NEWS RELEASE

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Extra Payments to Medicare Advantage Plans Totaled $5.2 Billion Over Fee-For-Service Costs in 2005

Eliminating Extra Payments Could Help Pay for Enhanced Benefits

New York, NY, November 30, 2006—Private Medicare Advantage (MA) plans were paid an average 12.4% more per enrollee in 2005 compared with what the same enrollees would have cost in the traditional Medicare fee-for-service program, according to a new report from The Commonwealth Fund.

In the report, Brian Biles of George Washington University and colleagues estimate that extra payments to MA plans amounted to $922 over fee-for-service costs for each of about 5.6 million Medicare beneficiaries enrolled in Medicare Advantage (MA) plans, for a total of more than $5.2 billion.

The bulk of these extra payments were mandated by the Medicare Modernization Act of 2003, which were intended to expand the role of private plans in Medicare.

"Medicare should carefully examine whether extra payments to Medicare Advantage plans are the best use of dollars for the beneficiaries the program is designed to serve," said Commonwealth Fund President Karen Davis. "These payments could instead be used to provide better benefits and reduce out-of-pocket costs for seniors and the disabled."

The authors of the report, *[The Cost of Privatization: Extra Payments to Medicare Advantage Plans—Updated and Revised](#)*, note that eliminating extra payments to private plans could save Medicare a projected $30 billion over five years. They point out that these funds could be used to:

- fill in the coverage gap, or doughnut hole, in the drug benefit;
- create a viable alternative to the ineffective sustainable growth rate mechanism currently used to determine the physician payment update; or
- reduce the increase in the Part B premium in 2007 by about $10 per month for each beneficiary.

"While encouraging enrollment in private plans was billed as a way to reduce costs for the program, Medicare Advantage in fact costs Medicare money because of the extra payments," said Biles, professor of health policy at George Washington University. "If traditional Medicare and private plans are ever to compete fairly, they need to compete on a level playing field, which would require the elimination of these extra payments."