



**NEWS RELEASE**  
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## **Extra Payments to Medicare Advantage Plans to Total \$11.4 Billion in 2009, or More Than \$1,100 Per Enrollee**

*\$43 Billion In Extra Payments Have Been Made To Private  
Medicare Advantage Plans Since 2004*

New York, NY, May 4, 2009— Private Medicare Advantage (MA) plans will be paid \$11.4 billion more in 2009 than what the same beneficiaries would have cost in the traditional Medicare fee-for-service program, according to a new report released today by The Commonwealth Fund. This new analysis, *The Continuing Costs of Privatization: Extra Payments to Medicare Advantage Plans Jump to \$11.4 Billion in 2009*, estimates that since MA was enacted in 2004, \$43 billion in extra payments have been made.

In the report, Brian Biles, professor of health policy at George Washington University and colleagues find that extra payments to MA plans will amount to an average of \$1,138, or 13 percent over fee-for-service costs, for each of about 10 million Medicare beneficiaries enrolled in Medicare Advantage plans. The \$11.4 billion in extra payments in 2009 represents a 34 percent increase over 2008 payments, which totaled \$8.5 billion. According to authors, the steep one-year increase was due to the increase in payment rates and enrollment in the private MA plans.

The bulk of these extra payments were mandated by the Medicare Modernization Act of 2003, which was intended to expand the role of private plans in Medicare in an effort to reduce growth in Medicare spending. Since 2004, MA plan enrollment has increased from 4.8 million to the current 10 million.

“It is clear that private plans are continuing to substantially raise the cost of serving Medicare beneficiaries,” said Commonwealth Fund president Karen Davis. “Modifying these payments in 2010 is an excellent first step, but policymakers should examine whether or not these plans are the best use of Medicare dollars for the beneficiaries they were designed to serve.”

The Congressional Budget Office estimates that bringing MA payments in line with traditional fee-for-service Medicare would save \$157 billion over the next 10 years. Recent steps taken by the Centers for Medicare and Medicaid Services that reduce the payments made to private MA plans in 2010 do not address the factors responsible for the \$11.4 billion in extra payments, the authors say.

The authors note that funds saved by eliminating extra payments to private plans could be used for other purposes, such as offsetting the costs of Medicare policy improvements— including reducing the Part B premiums that Medicare beneficiaries pay or increasing eligibility for low-income subsidies in Medicare Part D— or offsetting part of the cost of expanding health insurance to the 47 million uninsured.

“Right now we are spending billions of dollars on extra payments for a limited group of Medicare beneficiaries,” said Biles. “These plans haven’t realized the cost savings they were initially intended to create, and the extra spending will continue to increase even with the new CMS payment policies in place in 2010. We have to ask ourselves if this is the best use of our health care dollars or if those dollars could be better spent improving Medicare benefits for all beneficiaries or expanding health insurance coverage.”

This report updates the analysis of Medicare Advantage spending published in the Commonwealth Fund report, *The Continuing Cost of Privatization: Extra Payments to Medicare Advantage Plans in 2008*, last fall. It uses the most recent data available on actual MA enrollment from February 2009.

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