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RESEARCH AND COMMENTARY: MEDICARE COMPETITIVE BIDDING

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The policy centerpiece of House Budget Chairman Paul Ryan's (R-WI) budget proposal this year is his Medicare reform. While Ryan's approach builds on prior efforts, it differs in important ways from his prior legislative solutions, including last year's Path to Prosperity. Ryan's modified approach is essentially the same as one he proposed with Sen. Ron Wyden (D-OR) earlier this year. The key to Ryan's plan is the pairing of a premium support model with a competitive bidding system for determining Medicare payment rates.

This policy shift has raised a number of questions from legislators: What is competitive bidding? Does it offer a solution for rising Medicare costs? And is it workable as policy and politics?

Competitive bidding essentially describes a system where government-approved private insurers bid, along with traditional Medicare, on the standard rates they plan to charge the government within a county. Under Ryan's approach, the winning bid would be the second-lowest and would determine the premium level assigned. Medicare's traditional fee-for-service model would remain available. Seniors who chose a less-expensive plan would keep the difference, while those who chose a more-expensive one would have to pay for it themselves. This has been an element of bipartisan Medicare plans stretching back to the Breaux-Thomas commission under President Clinton.

The problem with this policy approach is that it is largely untested on the scale of Medicare-while proponents point to the bidding system on Part D's prescription drug benefit for comparison, the more limited project of competitive bidding on durable medical equipment has been heavily criticized for its inherently flawed auction system that fails to meet the needs of patients and disguises the higher hospitalization costs it creates. Also, the savings achieved through competitive bidding are relatively modest-on the order of 5 to 8 percent of Medicare's costs.

The question is not whether competitive bidding will save money but instead how much it will save and whether it will unnecessarily raise costs in various states and regions.

The documents cited below offer insights into competitive bidding from a variety of perspectives.

Competitive Bidding Can Help Solve Medicare's Fiscal Crisis

Academics Roger Feldman, Robert Coulam, and Bryan Dowd examine competitive bidding and calculate it would significantly raise premium costs in only a few counties largely concentrated in California, Florida, Louisiana, Texas, and the mountain states. Using 2009 data they estimate competitive bidding would save 5.6 percent assuming implementation of the president's health care law.

Premium Support in Medicare

Health Affairs raises a prospect that concerns many experts: The price of traditional Medicare plans would rise inexorably as the program retains only the sickest beneficiaries who need the guarantee of access to their current providers, while healthier seniors migrate to inexpensive plans. This could accelerate the unsustainability of Medicare's fee-for-service model.

Competitive Bidding for Medical Equipment and Supplies Could Reduce Program Payments, but Adequate Oversight Is Critical

The Government Accountability Office gives its estimates regarding the success of the durable medical equipment competitive bidding project, which it believes saved Medicare $7.5 million and saved beneficiaries $1.9 million. However, GAO shares concerns that suppliers be given "accreditation" based on CMS's screening process, given that the auction creates an opportunity for arbitrage and for non-legitimate businesses to win contracts or provide lower-quality items and reduced services.

The Hidden Cost of Flawed Medicare Auction

Professor Peter Cramton analyzes recent data from Medicare to illustrate the implications of the decline in utilization of devices by patients, finding higher risk of death, higher frequency of emergency room visits and hospitalization, and longer hospital stays. This evidence suggests the benefit of competitive bidding in the DME space disguises the higher costs associated with hospital care when lower-cost items, such as oxygen, were unavailable.

Competitive Bidding-RyanCare vs. ObamaCare

Policy expert Joe Antos responds to questions about the comparisons between Ryan's approach and President Barack Obama's to competitive bidding, while noting the political realities of bidding processes- namely, that bidding systems put politicians in a difficult position of having to choose among those who elect them, the suppliers who create jobs in their districts, and the system's costs and efficiency.

Competitive Bidding and Medicare

Austin Frakt, a liberal economist who supports competitive bidding, explains the history of Congress's approach to competitive pricing of products. The history of these demonstration programs stretches back to the 1980s, and inevitably Congress has bowed to political pressure to stop them.

Let the Market Cut Medicare

The **Cato Institute's** Michael Cannon expresses doubt that a competitive bidding process will succeed in reducing the growth of Medicare, given the level of rent-seeking in the process and that it doesn't specifically commit Congress to reducing Medicare spending growth. He also argues a system with a public option (traditional Medicare) will be heavily tilted by the government toward subsidization of such a plan, driving private insurers out of the market.

Nothing in this Research and Commentary is intended to influence the passage of legislation, and it does not necessarily represent the views of The Heartland Institute. For further information on this subject, visit Health Care News at http://news.heartland.org/health, The Heartland Institute's website at http://heartland.org, and PolicyBot, Heartland's free online research database at www.policybot.org.

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