



NEWS RELEASE

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PROPOSED “MEDICARE ESSENTIAL” PLAN ESTIMATED TO SAVE \$180 BILLION OVER 10 YEARS WHILE SIMPLIFYING BENEFITS AND LOWERING PREMIUMS AND OUT-OF-POCKET COSTS 17% TO 40%

Health Affairs Study Proposes Comprehensive Medicare Benefit; Rewarding Beneficiaries for Selecting High-Value Providers

New York, NY, May 6, 2013—Combining Medicare’s hospital, physician, and prescription drug coverage with commonly purchased private supplemental coverage into one health plan could produce national savings of \$180 billion over a decade while improving care for beneficiaries, according to a new study by researchers at The Johns Hopkins Bloomberg School of Public Health and The Commonwealth Fund published today in the May edition of *Health Affairs*. Under the proposed plan, called “Medicare Essential,” Medicare beneficiaries could save a total of \$63 billion between 2014 and 2023, with total premium and out-of-pocket costs for beneficiaries estimated to be 17 percent to 40 percent lower than current costs.

Private employers enrolled in retiree plans could save an estimated \$90 billion, while savings for state and local governments are projected to be \$27 billion over 10 years. The savings would come from simplifying administrative costs and rewarding the delivery of high-quality, high-value care.

In *Medicare Essential: An Option to Promote Better Care and Curb Spending Growth*, Karen Davis, Ph.D., director of the Roger C. Lipitz Center for Integrated Health Care at The Bloomberg School of Public Health, and Commonwealth Fund researchers Cathy Schoen and Stuart Guterman, detail their proposal for a new public insurance plan choice that would simplify Medicare and improve its efficiency. By offering a comprehensive set of benefits that includes medications and lower deductibles, the Medicare Essential plan would offer beneficiaries better financial protection, a limit on out-of-pocket spending, and the opportunity for additional savings in premiums and out-of-pocket expenses for those who select high-value health care providers and hospitals that are able to provide quality care while keeping down costs.

“This plan builds on traditional Medicare, which beneficiaries are more satisfied with than private coverage,” said Davis. “But Medicare is overly complex, and it fails to protect beneficiaries against high costs unless they buy supplemental coverage. Medicare Essential

would simplify and modernize Medicare for beneficiaries and help keep premiums and out-of-pocket costs reasonable.”

Health Care Improvements

As envisioned by the authors, Medicare Essential would create financial incentives for beneficiaries to select high-quality, cost-effective health care services—also known as value-based benefit design. Beneficiaries would be encouraged to choose a primary care physician and providers who meet standards of high value. Beneficiaries selecting such providers would pay lower deductibles and co-pays.

Beneficiaries who select lower-cost, higher-value providers would also benefit from enhancements like patient-centered medical homes, which offer around-the-clock access to a health care provider, stronger support for people with multiple chronic conditions, and help with coordinating the services provided by all the hospitals and specialists caring for a patient.

Financial Benefits

According to the article, Medicare Essential’s focus on high-value care and simplified design could substantially reduce spending for beneficiaries. Under Medicare’s current design, in 2014 a typical traditional Medicare beneficiary will spend an estimated \$427 a month on premiums for Medicare Parts B and D, supplemental private Medigap Plan F coverage, and out-of-pocket health care costs. Under Medicare Essential, beneficiaries would spend an average \$354 for the same services—a savings of 17 percent compared to current Medicare plus private supplemental insurance coverage. Those enrolled in Medicare Essential who use high-value providers would spend an estimated \$254 a month, for a savings of 40 percent.

Medicare Essential’s comprehensive benefits would substantially reduce the amount beneficiaries pay toward their Medicare plans and services and would feature an annual cap on out-of-pocket costs, which Medicare does not currently have. In addition, a single \$250 deductible would replace deductibles of \$1,156 for each hospital episode and \$140 annually for Part B services in effect in 2012. Prescription medications would be included among Medicare Essential’s comprehensive benefits with no deductible, and preventive care would be fully covered. Medicare Essential’s design would eliminate the need to buy expensive supplemental coverage.

According to the report, Medicare Essential would not add to the Federal budget deficit, because its enhanced benefits are financed by premiums, which would be substantially lower than current premiums for Medigap and drug coverage. The savings come partly from lower administrative costs compared to supplemental coverage purchased in the private insurance market, where administrative costs range from 10 percent to 20 percent, compared to 2 percent for traditional Medicare. As a result, total Medicare costs (premiums and cost-sharing) would be lower for

beneficiaries as well as for private employers who opt to buy Medicare Essential, rather than private supplemental coverage, for their retirees.

“As baby boomers reach retirement age, we need a high-quality, affordable, and sustainable Medicare program,” said Commonwealth Fund president David Blumenthal, M.D.

“Improvements we can make to Medicare now to pay for value, simplify and enhance benefits for consumers, and reduce administrative waste will protect Medicare and its beneficiaries far into the future.”

A summary of the article will be available at:

<http://www.commonwealthfund.org/Publications/In-the-Literature/2013/May/Medicare-Essential.aspx>.

The article abstract will be available at: <http://content.healthaffairs.org/content/32/5/900.abstract>.

Methodology

The study authors outlined an illustrative benefit design. Estimates of the potential 10-year impact on premiums and out-of-pocket costs are based on modeling conducted by the Actuarial Research Corporation (ARC). ARC compared projected costs to estimated costs for people enrolled in both traditional Medicare and supplemental private coverage, assuming the new Medicare Essential option would be available starting in 2014. The estimates examine monthly costs for premiums and out-of-pocket costs, as well as the 10-year impact on total spending and spending by major payer compared to current policy. The estimates assume that those choosing to enroll in private Medicare Advantage plans would continue to do so.

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