

Getting Serious About Excessive Medicare Spending A Purchasing Model

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In a remarkable series of studies extending over two decades, John Wennberg and colleagues have explored the issue of geographic variation in utilization, costs, and quality of health care in the United States. Recently, they found not only that substantially higher per capita spending occurs in some regions of the country, but that the increased local spending produces no apparent difference in quality, access or even patient satisfaction with care.¹

The potential savings of reducing excessive spending on services of little or no value, estimated to be as much as 30 percent of current spending levels,² would itself pay for a generous prescription drug benefit in Medicare. Obviously, the political system would not permit a seamless transfer of Medicare program savings into Medicare benefit expansions. Nevertheless, under either Republican or Democratic visions of Medicare's future, there is need for prompt attention to excessive Medicare spending. Under a system where private plans are induced to compete with the traditional Medicare program,³ the Republican approach, traditional Medicare should be enabled to address excess spending in order to be a more effective competitor. Under continuation of a dominant traditional Medicare program in a retained defined benefit program, the Democratic approach, aggressively addressing excess spending would solidify the financial underpinnings of the program, relieving the pressure for new financing, restricted eligibility and reduced benefits.

That the Medicare program tolerates substantial geographic spending variation has been a policy reality for many years, but has never been tackled head on. It has, however, provided a rationale for promotion of private health plans in Medicare, that is, that private "regulators" can accomplish in the area of cost containment what the publicly accountable and politically constrained Medicare program cannot. This rationale would seem to be based on a view that excessive spending is inevitable in the traditional Medicare program. A main purpose of this paper is to challenge that widespread assumption.

In this paper, I will first review the common critiques of the implications of the Wennberg data, that together produce a pervasive policy nihilism. Next, I argue that seeking a "big idea" solution to the problem of geographic spending variations is fanciful and impractical, whereas opportunities for reducing excessive spending in Medicare are everywhere, although CMS currently lacks the authority, resources and political standing to act on many of the opportunities. After presenting strategic considerations, I present a strategic purchasing model that addresses both the problems of regional spending variations and overspending in the program overall.

Notes

1. E.S. Fisher, D.E. Wennberg, T.A. Stukel, et.al., "The Implications of Regional Variations in Medicare Spending. Part 1 and Part 2." *Annals of Internal Medicine*, 138, no.4 (2003): 273-298.

2. Fisher et. al.

3. I have chosen to use the term "traditional Medicare program," rather than the "fee for service Medicare program" to emphasize that Medicare no longer relies on fee for service reimbursement for many providers.

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