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PRIVATIZING MEDICARE: THE TRAIN HAS ALREADY LEFT THE STATION

While the country debates the merits and concerns about Social Security privatization, Medicare has been morphed into a set of private plans with little attention or discussion. The private Medicare train is already out of the station.

Medicare Privatization on a Fast Track

The movement to privatize Medicare began in the 1980s with the introduction of Medicare managed care and has continued on this perilous track ever since. In 1997 Medicare Part C introduced a variety of private plans under the banner of "Medicare+Choice". These private options, largely managed care, thrived for a few years and then began to withdraw from Medicare as government payments and plan profit margins diminished. The plan withdrawals left many beneficiaries with no private options and with the insecurity of "losing their Medicare".

Most dramatically, the Medicare Modernization Act of 2003 began a major restructuring of the traditional Medicare program, relying exclusively on private plans to deliver the new Part D prescription drug coverage. The 2003 law and the Deficit Reduction Act of 2005 provide substantial subsidies to private companies that offer Medicare plans in 2007. Private Medicare options, now known as "Medicare Advantage," (MA) plans will be paid about 11% more per enrollee, or about $828, than Medicare would pay if the enrollee remained in the traditional program. These payments will total about $5.7 billion in 2007 and nearly $30 billion over the five years from 2007 -2011.[1]

The dire consequences that privatization has had, and will have, on beneficiaries and taxpayers alike are documented in recent reports, two of which are highlighted below. These reports also discuss the Administration's devotion to turning Medicare over to private industry – even when privatization is less efficient, more costly, and may bring about the end of Medicare as the successful social insurance program it has been since 1965.

- ***Families USA Report:* Privatization Hurts Beneficiaries and Tax Payers**

In *Medicare Privatization: Windfall for the Special Interests*, Families USA documents the excessive payments which Medicare makes to private Medicare Advantage companies offering

[1] Brian Biles, MD, *Payments to Medicare Advantage Plans Exceed Fee-For-Service Costs: Options for Medicare Savings from 2007 – 2011,* (George Washington University, 9/15/2006).

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Part D plans (MA-PDs), and to regional preferred provider organizations (PPOs), in order to keep them in the market and to help move more beneficiaries into private plans. According to the report, Medicare Advantage drug plans received an extra $4.6 billion over what regular Prescription Drug Plans (PDPs) received in 2006. If this continues over five years, they would be paid as much as $23.5 billion more than PDPs and traditional Medicare to take care of the same beneficiaries. Congress, in passing the MMA, also set aside $10 billion through 2013 to ensure access to regional PPOs through higher payments, this *on top of* the payment available to all MA plans. That is an extra $10 billion to ensure access to something that 88% of beneficiaries already *have* access to in 2006. It doesn't appear that additional payments are needed to keep regional PPOs in the market.

The Families' Report indicates that the government's rationale for these overpayments is that the managed care system saves Medicare money, despite higher upfront costs, by limiting the network of providers and coordinating care. In actuality, according to the Report, MA plans usually enroll healthier beneficiaries who do not mind a limited network of providers, and cost the system less overall, resulting in overpayments when compared to traditional Medicare.

Managed care enrollment grew through the 1990s but declined after 1999, resulting in plans withdrawing from the market. When market forces on their own actually pushed private managed care plans out, Medicare offered further overpayments to keep plans in the market in an effort to lure more beneficiaries into private managed care.

Despite government efforts to push beneficiaries into private plans, almost 90% have chosen to remain in traditional Medicare. But this preference is at an ever-increasing cost for beneficiaries and taxpayers. As healthier beneficiaries move to private plans, beneficiaries enrolled in traditional Medicare are needier and premiums in the traditional program increase because the mix of beneficiaries is sicker and older. The increased costs for traditional Medicare also affect taxpayers, since general revenues cover most of the costs of Medicare. Meanwhile beneficiaries and taxpayers are also paying for subsidies to private plans and for the unnecessarily high prices for drugs under Part D resulting from the law's prohibition on Medicare negotiating prices with the pharmaceutical industry.

- ***Congressman Waxman Study:* The Unrelenting Push for Privatization**

A second report, released by Congressman Henry Waxman in a letter to Michael Leavitt, Secretary of the US Department of Health and Human Services (HHS), demonstrates that Medicare beneficiaries have not benefited from the Part D privatized prescription drug system. The letter was written in response to statements made to the contrary by the Centers for Medicare & Medicaid Services (CMS), the HHS agency responsible for Medicare.

Specifically, CMS claimed that 83% of beneficiaries would have access to Part D plans with lower premiums in 2007 than they paid in 2006. According to the Waxman study, the CMS analysis erroneously accounts for premiums in MA-PD plans, as well as stand alone PDPs. Since MA-PD plans charge a single premium for a package of services, covered by Medicare Parts A, B and D in the traditional program, one can only surmise what part of the MA-PD's premium is actually for Part D. Only one quarter of beneficiaries enrolled in Part D in 2006 elected an MA-

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PD. The other 75% are in a stand alone PDP and traditional Medicare. The Waxman study found that for these people, the vast majority of Medicare beneficiaries, Part D premiums will actually increase for beneficiaries as follows:

- Across all drug plans (PDPs), premiums will increase an average of 13.2% in 2007
- For PDPs with the same deductible and same donut hole coverage in 2006 and 2007, premiums will increase 11.1% in 2007,
- For the lowest priced PDPs, premiums will increase by 44% for 2007

Including MA-PD premiums in the estimate for the average national premium artificially lowers the premium amount, and misleads Medicare beneficiaries about the true cost of their drug options. Because, as described above, MA-PDs are heavily subsidized by the government, they sometimes offer lower premiums, (although they may also offer more limited providers and coverage). The lower premiums are steering more beneficiaries into private health plans, rather than keeping them in traditional Medicare.

Consequences Down The Line

This unnecessary spending to keep private plans in Medicare is costly to beneficiaries and taxpayers and has even more serious implications for the future. Overpayments and higher premiums in private plans are raising the overall cost of the Medicare program. Meanwhile, a little known provision of the 2003 MMA law established a rule that if two consecutive Medicare Trustees' Reports estimate that more than 45% of Medicare's budget within the next six years will come from general revenues, the President must propose legislation to lower the cost to less than 45%. The most recent Trustees' report estimated that the 45% mark would be reached in 2012, and it is likely that the next report will include a similar estimate. If this happens, Medicare will be subject to draconian cuts and more privatization. This is ironic, since privatization is substantially responsible for the increasing cost of Medicare.

While the country has, so far, successfully resisted privatizing Social Security, Medicare has already been transformed into an array of private plans, with barely any comment from the media or policy makers. We are already hearing that we can't afford this old Medicare program and must, cynically, look more, not less, to limited-coverage from private plans. Meanwhile people with Medicare - soon to include millions of Baby Boomers - will have to go without. And insurance, managed care, and pharmaceutical companies will benefit.

It is time to stop egregious overpayments to private industry and start promoting and developing the affordable, comprehensive traditional Medicare program. We need to flag down the private Medicare train that's speeding down the track before it's too late.

For more information, contact executive director Judith Stein (jstein@medicareadvocacy.org) in the Center for Medicare Advocacy's Connecticut office at (860) 456-7790.

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