NEWS RELEASE

Embargoed for release:
12:01 a.m., Friday
May 19, 2006

For further information, contact:
Mary Mahon: (212) 606-3853 / mm@cmwf.org
cell phone (917) 225-2314
Bethanne Fox: (301) 576-3922,
bfox@burnesscommunications.com

Medicare Advantage Plans Not Always a Good Deal

Beneficiaries in Poor Health Can Pay from $1,359 to $7,522 Out-of-Pocket Annually Depending on MA Plan Selected

New York City, May 19, 2006—Beneficiaries in poor health can pay more out of pocket for care in Medicare Advantage (MA) managed care plans than in traditional Medicare with Medigap supplemental coverage, a new Commonwealth Fund report finds. The report says beneficiaries in poor health can spend up to $2,195 more in annual out-of-pocket costs for their care in 19 out of 88 plans than they would have in fee-for-service Medicare with Medigap supplemental coverage.

In *Medicare Beneficiary Out-of-Pocket Costs: Are Medicare Advantage Plans a Better Deal?* Brian Biles and Lauren Hersch Nicholas of George Washington University and the Fund's Stuart Guterman compared estimated out-of-pocket costs for 88 MA and Medigap F plans in 44 areas across the nation. They found costs for beneficiaries in good health lower in all 88 MA plans and, for those in fair health, all but two MA plans had lower costs than fee-for-service plans. But for beneficiaries in poor health, 19 of the 88 plans had higher out-of-pocket costs than they would have had in traditional Medicare with a Medigap supplement. The authors conclude that "the benefit packages offered by MA plans often result in substantial out-of-pocket costs for beneficiaries in poor health."

In the MA plan with the least financial protection, MA plan enrollees in poor health faced $7,522 in annual out-of-pocket costs, compared with $5,606 in traditional Medicare with a Medigap F plan, a difference of $1,916. In the MA plan with the best protection for enrollees in poor health, annual out-of-pocket costs were $1,359 in the MA plan compared with $5,984 in the traditional Medicare plus Medigap Plan F coverage.

As a result of policies enacted as part of the Medicare Modernization Act of 2003, Medicare paid MA plans an average of $800 extra per enrollee in 2005, to let MA plans improve their benefit package by lowering premiums and cost-sharing. The new study shows that, despite those richer benefits, many beneficiaries who are the highest users of health care services may still be at a disadvantage.

“These findings raise questions about what Medicare is achieving with extra payments to private Medicare Advantage plans, which totaled more than $2.7 billion in 2005 over fee-for-service costs,” said Fund President Karen Davis. “While the payments were designed to help improve benefit packages, the most vulnerable enrollees in MA plans are facing high cost burdens for their health care, leaving them at risk for not getting needed health care services. The extra payments provided to MA plans could be better targeted to protect the sickest beneficiaries.”

The authors offer several ways to address the current situation:

- Increase standardization of MA benefit packages to both protect beneficiaries in poor health and simplify and clarify the selection of plans for all Medicare beneficiaries.
- Conduct more research on risk adjustment and other mechanisms to reduce the incentive for plans to avoid beneficiaries in poor health.
- Limit the vulnerability of MA plan enrollees to substantial out-of-pocket costs by prohibiting excessive cost-sharing that creates a financial burden on enrollees in poor health.
- Suspend the annual MA lock-in plan for beneficiaries, which began in January 2006, until new protections are put in place.

The authors note that “if Medicare were to offer a true alternative to private coverage—such as a more comprehensive fee-for-service option—market forces could be expected to work more effectively, and beneficiaries could choose between comparable alternatives on an equal footing.”

The findings of the new report are being discussed at a Fund-sponsored Alliance for Health Reform briefing today at noon in Washington D.C.