



NEWS RELEASE

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EXTRA MEDICARE PAYMENTS FOR PRIVATE HEALTH PLANS TO TOTAL \$2.72 BILLION IN 2005

New York City, December 10, 2004—Private Medicare health plans—known as Medicare Advantage (MA) plans—will be paid 7.8% more per enrollee on average compared with average costs for fee-for-service Medicare beneficiaries in 2005, according to a new issue brief from The Commonwealth Fund.

In *[The Cost of Privatization: Extra Payments to Medicare Advantage Plans Update for 2005](#)*, Brian Biles of George Washington University, Lauren Hersch Nicholas of Columbia University, and Barbara S. Cooper of The Commonwealth Fund estimate that extra payments to MA plans amount to \$546 over fee-for-service costs for each of about five million Medicare beneficiaries enrolled in Medicare Advantage (MA) plans, a total of \$2.72 billion.

“We should be concerned about whether these extra payments to private plans are the best use of federal budget resources to improve affordability and access to services for all Medicare beneficiaries, particularly those with the greatest health care needs,” said Commonwealth Fund President Karen Davis.

Biles and his colleagues suggest that the \$2.72 billion in extra payments to MA plans could be distributed more equitably to improve benefits for all beneficiaries. Spread across all 42 million Medicare beneficiaries, this sum would be sufficient to reduce the 2005 increase in the Part B premium from \$11.60 per month, the largest increase in Medicare history, to \$6.30 per month. Reductions in the extra payments to MA plans in future years might also be used to reduce the Federal budget deficit.

“While giving private health plans a greater role in Medicare is often explained as a way to reduce Medicare spending in the long term, the extra payments to MA plans will increase Medicare’s costs by billions in 2005 and future years.” said Biles, professor of health policy at George Washington University. “Medicare policies now pay private plans more than the average costs of traditional fee-for-service in every county in the nation.”