

LIMIT MEDICARE ADVANTAGE PLAN REIMBURSEMENT TO THE COST OF CARE UNDER TRADITIONAL MEDICARE

ISSUE: At various times since the early 1980s Congress has legislated changes designed to provide financial incentives for private insurers to create plans to replace the Medicare fee-for-service (FFS) benefit package. Most frequently these changes were made in hopes that private coverage under Medicare or “privatization” would result in savings for the program.

The Commonwealth Fund, a private foundation that conducts extensive examination of the U.S. health care system, has issued studies that add to existing concerns that the Medicare program is paying substantially more – about 13 percent on average -- for care for Medicare Advantage (MA) enrollees than for "traditional" fee-for-service (FFS) Medicare beneficiaries. The findings contrast sharply with the stated goals of creating incentives for private plans to enroll Medicare beneficiaries -- to save money by privatizing what was established as a health care entitlement program for seniors and disabled individuals.

Studies by the Medicare Payment Advisory Commission and the Congressional Budget Office support the Commonwealth findings, and indicate that significant gaps between average care costs for traditional FFS Medicare and MA beneficiaries exist, resulting in tens of billions of dollars in additional expenditures to private plans. Further, a late 2008 study by the Government Accountability Office found that, due to higher calculations on the part of plans relative to their 2006 costs, MA plans earned higher profits.

During 2007 and 2008 the Congress considered major changes to Medicare Advantage payments that would have phased payments to plans down over time to a level equal to that of costs for traditional Medicare beneficiaries. The Bush Administration expressed sharp opposition to such changes. While such phase-downs have not been enacted into law, Congress has begun to reduce payments to MA plans through sharp reductions to funds that provide special incentive payments to plans (such as the stabilization fund).

RECOMMENDATION: Congress should limit reimbursement to private plans for Medicare to a level consistent with the costs borne by the program for comparable traditional FFS beneficiaries. Congress should also require stronger oversight of plans’ estimates of costs to ensure that Medicare is not inadvertently overpaying plans.

RATIONALE: Study findings clearly indicate that privatizing the Medicare benefit is not an effective way to save money and, given the poor financial state of the Medicare trust funds, Congress should take steps to ensure that the Medicare program is not spending more than it needs to for care.