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Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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May 23, 2012

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The Honorable Kathleen Sebelius
Secretary
U.S. Department of Health and Human Services
200 Independence Ave.
Washington, D.C. 20515

Dear Madam Secretary:

The Committee on Oversight and Government Reform is conducting oversight of the Administration's implementation of the Patient Protection and Affordable Care Act (PPACA, or Obamacare). As part of this oversight, I am writing you to request documents and information relating to the Medicare Advantage Quality Bonus Payment Demonstration.

Obamacare made substantial cuts – estimated at more than \$200 billion over the first ten years of its enactment¹ – to Medicare Advantage (MA), the part of Medicare that is the alternative to traditional fee-for-service. MA provides health care coverage to Medicare beneficiaries through private health plans under contract with Centers for Medicare and Medicaid Services.² Because of Obamacare's cuts, CBO estimated that MA will enroll about 5 million fewer seniors by 2019.³

In addition to cutting payment rates made to MA plans, Obamacare created a bonus scheme to reward MA plans that were meeting certain benchmarks. Through this scheme, highly-rated MA plans (those receiving at least 4 out of 5 stars) would receive bonus payments. However, before this payment scheme could take effect, the Obama Administration canceled it and decided to implement another scheme.

The Obama Administration notified the public in November 2010 that the original bonus scheme would be replaced with "a nationwide demonstration from 2012 through 2014 to test an alternative method for calculating and awarding bonuses."⁴ This demonstration project – called the Medicare Advantage Quality Bonus Payment Demonstration (Demonstration) – will cost \$8.35 billion over ten years and "extends the bonuses to plans with 3 or more stars, accelerates

¹ Congressional Budget Office, Preliminary Analysis of the President's Budget for 2012, March 18, 2011.

² See generally, Centers for Medicare & Medicaid Services, Medicare Advantage (Part C). Available at <http://www.medicare.gov/navigation/medicare-basics/medicare-benefits/part-c.aspx>.

³ Congressional Budget Office, Preliminary Analysis of the President's Budget for 2012, March 18, 2011.

⁴ U.S. Government and Accountability Office, Medicare Advantage: Quality Bonus Payment Demonstration Undermined by High Estimated Costs and Design Shortcomings, GAO-12-409R

the phase-in of the bonuses for plans with 4 or more stars, and increases the size of the bonuses in 2012 and 2013.”⁵

GAO recently released a report on the MA Quality Bonus Payment Demonstration. GAO’s report outlined many problems with this Demonstration, including:

- Rather than rewarding only high performing plans, most of the additional payments made under the Demonstration will accrue to average performing plans.⁶
- The Demonstration does not conform to the principles of budget neutrality.⁷
- The Demonstration dwarfs all other Medicare demonstrations – both mandatory and discretionary – conducted since 1995. This Demonstration is greater than the combined budgetary impact of every other Medicare demonstration since 1995.⁸
- Unlike many Medicare pay-for performance demonstrations, this Demonstration is implemented nationwide and allows all eligible plans or providers to participate. The Demonstration lacks a control group. Thus, the design of the Demonstration precludes a credible evaluation of its effectiveness in achieving the stated goal of whether a scaled bonus structure leads to larger and faster annual quality improvements compared to what would have occurred under PPACA.⁹

Ultimately, because this demonstration project wastes taxpayer money and will not help policymakers discern whether this bonus scheme is an effective tool for improving health plan efficiency, GAO concluded that Secretary Sebelius should cancel the MA Quality Bonus Payment Demonstration and allow the MA quality bonus payment system established by PPACA to take effect.¹⁰

According to GAO, under the original bonus structure contained in Obamacare, only one-third of MA enrollees would be enrolled in plans eligible for bonuses in 2012.¹¹ However, including plans with a star rating of 3 means that the vast majority of plans will now be rewarded through the bonus scheme. According to GAO, \$5.34 billion of the total \$8.35 billion will be spent on 3-star and 3.5-star MA plans.¹² This means most of the plans rewarded by the new bonus scheme are not the most highly-rated plans and thus the bonus scheme provides little incentive for plans to improve on whatever metrics HHS decides to use to rate the plans. Since this demonstration project will not be able to demonstrate anything useful, it appears the purpose of this project is to soften Obamacare’s cuts to MA plans in an election year.

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

The Honorable Kathleen Sebelius

May 23, 2012

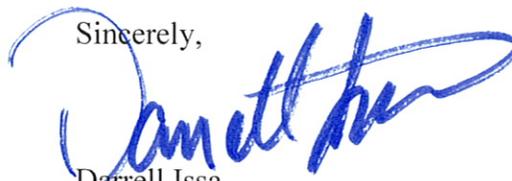
Page 3

To assist the Committee with its oversight of this matter, please produce the following information and documents:

1. What criteria will HHS use to determine a MA plan's star rating, which is the basis for the bonus?
2. What specific criteria will HHS use to determine the success or failure of this demonstration project?
3. How many other past Medicare demonstration projects lacked a control group?
4. Provide all communications, including emails that relate or refer to the Administration's decision to replace the bonus scheme in the PPACA for MA plans with the MA Quality Bonus Payment Demonstration. Include any and all communications with the Executive Office of the President.

Should you have any additional questions or concerns, please contact Sery Kim of the Committee staff at (202)225-5074.

Sincerely,



Darrell Issa
Chairman

cc: The Honorable Elijah Cummings, Ranking Minority Member
Committee on Oversight and Government Reform