

# **MEDICARE ADVANTAGE: ARE MA PLANS A BETTER DEAL?**

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**May 19, 2006**

# MA BENEFITS FOR SENIORS

- It is frequently suggested that **MA plans will save seniors money**
- Comments from HHS explicitly say that beneficiaries will **save \$100 per month compared to Medigap**
- A recent statement from the Administration specifically emphasizes that the **largest savings are for enrollees with chronic illnesses**

# MA BENEFITS FOR SENIORS

## Background

- Health care costs of the elderly vary greatly
  - The **sickest 5% have 43%** of total costs and average **\$63,000**
  - The **healthiest 50% have 4%** of total costs and average **\$550**
- Risk adjustment of payments to MA plans not ideal
  - Medicare **overpays for healthy** enrollees by \$180 per year
  - Medicare **underpays for the sickest enrollees by \$4,200**
- MA plans are not required to offer only a set of **defined benefit packages like Medigap**

# MA BENEFITS FOR SENIORS

## Background for Analysis

- This study of out-of-pockets (OOP) costs by MA enrollees was prompted by findings from a dozen site visits to major cities and by reviews of dozens of M+C and MA plan benefit packages since 2000
- The earlier work indicated that plan managers were increasingly concerned about adverse risk selection with Medicare's less than ideal payment system
- It also indicated that some MA plans were **imposing high co-payments for health services – especially hospital care**

# MA BENEFITS FOR SENIORS

## Analysis of OOP Costs in MA Plans

- This analysis includes plans in all cities with available data and significant MA enrollment
  - Data available on HealthMetrix website
  - Cities with >10% MA enrollment
  - Two largest plans with >2% MA enrollment
  - With AARP Medigap available at a community rate

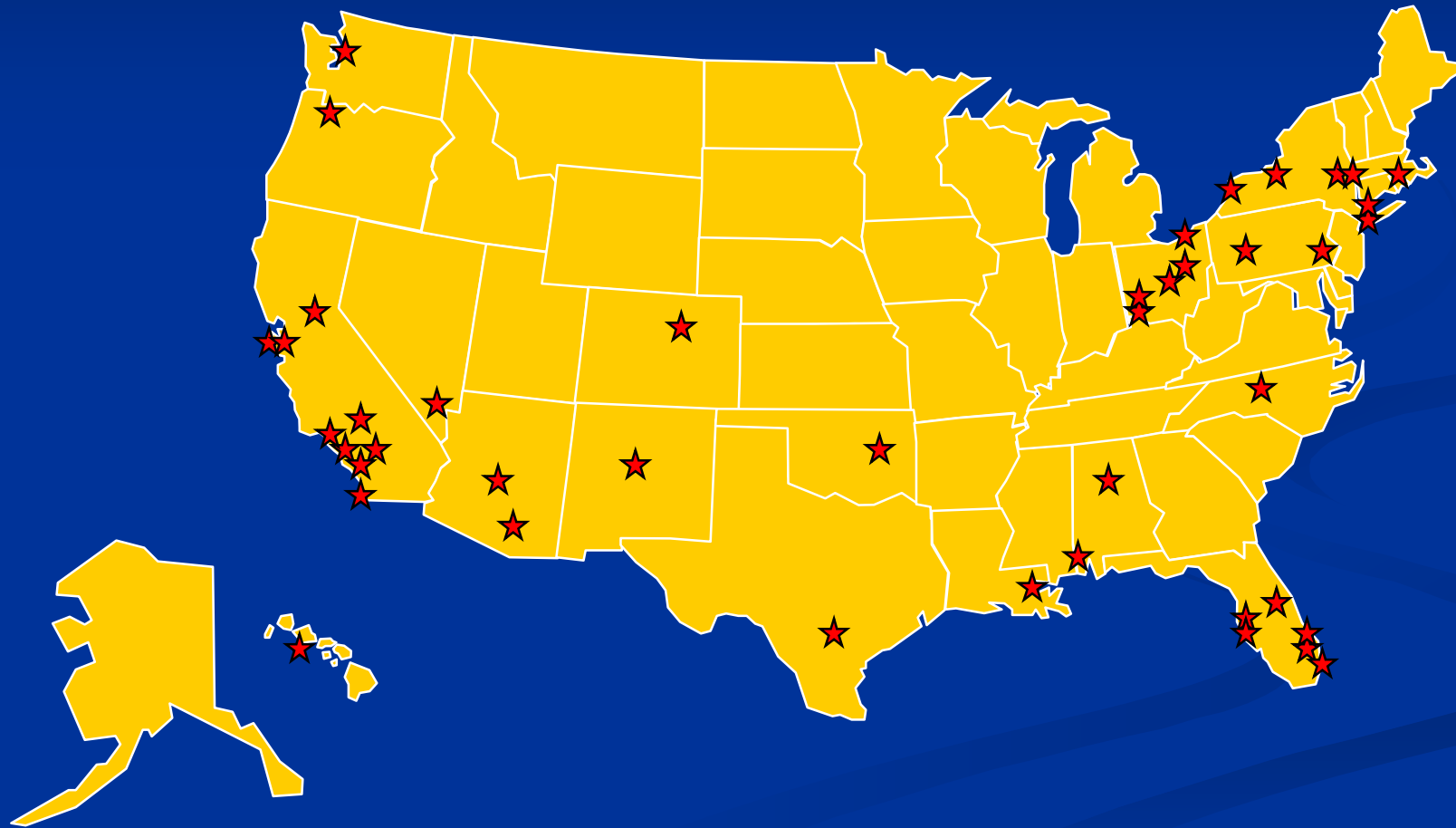
# MA BENEFITS FOR SENIORS

## Analysis of OOP Costs in MA Plans

- Compares OOP costs between MA plans and AARP Medigap Plan F
- Analyzes 88 MA plans in 44 cities all across the nation
- Reviews OOP costs for individuals in good, fair and poor health

# MA BENEFITS FOR THE ELDERLY

## Location of Cities in Sample



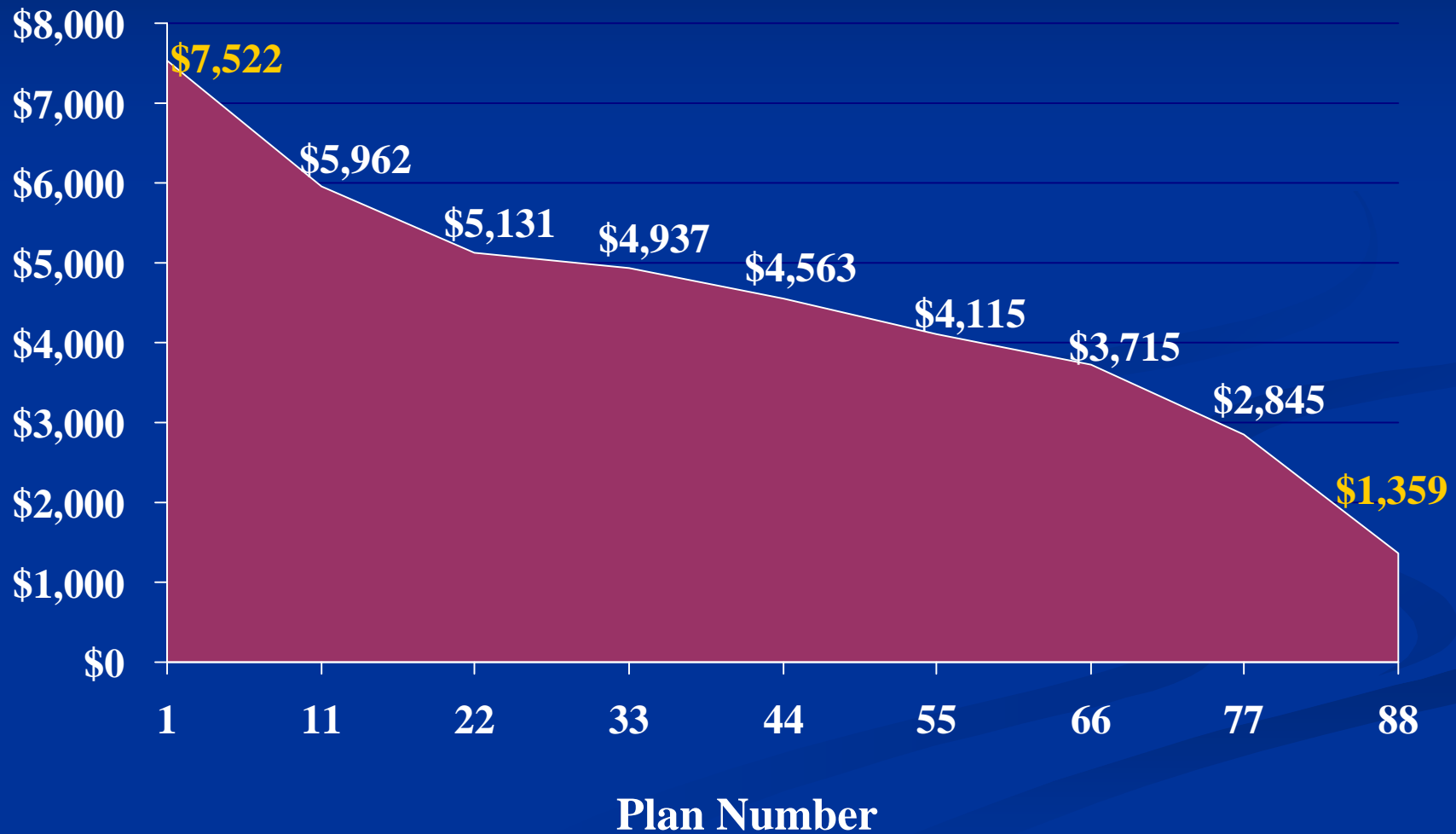
# MA BENEFITS FOR THE ELDERLY

## OOP Costs Vary Greatly by City

- There is a great range of OOP costs for individuals in **poor health** in MA plans
- From a high of **\$7,522** per year to a low of **\$1,359**



# Variation in OOP Costs for Enrollees in Poor Health in 88 MA Plans



# MA BENEFITS FOR SENIORS

## OOP Costs in Some Plans are Higher than Medicare Plus Medigap

- For the beneficiaries in **poor health**, health plans had higher costs **20%** of the time: 19 of 88 plans
- For the beneficiaries in fair health, health plans almost always had lower OOP costs: 86 of 88 plans
- For the beneficiaries in good health, health plans always have lower OOP costs: 88 of 88 plans
- **In four cities OOP costs were higher in both of the two largest MA plans**

# **BENEFITS FOR SENIORS**

## **Beneficiaries in Poor Health Are Important**

- The 5% of beneficiaries in the poorest health have 43% of Medicare expenditures
- Beneficiaries in poor health are 6% of the total number of elderly and disabled

# PAYMENTS TO MA PLANS

## Medicare Pays MA Plans More than FFS

- Medicare payments to MA plans in 2005 averaged **11% more** than costs in traditional fee-for-service Medicare
- Medicare extra payments averaged over **\$800 per MA enrollee** more than ffs
- Preliminary projections indicate that MA plan rates exceed ffs costs by over **\$25 b** in the next five years

# PAYMENTS TO MA PLANS

## Extra Payments Subsidize Additional Benefits

If the amount of extra payments to MA plans are assumed to subsidize MA plan benefits, and so are added to the OOP costs of MA plan enrollees, the picture changes significantly

- For enrollees in **poor health**, OOP costs would be higher in **almost half** of the MA plans than in traditional FFS Medicare with Medigap Plan F
- In fair health, OOP costs would be higher in 20% of MA plans
- In good health, OOP costs would be higher in 14% of MA plans

# BENEFITS FOR SENIORS

## Policy Implications

- Individual **elderly should make decisions** to choose a plan very carefully, especially if they have chronic illnesses
- Medicare **funding for direct assistance to beneficiaries** on plan selection by SHIPs should be increased by setting aside a definite amount of funds, perhaps  $\frac{1}{4}$  of 1% of payments to MA plans or \$125 m per year
- MA enrollees should **not be locked-in** to MA enrollment for an entire year

# BENEFITS FOR THE ELDERLY

## Policy Implications

- Medicare should develop a **limited, defined set of benefit packages for MA plans** similar to the set of benefit packages that **Medigap** plans use
- CMS should fund extensive new and continuing **research on a more accurate risk-adjustment** system

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