

## Medicare Advantage: The President's Plan Makes Necessary Changes

Medicare Advantage (MA) plans are private plans that are run by insurance companies. These plans were introduced into Medicare with the promise that they would save money and deliver care more efficiently, but they have accomplished neither of these goals. The President's health reform plan would make several long-overdue changes to Medicare Advantage, including rolling back the billions of dollars in overpayments that go to these plans.

### MA Plans Are Overpaid, Burdening Medicare and Its Beneficiaries

If nothing changes, over the next 10 years, MA plans will receive more than \$150 billion in subsidies, paid for by taxpayers and beneficiaries.<sup>1</sup> This will shorten the life of the Medicare trust fund and increase Medicare premiums.

- Payments to private MA plans currently average 14 percent more than it costs to provide the same care to beneficiaries in traditional Medicare.<sup>2</sup>
- In 2009, Medicare paid an average of \$1,138 extra per beneficiary over what it would have cost to serve the same beneficiary under regular Medicare, totaling \$11.4 billion in overpayments this year alone.<sup>3</sup>
- More than 75 percent of Medicare beneficiaries are in traditional Medicare, not MA plans, and each of them pays an extra \$3.60 per month in Part B premiums to subsidize MA plans.<sup>4</sup>
- Overpayments to MA plans have moved up the insolvency date of the Medicare trust fund by 17 months.<sup>5</sup>

### MA Overpayments Generate Profits for Private Insurers—Not More Efficient Care

Many MA plans now rely on the subsidies that are paid for by taxpayers and beneficiaries to drive their revenues. Some MA plans do provide additional benefits, but they do so at a very high cost.

- Several very large insurance companies have seen their profits grow largely due to their MA business, even in the current recession.
  - Humana saw a 34 percent increase in earnings in the 2<sup>nd</sup> quarter of 2009, largely due to its MA business.<sup>6</sup>
  - UnitedHealth saw a 155 percent increase in profits in the 2<sup>nd</sup> quarter of 2009, also mostly due to its MA business.<sup>7</sup>
  - In 2007, 66 percent of Humana's net income was attributable to Medicare Advantage. That year, 11 percent of UnitedHealth's net income was attributed to Medicare Advantage.<sup>8</sup>
- In 2009, it cost an average of \$1.30 for MA plans to provide \$1 worth of extra benefits.<sup>9</sup>

## People with Medicare Are Protected under the President's Plan

None of Medicare's guaranteed benefits are in jeopardy for anyone. In fact, under the President's plan, those benefits would be improved, and high-quality MA plans would be rewarded.

- The President's plan would improve traditional Medicare by eliminating cost-sharing for preventive services<sup>10</sup> and closing the doughnut hole.<sup>11</sup> Traditional Medicare is always available to all Medicare beneficiaries.
- Lowering subsidies for private plans will allow Medicare to reward the plans that provide good care at lower costs. Many good private plans are competitive with traditional Medicare.<sup>12</sup> They have provided services to Medicare beneficiaries for decades and will continue to do so. The President's plan includes bonus payments to reward high-quality plans.<sup>13</sup>

Defenders of Medicare Advantage plans are not defending people with Medicare—they are defending insurance company profits. The President's plan helps people with Medicare by improving guaranteed benefits and strengthening the program now and for the future.

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<sup>1</sup> Congressional Budget Office, *Budget Options Volume I, Health Care* (Washington: Congressional Budget Office, December 2008), p. 119.

<sup>2</sup> Medicare Payment Advisory Commission (MedPAC), *Report to Congress: Medicare Payment Policy* (Washington: MedPAC, March 2009).

<sup>3</sup> Brian Biles, Jonah Pozen, and Stuart Gutterman, *The Continuing Cost of Privatization: Extra Payments to Medicare Advantage Jump to \$11.4 billion in 2009* (New York: The Commonwealth Fund, May 2009).

<sup>4</sup> Letter from Richard Foster, Chief Actuary, Centers for Medicare & Medicaid Services, to Congressman Pete Stark, June 25, 2009.

<sup>5</sup> Ibid.

<sup>6</sup> "Humana Net Is Boosted by Medicare," *Wall Street Journal*, August 4, 2009.

<sup>7</sup> "UnitedHealth Profit Soars 155%: The Minnetonka-Based Insurer Loses Commercial Members but Gains in Its Public-Sector Work," *Minneapolis Star-Tribune*, July 21, 2009.

<sup>8</sup> "Insurers Fight to Defend Lucrative Medicare Business," *Wall Street Journal*, April 30, 2007.

<sup>9</sup> Medicare Payment Advisory Commission (MedPAC), op. cit.

<sup>10</sup> H.R. 3950 (Patient Protection and Affordable Care Act), Section 4104.

<sup>11</sup> *The President's Proposal*, February 22, 2010, p. 2, available online at <http://www.whitehouse.gov/sites/default/files/summary-presidents-proposal.pdf>.

<sup>12</sup> Medicare Payment Advisory Commission (MedPAC), *Report to Congress: Medicare Payment Policy* (Washington: MedPAC, March 2008).

<sup>13</sup> *The President's Proposal*, February 22, 2010, p. 8, available online at <http://www.whitehouse.gov/sites/default/files/summary-presidents-proposal.pdf>.

