To: Third Way

From: Actuarial Research Corporation

Subject: Final Scoring Memo: Dual Care Coordination

Date: March 11, 2015

Policy Background

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

> This proposal would create a duals care coordination policy in which states could choose to lead the care integration efforts associated with dual eligible beneficiaries' care or leave the responsibilities to the federal government. Under either option, the state or federal government would contract with an insurance plan or plans to handle beneficiaries' Medicare and Medicaid benefits.

> Savings resulting from improved care would be shared differently depending on whether the state or federal government is leading care coordination efforts. For efforts led by the states, any savings from the care coordination would be shared between the federal government and the states based on a variety of factors. Under the federal-led option, all savings would accrue to the federal government.

This analysis looks at estimating savings from dual eligible care coordination and integration to Medicare, Medicaid, private health insurance (PHI) and out-of-pocket (OOP). Modeling specifications are from Third Way.[2]

> Third Way's policy for duals covers both Medicare and Medicaid. Essentially, if states don't adopt an integrated health plan for duals, then the federal government will do so.

The estimates of projected savings by payer shown in Table 1 are based off of Avalere's estimates of the total change in federal spending due to dual eligible care coordination and integration[3] and assumed distribution of savings consistent with the federal and state share of Medicare and Medicaid spending on dual eligibles. Projected Medicare savings total $25.3 billion and projected (federal) Medicaid savings total $13.6 billion over the ten-year period (2015-2024). Projected (state) savings to Medicaid total an additional $9.4 billion over the ten-year period (2015-2024). Projected PHI savings total $2.5 billion, and projected OOP savings total $1.7 billion over the ten-year period (2015-2024).

Estimation Process and Results

---

[1] Avalere Health. (October 1, 2014). *The Estimated Federal Impact of Coordinating Care for Medicare and Medicaid Dual Eligible Beneficiaries.*

[2] 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."

[3] Avalere Health. (October 1, 2014). *The Estimated Federal Impact of Coordinating Care for Medicare and Medicaid Dual Eligible Beneficiaries.*

Medicare and Medicaid
Using the change in federal spending due to dual eligible care coordination and integration, we estimated the portion of Medicare and federal Medicaid savings consistent with the following assumptions. In 2008, dual eligibles comprised 31% of Medicare spending and 39% of Medicaid spending.[4] These splits were applied to 2012 total Medicare and Medicaid spending[5] to estimate Medicare, Medicaid and total spending on dual eligibles in 2012. We estimated that in 2012, Medicare spent approximately $178 billion and Medicaid spent $162 billion.

We estimated the proportion of dual spending by the federal government and by states using the average Federal Medical Assistance Percentage (FMAP) for states in FY2015 (59%).[6] Federal spending includes all of Medicare, plus the federal portion of Medicaid spending. Of the total federal spending on dual eligibles ($274 billion), Medicare's share ($178 billion) is 65% and Medicaid's share ($96 billion) is 35%. We apply these percentages to the total change in federal spending due to dual eligible care coordination and integration to estimate the savings to Medicare and the savings to Medicaid. Savings to Medicare total $25.3 billion and federal savings to Medicaid total $13.6 billion over the ten-year period (2015-2024). Projected state savings to Medicaid are estimated using the complement of the FMAP referenced above and total $9.4 billion over the ten-year period (2015-2024).

PHI and OOP
To estimate the effect of dual eligible care coordination and integration on PHI spending, we assumed that PHI savings is approximately 10% of Medicare savings. To estimate the effect of dual eligible care coordination and integration on OOP spending, 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. Using these assumptions, projected PHI savings total $2.5 billion and projected OOP savings total $1.7 billion over ten years.

---

[4] Medicare's role for dual eligible beneficiaries. April 2012. Accessed:
http://kaiserfamilyfoundation.files.wordpress.com/2013/01/8138-02.pdf
[5] Total Medicaid Spending, 2012 Accessed: http://kff.org/medicaid/state-indicator/total-medicaid-spending/; Total Medicare Spending, 2012 Accessed: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2013.pdf
[6] Average FMAP percentage for total US (51). Accessed: http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/