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ENDING MEDICARE ADVANTAGE OVERPAYMENTS WOULD STRENGTHEN MEDICARE

by January Angeles

One of the key cost-saving provisions Congress is considering as part of health reform legislation would eliminate the large overpayments Medicare makes to the private “Medicare Advantage” health plans that serve some Medicare beneficiaries. While private plans ostensibly were brought into Medicare to reduce costs, they actually increase Medicare spending because it costs substantially more, on average, to cover a Medicare beneficiary through a private plan than through traditional fee-for-service Medicare. Eliminating the overpayments would lower the premiums that people in traditional Medicare pay and shore up Medicare’s finances, while helping pay both for needed Medicare improvements and for health reform legislation that seeks to achieve near-universal coverage.

Medicare Advantage Overpayments Raise Premiums and Weaken Medicare’s Finances

The Medicare Payment Advisory Commission (MedPAC), Congress’ expert advisory body on Medicare payment policy, has estimated that in 2009, Medicare will pay Medicare Advantage plans *14 percent more* per beneficiary than it would cost to cover these beneficiaries in traditional Medicare.¹ The overpayments, which have totaled nearly \$44 billion between 2004 and 2008, average more than \$1,100 for each beneficiary enrolled in a private plan.²

By increasing Medicare costs, these overpayments also drive up premiums for beneficiaries in traditional Medicare by \$86 per year for a couple, according to the chief actuary at the Centers for Medicare and Medicaid Services.³ More than 31 million seniors and people with disabilities enrolled in regular Medicare are forced to pay higher premiums each month to subsidize these excess payments.⁴

¹ Medicare Payment Advisory Commission, “Report to Congress: Medicare Payment Policy,” March 2009.

² Brian Biles, Jonah Pozen, and Stuart Guterman, “The Continuing Cost of Privatization: Extra Payments to Medicare Advantage Plans Jump to \$11.4 Billion in 2009,” The Commonwealth Fund, May 4, 2009.

³ Rick Foster, “Letter to Congressman Stark,” Office of the Actuary, Centers for Medicare and Medicaid Services, June 25, 2009.

⁴ Mark Miller, “Medicare Advantage Program and MedPAC Recommendations,” Testimony before the Subcommittee on Health, House Ways and Means Committee, MedPAC, March 21, 2007.

The overpayments also “contribute to the worsening long-range financial sustainability of the Medicare program,” as Glenn Hackbarth, MedPAC’s chairman, has warned Congress.⁵ They advance the date when the Medicare Hospital Insurance Trust Fund will become insolvent by 17 months.⁶

To address these concerns, MedPAC has long recommended that Congress rein in the excessive payments so that Medicare pays private plans no more than it would cost to treat beneficiaries under traditional Medicare. The House health reform bill would adopt the MedPAC recommendation to “level the playing field” and eliminate the overpayments over three years, which CBO has estimated would save \$156 billion over ten years (2010-2019).⁷ These savings not only help finance Medicare improvements included in the House bill but also help offset the bill’s overall cost.

The health reform legislation being developed in the Senate Finance Committee is also expected to curb Medicare Advantage overpayments, though the total savings are likely to be smaller. Like a similar Administration budget proposal, it would establish a competitive bidding system under which the average bid that plans submit to offer Medicare Advantage coverage would determine their payments. CBO expects that such a system would have a similar effect in scaling back the overpayments that private plans receive.

Significant Share of Overpayments Goes to Insurers, Not Extra Benefits for Enrollees

Critics of health reform, as well as the private plans, contend that eliminating the overpayments would adversely affect enrollees and lead to substantial benefit cuts. They argue that the private plans use the overpayments to provide extra benefits that traditional Medicare does not cover and/or to reduce beneficiaries’ premiums and cost sharing.

In reality, however, a large portion of the overpayments actually accrues to the insurers rather than to beneficiaries. For example, MedPAC has found that among private fee-for-service plans — the fastest-growing type of Medicare Advantage plan— about *half* of the overpayments goes to profits, marketing, and administrative costs.⁸

Moreover, MedPAC has found that it costs the Medicare program an average of \$1.30 for every \$1 in additional benefits delivered by Medicare Advantage plans, and in private fee-for-service plans, it costs Medicare more than \$3 for every \$1 in additional benefits.⁹ Consequently, the excess

⁵ Glenn Hackbarth, “Report to the Congress: Medicare Payment Policy,” Testimony before the Subcommittee on Health, House Ways and Means Committee, March 11, 2008.

⁶ See Foster, *op cit*.

⁷ Congressional Budget Office, “Preliminary Analysis of the America’s Affordable Health Choices Act of 2009,” July 17, 2009.

⁸ Mark Miller, “The Medicare Advantage Program and MedPAC Recommendations,” Testimony before the House Budget Committee, Medicare Payment Advisory Commission (MedPAC), June 28, 2007 and Glenn Hackbarth, Oral Testimony before the Senate Finance Committee, April 11, 2007. See also Medicare Payment Advisory Commission, “Report to the Congress: Medicare Payment Policy,” March 2008.

⁹ Medicare Payment Advisory Commission, “Report to Congress: Medicare Payment Policy,” March 2009.

payments are an extremely costly and inefficient way of delivering extra Medicare services or reducing out-of-pocket costs.

Moreover, despite insurers' claims, there is no evidence that Medicare Advantage provides better quality of care than traditional Medicare.¹⁰ In fact, many beneficiaries in poorer health can actually wind up significantly *worse* off if they enroll in Medicare Advantage plans. That is because the private plans have the discretion to scale back Medicare-covered benefits so long as the actuarial value of their overall benefit package is not less than the value of the overall package under traditional Medicare.¹¹ Some private plans take advantage of this leeway by imposing substantially higher cost-sharing than traditional Medicare for hospitalizations or costly treatments like chemotherapy, as a way to deter sicker people from signing up with them. As a result of these practices, some seniors and people with disabilities who enroll in Medicare Advantage and then become sick and require costly treatments can end up paying significantly more out-of-pocket than if they had enrolled in traditional Medicare.

To address this problem, the House health reform bill would prohibit Medicare Advantage plans from charging higher cost-sharing for Medicare-covered services than traditional Medicare allows. It also would require plans with high administrative costs (consuming more than 15 percent of their Medicare payments) to provide enrollees with lower premiums as an added benefit.

Rather than leaving the current system untouched, a more efficient way to strengthen Medicare benefits would be to eliminate the overpayments to Medicare Advantage plans and use the savings to help make needed improvements for Medicare beneficiaries broadly (as well as to help pay for the overall costs of comprehensive health reform). This is the approach that the House health reform bill takes; it uses a portion of the savings from making Medicare Advantage more efficient to phase out the “doughnut hole” in Medicare’s prescription drug coverage, extends subsidies to help reduce the program’s premium and cost-sharing charges to more low-income seniors and people with disabilities, and waives deductibles and cost-sharing for preventive services for all Medicare beneficiaries. According to the Office of the Actuary at CMS, these and other provisions in the House bill would slow the growth of Medicare expenditures and thereby extend the solvency of the Medicare Trust Fund by five years.

Consequently, millions of seniors and people with disabilities now on Medicare, as well as tens of millions of the uninsured, would benefit from curtailing the Medicare Advantage overpayments.

Conclusion

Curbing Medicare Advantage overpayments is an essential element of comprehensive health care reform. Legislation that Congress is considering, like the House health reform bill and the package the Senate Finance Committee is developing, would use the savings from curbing the overpayments to help make program improvements for all Medicare beneficiaries and help finance the cost of extending health coverage to all Americans. Claims that eliminating the overpayments would hurt beneficiaries are overblown: much of the overpayments benefit insurers, not beneficiaries, and the

¹⁰ Medicare Payment Advisory Commission, *op cit*.

¹¹ See, for example, Brian Biles, Lauren Hersch Nicholas, and Stuart Guterman, “Medicare Beneficiary Out-of-Pocket Costs: Are Medicare Advantage Plans a Better Deal?” The Commonwealth Fund, May 2006.

overpayments both weaken Medicare's long-term finances and raise the monthly premiums that most Medicare beneficiaries must pay. Failure to address the overpayments would leave in place one of the most wasteful aspects of the Medicare system.