NEWS RELEASE

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ADDITIONAL MMA PAYMENTS TO PRIVATE PLANS LED TO MODEST IMPROVEMENTS IN MEDICARE ADVANTAGE PREMIUMS AND BENEFITS IN 2004

Out-of-Pocket Costs Still High for Enrollees in Poor Health

New York City, December 10, 2004—A new report from The Commonwealth Fund analyzes how private Medicare Advantage (MA) plans used increased funding enacted as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA).

The MMA gave private plans a 7.4% increase over what they were originally slated to receive in 2004, an increase of 10.9% over what they received in 2003. The 12.7 percent of Medicare beneficiaries enrolled in private plans stood to benefit from the increase in funding. About half of the MMA increase MA plans received went directly to MA enrollees mainly in the form of reduced premiums, and nearly half (42%) went to providers.

Lori Achman and Marsha Gold of Mathematica Policy Research, Inc. have been tracking trends in benefits and premiums in the MA program (formerly called Medicare Plus Choice) since 1999. In *Are the 2004 Payment Increases Helping to Stem Medicare Advantage's Benefit Erosion?*, Achman and Gold find that after four years of reduced benefits and increasing premium costs in MA plans, enrollees saw modest improvements in 2004, including reductions in premiums, some increased benefits, and overall enrollee cost-sharing reduced to about the same level as in 2003. However, enrollees in poor health did not benefit from the decrease in out-of-pocket costs at the same rate as those in good health.

Benefit improvements made with funding from enactment of the MMA resulted in an average monthly premium reduction of $9 between January 2004 and March 2004, when the additional funding went into effect.

From 1999 to 2003 MA premiums increased dramatically. While they had already begun to decrease in 2004, the MMA reinforced this trend. Some benefits improved in 2004: the trend toward generic-only drug coverage was reversed, although overall levels of drug coverage remained restricted by annual limits.

The effect of the funding increase varied according to the health status of enrollees. Although all managed care enrollees received about the same dollar benefit, healthier

enrollees experienced a higher percentage decrease in out-of-pocket costs in 2004 (9.5%) compared to those in poor health (5.3%). While all enrollees pay the same premium regardless of their health status, out-of-pocket cost sharing is much higher for those who are in poor health and use more care. Out-of-pocket spending for enrollees in poor health remained 3.7 times greater than their healthier counterparts even after the changes in payment.

ENROLLEE OUT-OF-POCKET COSTS IN MEDICARE ADVANTAGE (MA) HEALTH PLANS

	1999	2003	Jan–Feb 2004	Mar–Dec 2004	Percent Change from Jan–Feb 2004 to Mar–Dec 2004
Total Cost Sharing					
All	$ 976	$1,964	$2,119	$1,942	-8.4
Good Health	$ 836	$1,564	$1,652	$1,496	-9.5
Fair Health	$1,203	$2,696	$3,031	$2,798	-7.7
Poor Health	$2,211	$5,305	$5,884	$5,573	-5.3

Source: Mathematica Policy Research, Inc. analysis of Medicare Compare data using HealthMetrix Research's Medicare HMO Cost Share Report Methodology.

"The study raises questions about whether additional payments to private Medicare plans are being put to the best use. Federal budgetary outlays are being used to benefit only the 12.7 percent of Medicare beneficiaries enrolled in private plans. Further, this study indicates only half of those extra payments are going to improve benefits or reduce premiums for enrollees in private MA plans with the remainder largely going to improve provider payment rates," said Commonwealth Fund President Karen Davis. "And the most vulnerable—those in poorest health—are least likely to be helped by the improvements made to MA plan payment rates. Consideration should be given to reducing burdensome out-of-pocket expenses and premiums for all vulnerable Medicare beneficiaries, including those in the traditional Medicare program."

Achman and Gold conclude that "it is too early to gauge whether the payment changes are enough to reverse the program's downslide in plan and enrollee participation in the long term." According to Gold, a co-author of the paper, "The findings indicate that the increases legislated in the MMA probably have helped plans respond to concerns of their affiliated providers and retain their participation in the program but they are not a 'magic bullet' for the limitations of Medicare's overall benefit package. Out of pocket costs in Medicare remain high for many Medicare beneficiaries in MA plans despite the increases that were legislated by the MMA."