



## NEWS RELEASE

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### NEW PROPOSAL PROVIDES COMPREHENSIVE BENEFITS OPTION FOR MEDICARE BENEFICIARIES

*“Medicare Extra” Would Simplify Drug Coverage, Eliminate Need To Purchase Multiple Plans and Provide Employers with Lower-Cost Alternative for Retiree Benefits*

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New York City, October 4, 2005—Adding a comprehensive Medicare Extra, or Part E, plan to Medicare would eliminate the need for beneficiaries to purchase a private drug plan and Medigap supplemental coverage, and help to quell the confusion and dissatisfaction surrounding the new Medicare Part D drug benefit, according to a new study released today as a *Health Affairs* web exclusive.

In addition to simplification and integrated benefits, the new proposal would allow beneficiaries now enrolled in a Medigap plan to save money.

“Medicare Extra would create greater simplicity, efficiency, and value for beneficiaries and for Medicare. A major advantage for beneficiaries would be that those who choose to stay in traditional Medicare could obtain comprehensive benefits in one plan,” said Karen Davis, president of the Commonwealth Fund and lead author of the study. “With more affordable cost-sharing, Part E has the potential to reduce barriers to essential care for beneficiaries. Administrative costs can be lowered because Medicare’s administrative costs are just 2 percent—much lower than administrative costs for Medigap policies, which average at least 20 percent.”

In [\*Medicare Extra: A Comprehensive Benefits Option For Medicare Beneficiaries\*](#), Davis and co-authors Marilyn Moon of the American Institutes for Research (AIR), former Fund staff Barbara Cooper, and Cathy Schoen of the Fund, detail a proposal to allow traditional fee-for-service Medicare to offer a comprehensive benefits option. They estimate the cost of expanding traditional Medicare benefits compared to Medigap premiums, finding that Medicare Extra offers greater value for beneficiaries.

Because Medicare Extra has lower administrative costs, it would also provide employers with a more affordable alternative to current retiree health plans. There would be no additional costs to the federal budget because it would be financed by Part E premiums—

\$92 per month in 2004 compared with over \$115 per month for supplemental Medigap coverage.

Medicare Extra would provide better drug coverage than the new Part D drug benefit. Medicare Extra does not have a gap in drug coverage, and would include a \$3,000 cap on total out-of-pocket expenses, including prescription drugs. In contrast, under Part D beneficiaries must pay \$3,600 out-of-pocket before catastrophic coverage takes effect.

About half of Medicare Extra's improved benefit value represents an improvement in prescription drug coverage. The other half is from reduced cost-sharing for Parts A and B of \$583 annually.

The Part E proposal draws on the package of benefits generally featured in employer plans, particularly the Federal Employees Health Benefits Program (FEHBP). Beneficiaries now enrolled in Medigap plans would save a total of \$357 per year by enrolling in Part E. On average, supplemental premiums would drop from an estimated \$1,400 per year under Medigap to \$1,103 under Part E; typical out-of-pocket costs would drop from \$933 to \$873 a year. The authors' estimates of premiums and out-of-pocket spending are based on analysis of data from the 2000 Current Medicare Beneficiary Survey.

Another key advantage to Medicare Extra for employers would be that it offers an attractive alternative to private retiree benefits, which typically have administrative costs of 10 to 15 percent, and could help stem the erosion of retiree health benefits.

"As employers continue to struggle with the rising costs of providing health benefits to current and former employees, more of them might be induced to maintain retiree health benefits if they can purchase more affordable coverage," said Schoen, senior vice president at the Fund.

As an added benefit for beneficiaries who prefer to remain in traditional fee-for-service Medicare, the Part E option offers a single comprehensive package as an alternative to enrolling in a Medicare Advantage HMO.

To provide equitable access, Medicare Extra premiums could be made affordable for low-income beneficiaries through full or partial federal premium assistance for those with incomes under 150% of the federal poverty level. Potential savings from paying Medicare Advantage plans on par with fee-for-service Medicare could help finance premium subsidies.

Under Part E's cost sharing and benefit structure a single \$250-per-person deductible would replace the current deductibles for Parts A and B. Part B coinsurance would be reduced from 20% to 10%, and Part A coinsurance for hospitals would be eliminated. Home health and selected preventive care would continue to be exempt from coinsurance. There would be no deductible for prescription drugs, and an average coinsurance of 25% would be assessed with no gaps in coverage.

Part E would have somewhat less comprehensive hospital and physician coverage than Medigap plans. By imposing a \$250 overall deductible and a 10% coinsurance on physician services, beneficiaries who elect Part E and drop their Medigap supplemental policy will experience greater cost-sharing for hospital and physician services.

**The Commonwealth Fund is a private foundation supporting independent research on health and social issues.**