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Highlights

Highlights of [GAO-05-873](#), a report to congressional committees

Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) significantly reformed contracting for the administration of claims for Part A, Medicare's hospital insurance, and Part B, which covers outpatient services such as physicians' care. The MMA required the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) that administers Medicare—to conduct full and open competition for all of its claims administration contracts and to transfer the work to Medicare administrative contractors (MAC) by October 2011. The MMA required the Secretary of HHS to submit a report to the Congress and GAO on the plan for implementing Medicare contracting reform and for GAO to evaluate the plan. To address this mandate, GAO reviewed the extent to which (1) the plan provides an appropriate framework for implementing Medicare contracting reform and (2) the plan's cost and savings estimates are sound enough to support decisions on implementation.

What GAO Recommends

GAO recommends that CMS extend its implementation schedule from 2009 to 2011, to be better prepared to manage contracting reform. CMS did not concur with the recommendation, but GAO believes that extending the time frame is the most prudent approach to manage contracting reform risks.

www.gao.gov/cgi-bin/getrpt?GAO-05-873.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Leslie G. Aronovitz at (312) 220-7600 or aronovitzl@gao.gov.

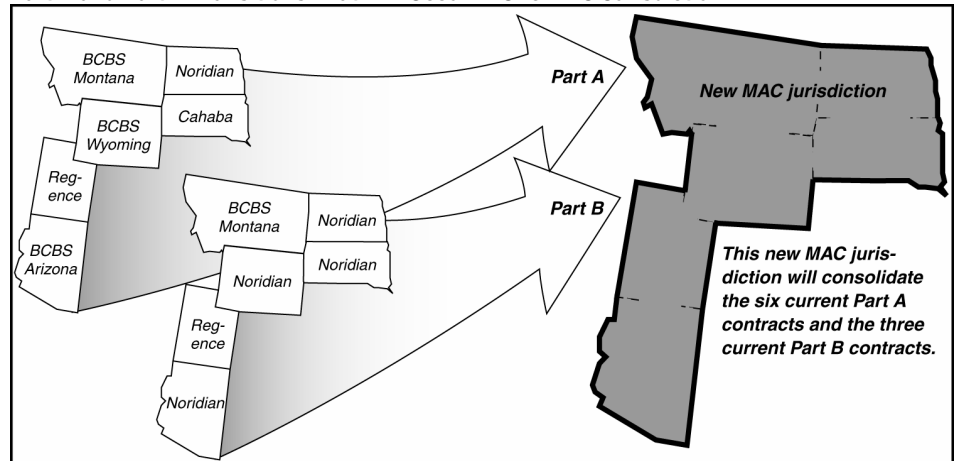
MEDICARE CONTRACTING REFORM

CMS's Plan Has Gaps and Its Anticipated Savings Are Uncertain

What GAO Found

CMS's plan provides an appropriate framework to implement contracting reform in some critical areas but not in others. For example, the plan indicates the rationale for reform but lacks a detailed schedule to coordinate reform activities with other major initiatives CMS intends to implement at the MACs during the same period. Further, CMS's plan does not comprehensively detail steps to address potential risks during the transitions of the claims workload from the current contractors, such as failing to pay providers or paying them improperly. These transitions will be complex to manage because they require moving multiple claims workloads from current contractors to a single MAC with new jurisdictional lines. As the figure shows, as many as nine separate segments of current contractors' workload will be moved to the first A/B MAC. CMS has accelerated its schedule to transfer the current contractor claims workload to MACs by 2009, more than 2 years ahead of the MMA's time frame. This schedule leaves little time for CMS to adjust for any problems encountered.

Part A and Part B Transitions That Will Occur in One MAC Jurisdiction



Source: GAO.

CMS's estimates of costs and savings are too uncertain to support decisions on contracting reform implementation. First, CMS's internal cost estimate for a 6-year implementation period of about \$666 million is based on reasonable data but questionable assumptions about contract awards. Second, its estimate of \$1.4 billion in savings from reductions in improper payment by MACs depends on questionable evidence and assumptions that were never validated by knowledgeable CMS staff. However, the \$1.4 billion estimate prompted CMS to accelerate its implementation schedule to accrue savings as rapidly as possible. While it is reasonable to assume that contracting reform will result in savings, the actual amount could differ greatly from the estimate. Basing an accelerated implementation schedule on uncertain savings raises concerns that CMS has unnecessarily created additional challenges to effectively managing the risk of these transitions.