



July 27, 2010

Health Reform Changes to Medicare Advantage Strengthen Medicare and Protect Beneficiaries

By January Angeles

The health reform law will significantly reduce the large overpayments Medicare makes to the private “Medicare Advantage” health plans that serve some beneficiaries. This will reduce premium costs for other Medicare enrollees and strengthen Medicare’s overall finances. The law also includes stronger protections for Medicare beneficiaries enrolled in these private plans, particularly those who are in poorer health, to ensure they have access to needed care. While some critics have attributed insurers’ planned changes to Medicare Advantage benefits for 2011 to the health reform law, the reductions in overpayments do not begin to take effect until 2012. And contrary to critics’ claims, health reform does not cut the benefits that regular Medicare now covers and that Medicare Advantage plans also must cover.

Why and How Will Health Reform Change the Way Medicare Pays Private Plans?

In 2010, Medicare is estimated to pay private Medicare Advantage health plans between 9 and 13 percent more per enrollee than it costs to cover the same person under traditional Medicare.¹ These overpayments, which average more than \$1,100 for each Medicare Advantage beneficiary, cost Medicare nearly \$44 billion between 2004 and 2009.² Despite insurers’ claims, a large portion of the overpayments benefit insurers rather than provide additional benefits to enrollees. For example, the Medicare Payment Advisory Commission (MedPAC) has found that among private fee-for-service plans — one type of Medicare Advantage plan — less than one-fourth of overpayments go toward additional benefits, on average.³

Even though they are paid more, Medicare Advantage plans have not been found to provide better quality of care. Beneficiaries in poorer health can end up worse off and have higher cost-sharing for certain services if they enroll in Medicare Advantage. Some private plans impose substantially higher cost-sharing charges than traditional Medicare for certain costly services like chemotherapy in order to deter sicker people from signing up.

By increasing Medicare costs, these overpayments also drive up premiums for the 31 million seniors and people with disabilities enrolled in traditional Medicare — by \$86 for a couple in 2009. In addition, the overpayments weaken Medicare’s long-term finances.⁴

The health reform law will phase down the overpayments to private plans over two to six years, starting in 2012. Plans in certain areas will still receive substantial overpayments, but the overall cost of Medicare Advantage will be more in line with the cost of providing care under regular Medicare.⁵

How Will the Changes Affect Beneficiaries?

Health reform does not cut the benefits that regular Medicare now covers and that Medicare Advantage plans also must cover. Medicare Advantage plans will still be required to provide overall coverage at least as good as traditional Medicare. In addition, the new law adds an important new protection for Medicare enrollees who become sick — it restricts Medicare Advantage plans’ ability to charge more than traditional Medicare for critical services like chemotherapy and dialysis.



Moving Forward with Health Reform

The health reform law also requires plans to spend at least 85 percent of the money they collect in federal payments and beneficiary premiums on medical services rather than profits or overhead; this, along with the reduction in overpayments to plans, should encourage plans to become more efficient. As MedPAC Chairman Glenn Hackbarth recently stated, innovation had “gone out of [the] MA program due to overpayment” and reducing Medicare Advantage payment rates would be “the spur to finding ways to do things better.”⁶ Plans that deliver benefits efficiently will continue to be able to provide additional benefits.

The law also provides bonuses to Medicare Advantage plans that receive high ratings for quality of care.

Finally, the reductions in overpayments will keep premiums that other beneficiaries pay lower than they otherwise would be, and along with other changes in the health reform law, will help push back the date when the Medicare Hospital Insurance Trust Fund goes insolvent by 12 years, from 2017 and 2029.⁷

Why Are Some Medicare Advantage Plans Changing Their Benefits Now?

As they do every year, some Medicare Advantage plans have indicated that they will modify their benefits or premiums and cost-sharing in 2011. Some health reform critics have wrongly attributed these changes to the Medicare Advantage payment provisions in the health reform law. As Secretary of Health and Human Services Kathleen Sebelius has noted, those provisions do not take effect until 2012. She also stated that given the predictability of payment rates for 2011 and the significant profits that large Medicare Advantage insurers have reported, she expects participation by plans in Medicare Advantage to remain robust and that overall, plans should keep offering the same level of benefits for plan year 2011 as are offered today.⁸

Some adjustments to Medicare Advantage payments will take effect in 2011, but they are the result of policies adopted *before* health reform. For example, the Centers for Medicare and Medicaid Services (CMS) is required by law to deal with the problem of “upcoding,” under which the diagnosis codes that private plans assign to their Medicare enrollees can make the enrollees appear less healthy than they actually are. Upcoding makes the payments that Medicare makes to Medicare Advantage plans *higher* than they otherwise should be, raising costs unjustifiably both for other Medicare beneficiaries (through higher premiums) and for taxpayers.⁹ CMS began adjusting payments to private plans in 2010 to offset the effects of upcoding and thereby to prevent inflated payments from being made; CMS will continue this effort in 2011. While some insurers may respond to the loss of inflated payments by modifying aspects of the coverage they offer, insurers could also reduce their profits and their administrative costs.

¹ Medicare Advantage payments would average 113 percent of fee-for-service costs in 2010 if Congress allows the scheduled cut in physician payments to take effect in 2010, according to MedPAC. If Congress delays the cut for all of 2010, as is expected, MedPAC estimates the payments would average 109 percent of fee-for-service costs. Medicare Payment Advisory Commission, “Report to the Congress: Medicare Payment Policy,” March 2010.

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

³ Medicare Payment Advisory Commission, *op cit*.

⁴ January Angeles, “Ending Medicare Advantage Payments Would Strengthen Medicare,” Center on Budget and Policy Priorities, September 14, 2009.

⁵ Brian Biles and Grace Arnold, “Medicare Advantage Payment Provisions: Health Care and Education Affordability Reconciliation Act of 2010 (Working Paper),” George Washington University School of Public Health and Health Services, Updated April 2010.

⁶ Meghan McCarthy, “Hearing on MedPAC Report Leads to Airing of Grievances,” *Congress Daily AM*, June 24, 2010.

⁷ Solomon Mussey, “Estimated Effects of the Patient Protection and Affordable Care Act, as Amended, on the Year of Exhaustion for the Part A Trust Fund, Part B Premiums, and Part A and Part B Co-Insurance Amounts,” Office of the Actuary, Centers for Medicare and Medicaid Services, April 22, 2010.

⁸ Kathleen Sebelius, “Letter to Scott P. Serota, Blue Cross Blue Shield Association,” June 4, 2010.

⁹ January Angeles and Edwin Park, “Upcoding Problem Exacerbates Overpayments to Medicare Advantage Plans,” Center on Budget and Policy Priorities, Revised September 14, 2009.