

## Private Plans: A Bad Choice for Medicare

Some in Congress propose to increase subsidies for private health plans to encourage those plans to play a bigger role in Medicare; the House Medicare prescription drug bill proposes to subject the entire Medicare program to competitive bidding with private plans, beginning in 2010. Both are steps towards privatizing a successful and popular public program.

Those advocating a greater role for private plans contend that they will save Medicare money; offer enrollees more and better choices; and deliver higher quality care. That sounds good, but will these proposals achieve those results? So far, the evidence has shown that, for seniors and people with disabilities—particularly those living in rural areas—Medicare works better than private plans.

### Private Plans may well cost Medicare *more*.

- *Private plans cost the public more than traditional Medicare.* Contrary to the assertion that private plans will save Medicare money, in 2002, per capita payments to Medicare+Choice plans were about 5 percent higher than average expenditures in traditional Medicare. In fact, all types of private plans—HMOs, PPOs, and private fee-for-service plans—cost more per beneficiary than traditional Medicare. This is largely because private plans attract healthier enrollees, yet their payment rates are based on Medicare's average overall costs.
- *CMS seems disinclined to adjust plan payments adequately, so overpayments are likely to persist.* Adjusting private plans' payments to reflect their costs would be fiercely opposed by the insurance industry. Thus far, the issue has not been successfully addressed by the Centers for Medicare and Medicaid Services (CMS). In fact, CMS recently proposed a "budget neutral" risk adjustment approach that will redistribute, rather than reduce, payments to plans; the end result will be to increase payment rates by nearly 5 percent in 2004.
- *Because Medicare currently pays private plans more than adequately, additional subsidies are misplaced.* In 2000, the Office of the Inspector General noted that private plans receive "more than an adequate" payments. Plans continue to be paid more than it would cost to serve demographically similar individuals in Medicare. An increase in subsidies is not necessary and is inappropriate.

### Private plans have *not* provided Medicare beneficiaries with better choices.

- *Private plans have proven an unreliable source of care for those in Medicare.* Many private plans have left the Medicare+Choice program; between 1998 and 2003, the number of Medicare+Choice plans dropped by more than half. When a plan leaves the program, health care for its members is disrupted. Since 1999, more than 2 million Medicare beneficiaries have been affected by plans leaving the program. Greater subsidies do not guarantee that plans will become more dependable.

- ***Private plans have shifted costs to patients—particularly to those in poor health.*** From 1999 to 2002, out-of-pocket costs for those in Medicare+Choice nearly doubled, rising from \$976 to \$1,786. For those in poor health, the situation has been worse. Since 1999, plan benefit changes have focused on increasing out-of-pocket costs for services most likely used by those in poor health, such as hospital care, dialysis, and cancer therapy. As a result, from 1999 to 2002, out-of-pocket costs for beneficiaries in poor health have increased 116 percent—to an average of \$4,783—compared to a 71 percent increase for those in good health.
- ***Medicare beneficiaries are less satisfied with private plans.*** Medicare beneficiaries who are in traditional Medicare report greater access to, and satisfaction with, their health care than beneficiaries enrolled in private managed care plans.

### **In rural areas, private plans often provide no choice.**

- ***Private plans are unavailable in most rural communities.*** Roughly a quarter of Medicare beneficiaries live in rural counties. Eighty (80) percent of these individuals—nearly seven and a half million Medicare beneficiaries—live in areas that are not served by any Medicare managed care plan.
- ***In rural areas that have a private plan, most lack choices.*** Only 15 percent of beneficiaries who live in rural areas have more than one plan available.
- ***Private insurers serving rural areas are particularly unreliable.*** Private plans in Medicare are unreliable in general and are even less reliable in rural areas. Private plans pull out of rural communities at a greater rate than they do in urban areas, leading to more volatility in health care delivery for rural beneficiaries.

### **Private plans do not deliver better health outcomes.**

- ***Those in poor health or who have low incomes do better in traditional Medicare.*** Nearly 18 million Medicare beneficiaries have incomes below 200 percent of poverty—that’s about 45 percent of beneficiaries. Two in three have health problems, low incomes, or both. These two-thirds of Medicare beneficiaries would be particularly disadvantaged by policies that increase the role of private plans. That’s because seniors in poor health or with low incomes have better health outcomes in traditional Medicare than in private managed care plans.

### **Increasing private plan subsidies would penalize those who stay in traditional Medicare.**

- ***Higher payments to private plans would financially penalize those who prefer traditional Medicare.*** Most beneficiaries choose traditional Medicare: Seven out of eight are in traditional Medicare, even though many could enroll in private plans. Increased payments to private plans would increase premiums for all beneficiaries—even the majority who prefer traditional Medicare.
- ***The financial disparity would be greater for rural beneficiaries.*** Rural beneficiaries would, like others in Medicare, bear the burden of higher premiums, yet they are less likely to have the choice of a private plan.

Increasing payments to—and the role of—private plans is not an answer. Compared to private plans, traditional Medicare works better for most beneficiaries. Because it costs less per beneficiary, it works better for the public, too. Rather than increasing subsidies for private plans, proposals to strengthen traditional Medicare would better address the needs of America’s seniors and people with disabilities.