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## CURBING MEDICARE ADVANTAGE OVERPAYMENTS WOULD STRENGTHEN MEDICARE

The Senate Finance Committee is planning to consider Medicare legislation averting a scheduled cut in Medicare physician payments. The legislation is also expected to modestly reduce the sizable overpayments now being made to private insurance plans that participate in the Medicare Advantage program. (In July, the House voted to *fully* eliminate these overpayments as part of legislation to strengthen Medicare and children's health coverage.) "Leveling the playing field" in payments between Medicare Advantage and traditional Medicare would be a sound move for Congress to take before its year-end recess, for several reasons:

- **The government pays Medicare Advantage plans roughly \$1,000 more per beneficiary per year than it would cost to cover the same person through traditional Medicare.** Even though private plans were brought into Medicare to *lower* costs, the Medicare Payment Advisory Commission ("MedPAC," Congress' expert advisory body on Medicare payment policy) and the Congressional Budget Office (CBO) have found that they are paid 12 percent *more*, on average, than it would cost traditional Medicare to cover the same beneficiaries. These overpayments currently average about \$1,000 per beneficiary, according to The Commonwealth Fund. Moreover, CBO says the average overpayment will likely rise in the future because Medicare Advantage enrollment is growing fastest in the areas with the highest overpayments.
- **These overpayments significantly weaken Medicare's finances.** The overpayments will total \$54 billion over the next five years and \$149 billion over ten years, according to CBO. That puts an added strain on Medicare, moving up by two years (from 2021 to 2019) the date when its trust fund will become insolvent, according to the chief actuary at the Centers for Medicare and Medicaid Services (CMS). It also means restoring solvency will require much larger benefit cuts and/or tax increases than would otherwise be needed; as MedPAC chairman Glenn Hackbarth warned Congress, Medicare faces "a very clear and imminent risk from this overpayment that will put this country in an untenable position." Similarly, CBO director Peter Orszag has testified that if current trends in Medicare Advantage continue, "the result would be a fundamental change in the nature of the Medicare system that may then be hard to reverse."
- **The overpayments also force beneficiaries in traditional Medicare to pay higher premiums.** According to both MedPAC and CMS's chief actuary, the overpayments raised the premiums for Part B of traditional Medicare (which includes physician visits and other types of outpatient care) by \$2 per month per person, or \$48 a year for a couple, in 2007. This means that the 35 million seniors and people with disabilities enrolled in traditional Medicare are

charged higher premiums every month in order to help subsidize overpayments for private plans that serve approximately 8 million beneficiaries. (For about 7 million of these 35 million beneficiaries — low-income people whose premiums are paid by Medicaid — the added costs are borne by the federal government and the states, which jointly fund Medicaid.)

- **Medicare Advantage plans do not have to provide all the benefits available through traditional Medicare — and many do not.** While the plans use part of their overpayments to offer services that Medicare otherwise does not cover or to reduce premiums and cost-sharing (the rest goes to administrative costs, marketing, and profits), some of the private plans have scaled back benefits available through traditional Medicare that are used primarily by sicker individuals, evidently to deter sicker people from enrolling. As a result, some beneficiaries in poorer health can wind up significantly worse off if they enroll in Medicare Advantage.

Analyses by the Medicare Rights Center, The Commonwealth Fund, the Kaiser Family Foundation, and MedPAC all have found that Medicare Advantage beneficiaries who need hospital care, home health care, or another specialty service may have to pay more for it — or may receive less of it — under the private plans. Even CMS has acknowledged this problem. CMS recently stated it will scrutinize cost-sharing levels among the private plans for services such as physician-administered chemotherapy drugs and dialysis services.

- **The private plans have not been shown to provide better care.** Some plans have sought to justify their overpayments as promoting better quality of care. The lack of suitable measures makes it hard to compare the quality of care in Medicare Advantage and traditional Medicare, but MedPAC reports that their levels of beneficiary satisfaction are similar, and people in traditional Medicare are less likely to report problems seeing specialists. MedPAC has also found that more Medicare Advantage plans are reporting poor health outcomes and that the plans are failing to keep pace with commercial and Medicaid plans in improving quality of care.

In addition, CBO has stated that “though Medicare Advantage plans cost more than care under [traditional Medicare] does, on average, they would be more cost-effective if they delivered a sufficiently higher quality of care. The limited [quality] measures available suggest that Medicare Advantage plans are not more cost-effective” than traditional Medicare.

- **The overpayments have contributed to the marketing abuses committed by some Medicare Advantage plans.** Over the past year, numerous media reports and several congressional hearings have documented a pattern of misleading and abusive marketing practices by some insurance agents, who seek to lure Medicare beneficiaries into Medicare Advantage plans without explaining how they differ from traditional Medicare. In one recent survey, 37 of the 43 states responding reported complaints about inappropriate or confusing marketing practices. The overpayments encourage such abuses by giving private plans a significant incentive to maximize their enrollment; many private plans have established lucrative financial inducements for agents who sign up new enrollees.

In sum, by reducing wasteful private plan overpayments, Congress can strengthen Medicare and better serve the millions of seniors and people with disabilities who rely on it for health coverage.