



In the Literature

COMPARING MEDICARE AND PRIVATE INSURERS: GROWTH RATES IN SPENDING OVER THREE DECADES

**Cristina Boccuti
Marilyn Moon**

**Health Affairs
March/April 2003
22 (2): 230–37**

Copies of the full article are
available online at:

www.healthaffairs.org

For more information about this
study, please contact:

Cristina Boccuti
The Urban Institute
TEL 202-261-5256
E-MAIL cboccuti@ui.urban.org

or

Marilyn Moon
The Urban Institute
TEL 202-261-5691
E-MAIL mmoon@ui.urban.org

Commonwealth Fund Pub. #624

In the Literature presents brief summaries of Commonwealth Fund-supported research recently published in professional journals. To read or learn more about new publications as soon as they become available, visit www.cmwf.org and register to receive Commonwealth Fund e-mail alerts.

THE COMMONWEALTH FUND
ONE EAST 75TH STREET
NEW YORK, NY 10021-2692
TEL 212.606.3800
FAX 212.606.3500
E-MAIL cmwf@cmwf.org
<http://www.cmwf.org>

Over the past years, Medicare health care spending per beneficiary rose at a slower rate than private health insurance spending, according to a new study in *Health Affairs*. The analysis, which was conducted by Cristina Boccuti and Marilyn Moon of the Urban Institute with support from The Commonwealth Fund, reveals that per-enrollee Medicare spending grew at an average of 9.6 percent per year from 1970 to 2000—slower than the 11.1 percent average annual growth rate found for private health insurers. The authors say that Medicare’s long-term success in holding down spending is partly a result of its structured payment systems and regulatory controls.

In “Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades,” Boccuti and Moon argue that varying conclusions on spending growth reflect differences among the data sets and analytical tools used. They outline four measurement principles that should be used to draw comparisons, and then apply these principles to National Health Accounts data produced by the Centers for Medicare and Medicaid Services. This data set provides details about spending by service type and payment source, based on reported public spending and surveys of private sector health care providers.

First, Boccuti and Moon analyze cumulative spending in Medicare and private insurance over a 30-year period. This provides a more accurate comparison than short-term analysis, which can be distorted by annual fluctuations due to legislation enacted and cost-control mechanisms. Next, the authors compare per-enrollee costs,

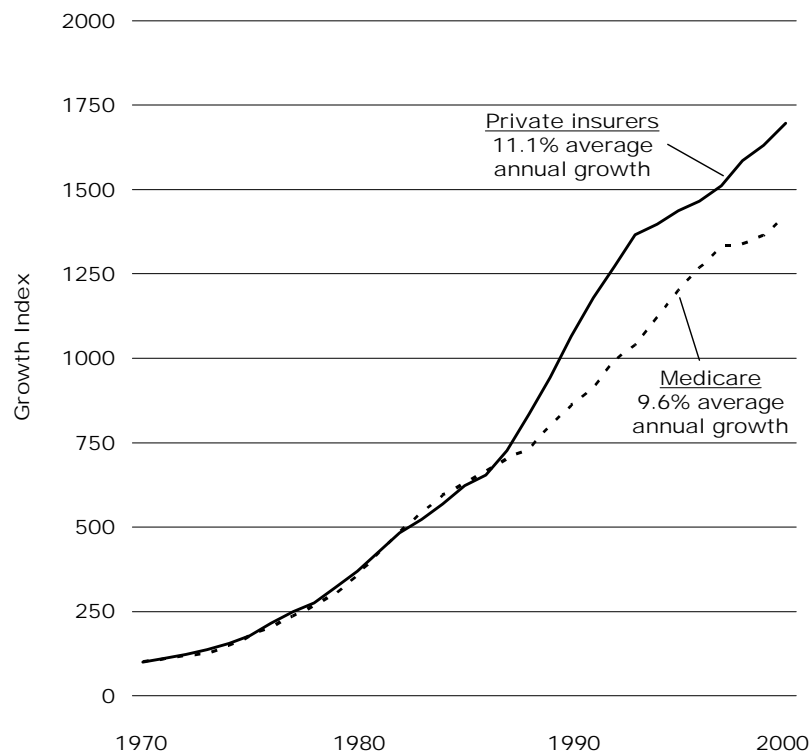
rather than overall spending, in order to account for a covered population’s growth or decline over time. This is important because the number of Medicare beneficiaries is growing more rapidly than the number of persons covered by private insurance. The authors find that over the years, the Medicare program has been more successful than private insurers at containing per-enrollee costs.

The third measurement principle used was the cumulative impact of spending, which shows the impact of cost containment efforts over time. Boccuti and Moon compare Medicare and private insurers’ cumulative growth in per enrollee payments for personal health care from 1970 to 2000. They find that, by 2000, the private insurers’ index was 44 percent higher than that for Medicare.

Medicare and private insurance plans have differing benefit packages, and use a different mix of services; for example, Medicare does not cover outpatient prescription drugs. In order to draw more meaningful comparisons, then, the authors also examine those services for which both Medicare and private insurance play a substantial role, particularly hospital and physician services. When comparing like services, they find that private insurance still experienced a higher cumulative growth rate per enrollee than Medicare over the 30-year period (Figure 1).

Many have argued that private sector market forces can more effectively contain costs than government-administered pricing mechanisms. However, according to this study, Medicare’s

Figure 1. Cumulative Growth in Per Enrollee Payments for Comparable Services, Medicare and Private Insurers, 1970–2000



Note: Comparable services include hospital care, physician and clinical services, durable medical equipment, and other professional services.

Source: C. Boccuti and M. Moon, "Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades," *Health Affairs* 22 (March/April 2003): 230–37.

long-term ability to control costs equals—and actually surpasses—that of insurers in the private sector on several measures of comparison.

Not only has Medicare been more successful than private insurers in controlling the growth rate of spending per enrollee, survey research shows that Medicare beneficiaries are generally more satisfied with their health care than are privately insured people under age 65.¹

These findings have important implications for the debate over Medicare reform proposals, particularly a possible prescription drug benefit. Medicare has been shielded from escalating costs of prescription drugs since the program has never had an outpatient drug benefit. The authors emphasize that any Medicare drug benefit should take advantage of Medicare's regulatory tools and track record as a purchaser able to contain costs.

¹ See Karen Davis, Cathy Schoen, Michelle Doty, and Katie Tenney, "Medicare Versus Private Insurance: Rhetoric and Reality," *Health Affairs* Web Exclusive, October 9, 2002.