declining M+C program strength as all three groups express frustration with the current program and question future participation.

As they have done in other major markets, health plans in Palm Beach are cutting benefits and questioning how much longer they will be able to remain in the market if Medicare payments remain at current levels. Hospitals and physicians are gaining clout in negotiations with health plans, leaving less room for managed care to hold down costs. Beneficiaries are less satisfied with managed care plans and feel a strong need for a drug benefit. Major payment and benefit disparities between Palm Beach and Miami-Dade counties question the viability of a Medicare program that would offer managed care packages to large regions of the country.

Answers to several important questions will determine the future of Medicare+Choice in the Palm Beach market.

1. Will doctors, hospitals and health plans be able to negotiate rates that allow plans to remain profitable while encouraging providers to continue to participate in managed care? Palm Beach County doctors are increasingly viewing FFS Medicare as their best payer and serve an area with a very large senior population. Since local doctors are less

reliant on managed care than those in other parts of the country, they may not remain in M+C if they can sustain their practices without managed care. The recent rise of concierge care in Palm Beach and emphasis on FFS Medicare and private insurance suggests that doctors have other options and are unlikely to remain in a program that reimburses them at below-market rates.

2. Will the new PPO plans entice new beneficiaries to join M+C? Plans participating in the PPO demonstration in Palm Beach county receive higher monthly payments for PPO beneficiaries than HMO beneficiaries, which makes the PPO an attractive option for health plans. PPOs have fewer utilization controls and network restrictions than HMOs, providing a more flexible alternative for Medicare beneficiaries who can afford the higher monthly premiums. While the PPOs increase health care choices available to more affluent beneficiaries, they are unlikely to improve access for the low-income beneficiaries who are particularly reliant on Medicare+Choice to provide additional benefits that FFS Medicare does not cover.
3. What will the impact of a Medicare prescription drug benefit or other Medicare reforms be? There is considerable uncertainty surrounding the future of Medicare coverage and many policy changes could have serious implications for Medicare+Choice. If payment rates and plan participation decisions are made across larger geographic areas, plans in Palm Beach could offer more generous benefit packages similar to those in Dade county. However, if an attractive drug benefit is added, beneficiaries may not be willing to give up their choice of providers in order to get drug coverage, which has been one of the main lures of M+C plans.

Appendix 1: Palm Beach County Medicare+Choice Market History, 1998-2003

Palm Beach County

PLAN	1998		1999		2000		2001		2002		2003	
Total Eligibles	243312		244992		247291		249275		251602		251300	
Prudential	6304	2.59%	5789	2.36%	2127	0.86%						
HIP	7178	2.95%	6813	2.78%	4033	1.63%	63	0.03%				
Beacon			595	0.24%	1638	0.66%	691	0.28%				
Foundation												
HealthCare	4738	1.95%	1342	0.55%	160	0.06%	131	0.05%				
AvMed	9849	4.05%	3045	1.24%	949	0.38%	535	0.21%				
PHPI/CarePlus	190	0.08%	230	0.09%	120	0.05%	0	0.00%	11	0.00%	16	0.01%
Health Options	22108	9.09%	22700	9.27%	19197	7.76%	18642	7.48%	17268	6.86%	13992	5.57%
Humana	25610	10.53%	39710	16.21%	48734	19.71%	46980	18.85%	47601	18.92%	44674	17.78%
United HealthCare	9990	4.11%	5173	2.11%	3019	1.22%	2451	0.98%	84	0.03%	405	0.16%
WellCare			334	0.14%	2249	0.91%	1922	0.77%	1315	0.52%	1341	0.53%
Vista							2121	0.85%	997	0.40%	1186	0.47%
Neighborhood							1704	0.68%	1111	0.44%	807	0.32%
America's Choice					52	0.02%	256	0.10%	1609	0.64%	3583	1.43%
M+C Penetration	72485	35.33%	72534	34.99%	74480	33.27%	74742	30.29%	69996	27.82%	66004	26.27%

Notes: All data is year-end, except for 2003 which reflects September's enrollment, the most recent available.
 United HealthCare's enrollment numbers are PPO enrollees in 2002 and 2003, the HMO is discontinued after 2001.
 In 2002, Foundation Health, WellCare Choice, Vista and Neighborhood Health Partnership were purchased by the same buyer and are subject to consolidation.
 In 2002, PHPI changed its name to CarePlus.
 Source: CMS Managed Care Market Penetration Data Files by State, County, Plan 1998-2003.

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