A Public Comprehensive Benefit Option for Medicare

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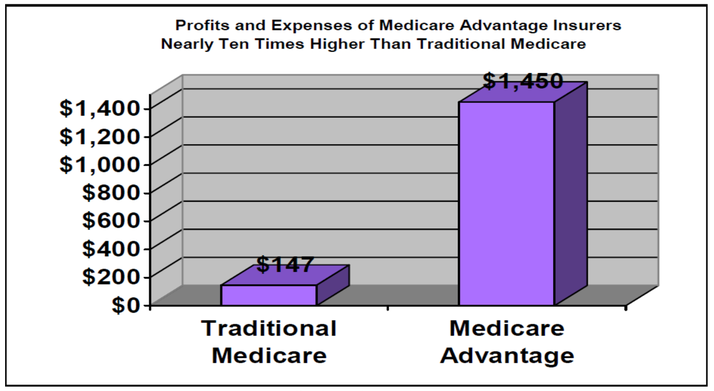
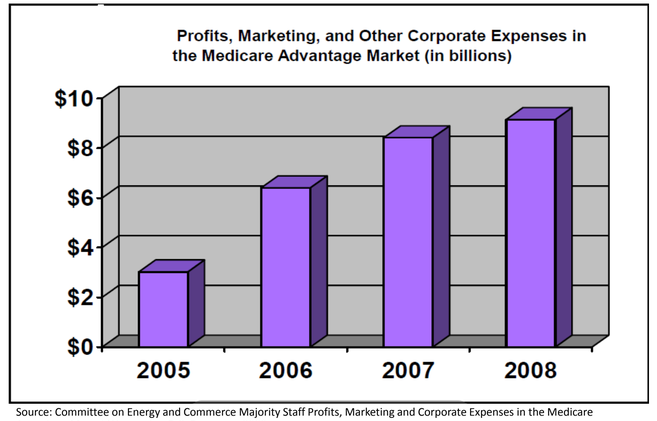


Source: Committee on Energy and Commerce Majority Staff Profits, Marketing and Corporate Expenses in the Medicare Advantage Market Washington D.C. December 2009



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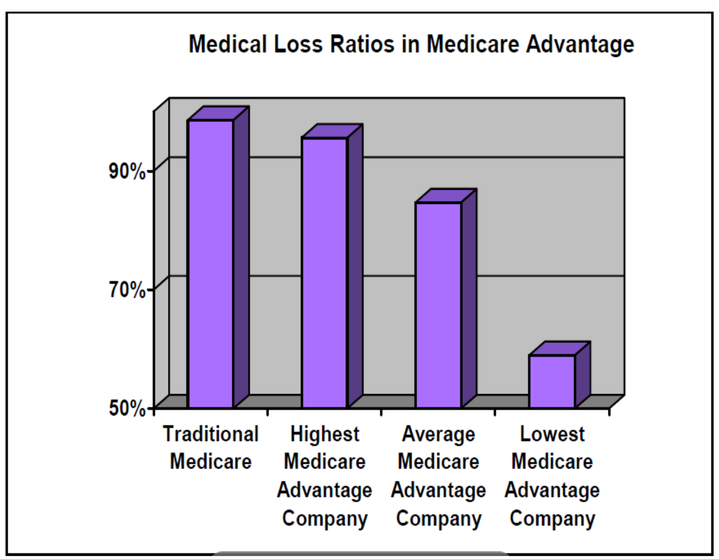
Background

Medicare does an excellent job of delivering basic benefits to seniors, beneficiaries who want comprehensive rather than basic coverage are forced to choose between two bad options.

Their first option is to receive benefits under traditional Medicare (Parts A and B) and enroll in a private Medicare Supplemental Insurance (or Medigap) plan, which fills the gap between Medicare and full coverage. This option frequently involves unnecessary expense and red tape as a result of managing more than one healthcare plan; as Commonwealth Fund President Dr. Karen Davis put it, the "patching together of multiple plans creates confusion for beneficiaries; creates the potential for risk selection; and leads to higher administrative expenses."

Seniors' other option is to receive all of their care through a Medicare Advantage plan that offers comprehensive benefits. Medicare Advantage Plans are offered through Medicare Part C and allow beneficiaries to receive the same level of coverage offered by traditional Medicare (Parts A and B) through a private insurer. Some insurers offer Medicare Advantage plans that only provide basic coverage, but others offer plans that provide comprehensive benefits by combining Medicare Part C and Medicare Supplemental Insurance in one private plan. For recipients of the latter type of plan, part of their premium is paid for by the government under Medicare Part C. They pay for the remainder through premiums. Unfortunately, these plans are often wasteful and inefficient in comparison to traditional Medicare. Representative Henry Waxman, citing a report issued by the Majority Staff of the House Committee on Energy and Commerce, said that Medicare Advantage insurers "squander billions of dollars on overhead costs." The report revealed that less than 85% of Medicare Advantage providers' revenue is used to pay for actual medical expenses – in stark contrast to traditional Medicare, in which more than 98% of revenue is used to cover medical expenses.



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Summary

Medicare beneficiaries who want comprehensive benefits have two bad options: mixing their basic public coverage with private supplemental coverage, which is confusing and inefficient, or receiving all of their care from a private provider, which is less efficient than receiving publicly provided benefits. If Congress were to implement a third option – providing beneficiaries with comprehensive benefits through Medicare in exchange for a premium covering the difference between the cost of basic and comprehensive benefits – it would substantially reduce costs, eliminate unnecessary confusion, and improve quality of care. The additional competition engendered by such a program would have a positive impact on all beneficiaries in the market, rather than merely program participants.

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Analysis

To provide our seniors with a responsible and efficient alternative to these options, Congress should create a comprehensive public benefit option modeled after the Federal Employee Health Benefits Plan. Doing so will provide beneficiaries with an option for quality, affordable, and efficient care.

Such a public option would be a program that offers comprehensive benefits to beneficiaries for a price that completely covers the cost of the additional benefits. This program would be administered by the Centers for Medicare and Medicaid Services, using the same provider system for Medicare Parts A and B but offering more benefits. It would be completely funded by premiums paid by beneficiaries for the additional coverage and would be revenue neutral.

According to the Medicare Payment Advisory Committee, a program offering such a public option "would benefit from reduced insurance administrative expenses." An analysis of this proposal, based on data from the 2000 Current Medicare Beneficiary Survey and published in Health Affairs by the Commonwealth Fund, found that this option would reduce the average annual paid by beneficiaries by $357 and out-of-pocket costs by an average of $60. Such a reduction is no small sum; the overall market savings resulting from such a plan would be more than $5 billion for consumers. It would also substantially increase the quality and value of the care that they receive.

In addition to offering beneficiaries a better alternative, a public option would force insurers to cut unnecessary expenses and improve the quality of care in order to remain competitive. Unless Medicare Supplemental Insurers do a better job of integrating their plans with basic Medicare coverage, and unless Medicare Advantage providers deliver care more efficiently, their customers will switch to the government plan. Therefore, a public comprehensive benefit option would not just improve the services provided to seniors who enroll in it, but would improve the quality and lower the cost of care across the comprehensive Medicare plan market. Recipients would still have a wide array of options for types and levels of coverage, but these options would be more efficient because they would have to compete with a publicly provided model that does not spend wastefully.

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