



NEWS RELEASE

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Extra Payments to Private Fee-For-Service Medicare Advantage Plans to Total \$2.5 Billion in 2008

New Medicare Legislation Will Slow But Not Stop Overpayments Beginning in 2011

New York, NY, October 21, 2008—Private fee-for-service (PFFS) Medicare Advantage plans will be paid an average 16.6 percent more in 2008 compared to what the same enrollees would have cost in the traditional Medicare fee-for-service program, according to a new report from The Commonwealth Fund. Although Congress made significant revisions to policies that affect how PFFS plans operate in 2011 and thereafter, the legislation is expected to slow enrollment in PFFS plans but not stop the overpayment for each enrollee.

This study follows an [August 2008 report](#), which found that overall, private Medicare Advantage (MA) plans were paid 12.4 percent more per enrollee in 2008 compared to what the same enrollee would have cost in the traditional Medicare fee-for-service program, with total extra payments of \$8.5 billion in 2008.

In the new report, Brian Biles, professor of health policy at George Washington University, and colleagues estimate that extra payments to PFFS plans will amount to \$1,248 per beneficiary over traditional Medicare costs for each of about 2 million Medicare beneficiaries enrolled in PFFS plans, for a total of more than \$2.5 billion in 2008. Because they tend to locate in areas where MA payments are particularly high relative to costs in traditional Medicare, extra payments to PFFS plans are an average of five percent more than for other MA plans—equivalent to \$310 more per enrollee.

The bulk of these extra payments have resulted from rapid growth in PFFS enrollment—from 220,000 enrollees in December 2005 to nearly 2 million in February 2008. Additionally the number of health insurance firms offering Medicare PFFS plans grew from four firms in 2004 to 70 in 2008.

“The legislation passed this year does not adequately address the overpayment problem in private fee-for-service Medicare Advantage plans,” said Commonwealth Fund President Karen Davis. “While new requirements will eliminate some of the higher payments to plans and strengthen reporting requirements, we need to determine whether these plans are the best use of limited Medicare dollars.”

Created by the Balanced Budget Act of 1997, PFFS plans currently receive preferential treatment over other MA plans:

- Unlike other MA plans, PFFS plans are not required to have a contract or other network arrangement with physicians, hospitals and other providers. Instead, PFFS plans are allowed to pay providers with which they have no contracts at Medicare fee-for-service rates, called “deeming authority.”
- PFFS plans are currently exempt from quality reporting and disclosure requirements to which other plans are subject.
- PFFS plans are not subject to bid review or negotiation with Medicare.
- Providers treating PFFS plan enrollees may directly charge patients co-insurance of up to 15 percent more than the plan payment amount.

As a result, PFFS plans can aim their marketing at counties with levels of MA payments that are very high relative to costs in traditional fee-for-service Medicare, according to the authors of the report, [*Private Fee-for-Service Plans: Paying for Coordinated Care without the Coordination.*](#)

The new legislation will eliminate deeming authority and require PFFS plans in certain areas to offer provider networks in 2011. PFFS plans will also have the same reporting requirements as other MA plans. The Congressional Budget Office predicts that these new policies will reduce PFFS enrollment—but still estimates that about 40 percent more beneficiaries will be enrolled in these plans in 2013 than in 2008.

“The intention of the Medicare Advantage program was to save the program money through the use of private plans. Instead, these plans are costing Medicare billions in overpayments. And while some suggest that PFFS plans are important because of they are located in rural areas, PFFS enrollment and extra payments are heavily focused in urban areas,” said Biles. “If new Medicare legislation fails to address these issues, we will continue to see PFFS plan enrollment centered on high extra payment urban areas and Medicare spending billions of dollars that unnecessarily deplete Federal resources.”

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.