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## PRIVATE PLAN OVERPAYMENTS WEAKEN MEDICARE'S FINANCING AND HASTEN THE PROGRAM'S INSOLVENCY

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Under the Medicare program, beneficiaries may elect coverage through private “Medicare Advantage” plans rather than through the traditional fee-for-service Medicare program. Although private plans were introduced into Medicare to spur competition and *reduce* program costs, both the Medicare Payment Advisory Commission (MedPAC) — Congress’ expert advisory body on Medicare payments — and the Congressional Budget Office have determined that, on average, the federal government is paying the private plans *12 percent more* than it costs to treat comparable beneficiaries through traditional Medicare.

MedPAC has called on Congress to rein in these excessive payments to private plans and has recommended specific reforms. CBO estimates that the largest of these reforms — MedPAC’s proposal to “level the playing field” so private plans essentially are paid the same amounts that it would cost to treat the same patients under regular Medicare — would alone save \$54 billion over five years and \$149.1 billion over ten years.

- **These overpayments worsen Medicare’s finances and accelerate Medicare insolvency.** As CBO director Peter Orszag testified this month before the Senate Finance Committee, the overpayments advance the date when the Medicare Hospital Insurance Trust Fund runs out of funds. Orszag also explained that adopting the MedPAC recommendation to “level the playing field” and eliminate the excessive payments would push back the date of insolvency and strengthen Medicare’s finances. MedPAC chairman Glenn Hackbarth has similarly warned that these overpayments weaken Medicare’s finances and threaten Medicare’s sustainability over time. In testimony before the Health Subcommittee of the House Ways and Means Committee, Hackbarth stated that Medicare faces “a very clear and imminent risk from this overpayment that will put this country in an untenable position.”
- **The problem of overpayments is growing.** CBO projects that if no action is taken, the total amount of overpayments made to private plans will rise significantly in coming years, since enrollment in the private plans is growing rapidly. Moreover, enrollment is growing fastest among those private plans that are concentrated in areas with the largest overpayments. As a result, CBO director Orszag has indicated that the estimated average overpayment of 12 percent to the private plans is likely to increase over time.
- **The overpayments also raise the premiums that Medicare beneficiaries must pay.** Since the monthly premiums that Medicare beneficiaries pay are based on Medicare costs — and the overpayments increase those costs — beneficiaries in Medicare fee-for-service are forced to pay

higher premiums to subsidize the excess payments being made to the private plans. As the total cost of Medicare overpayments rises in coming years, premiums will rise further.

- **The overpayments enlarge the federal budget deficit over both the short term and the long term.** Projected increases in Medicare costs are the single largest factor driving long-term federal budget deficits. Curbing unnecessary Medicare spending such as the overpayments to private plans, in tandem with broader health care reforms to contain health care costs throughout the U.S. health care system, would improve the nation's bleak long-term fiscal outlook.