



In the Literature

MEDICARE EXTRA: A COMPREHENSIVE BENEFIT OPTION FOR MEDICARE BENEFICIARIES

Karen Davis, Ph.D.
Marilyn Moon, Ph.D.
Barbara S. Cooper
Cathy Schoen, M.S.

Health Affairs Web Exclusive
October 4, 2005
W5-442-W5-454

Full text is available at:
<http://content.healthaffairs.org/cgi/content/full/hlthaff.w5.442/DC1?ikey=XJQSX/G7qBsmM&keytype=ref&siteid=healthaff>

For more information about this study, contact:

Karen Davis, Ph.D.
President
The Commonwealth Fund
E-MAIL kd@cmwf.org

or
Mary Mahon
Public Information Officer
The Commonwealth Fund
TEL 212-606-3853
E-MAIL mm@cmwf.org

Commonwealth Fund Pub. #864
October 2005

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>

The Medicare Modernization Act represents the largest expansion of benefits in the program's history. But in adding outpatient prescription drug coverage to Medicare's benefit package, the law also fragmented coverage for many beneficiaries. Those beneficiaries wishing to remain in Medicare's traditional fee-for-service program now require three separate plans to secure comprehensive coverage: Medicare for basic hospital and physician services, a private drug plan for prescription drugs, and supplemental Medigap private insurance to help pay high out-of-pocket expenses and protect against catastrophic hospital and physician service costs.

One possible solution, some experts propose, is to offer beneficiaries a comprehensive benefit option that eliminates the need to purchase private drug plans or Medigap supplemental coverage. In "[Medicare Extra: A Comprehensive Benefit Option for Medicare Beneficiaries](#)" (*Health Affairs* Web Exclusive, Oct. 4, 2005), Commonwealth Fund president Karen Davis and colleagues explain how a new Medicare "Part E"—which they dub "Medicare Extra"—might alleviate the confusion surrounding the new Part D drug benefit, reduce beneficiary expenses, and potentially lower barriers to essential care.

For their proposal, Davis and coauthors Marilyn Moon, Barbara S. Cooper, and Cathy Schoen draw from the benefits typically available in employer-based health plans, particularly the Federal Employees Health Benefits Program. They estimate the premium cost of offering a comprehensive benefit option under traditional Medicare and then compare that with Medigap premiums. Their analysis also examines the advantages to beneficiaries and to the health system overall in value and efficiency improvements.

Keeping It Simple

Under Part E, covered benefits would be the same as those now currently covered by Medicare, but the cost-sharing structure would be different. A single \$250 deductible per person would replace the current Part A deductible of \$912 and Part B deductible of \$110. Part B coinsurance would be reduced from 20 percent to 10 percent, and Part A coinsurance for long hospital stays would be eliminated. Home health and selected preventive care would continue to be exempt from coinsurance.

Simplified drug coverage under Medicare Extra could help reduce confusion and eliminate the "doughnut hole," the authors say. Under Part E, there would be 25 percent coinsurance but no separate deductible for prescription drugs and no gaps in coverage. Beneficiaries would have a ceiling of \$3,000 on all out-of-pocket costs, including hospital, physician, and prescription drugs. In contrast, under Part D, beneficiaries will pay \$3,600 out-of-pocket before catastrophic coverage takes effect, and there is no catastrophic ceiling on expenses for hospital and physician services.

Part E would, however, have somewhat higher deductibles for hospital and physician coverage than Medigap plans. By imposing a \$250 overall deductible and a 10 percent coinsurance on physician services, beneficiaries who elect Part E and drop Medigap would experience somewhat greater cost-sharing for these services, but lower premiums.

Paying for Part E

Davis and her colleagues propose financing Part E primarily through beneficiary premiums—\$92 per month in 2004, compared with

over \$115 for supplemental Medigap coverage. Thus, there would be no additional costs to the federal budget. Administrative costs would be lower, too. Since most Medigap plans are sold on an individual basis, they incur high marketing and enrollments costs. These administrative expenses are at least 20 percent, compared with Medicare's 2 percent. According to the authors, an affordable option with lower costs for retiree coverage could encourage employers to maintain their retiree health plans, helping to stem the erosion in benefits that has occurred in recent years.

Beneficiaries currently enrolled in Medigap plans would save a total of \$357 per year by enrolling in Part E. On average, supplemental premiums would drop from an estimated \$1,400 per year under Medigap to \$1,103 under Part E; typical out-of-pocket costs would drop from \$933 to \$873 per year.

To provide equitable access for beneficiaries with low incomes, Part E premiums could be subsidized under the Medicare Savings Programs or through federal premium assistance, the authors say. These costs could be offset in part by savings achieved from paying private Medicare Advantage plans on par with fee-for-service Medicare, they explain, but additional federal funds would likely be needed.

Traditionally, Medicare beneficiaries have expressed consistently higher satisfaction with their coverage than have individuals in employer health plans. They are confident in their ability to access needed care, less likely to report negative experiences, and less likely to have problems paying medical bills. A comprehensive Part E benefit, say the authors, would build on this record and help beneficiaries get the benefits they want at a lower cost, with less confusion and complexity.

Facts and Figures

- Under Part E/Medicare Extra, beneficiaries' out-of-pocket outlays for all covered services, including hospital and physician services as well as prescription drugs, would be subject to a \$3,000 ceiling.
- Beneficiaries now enrolled in Medigap plans would save a total of \$357 per year by enrolling in Part E.
- Medicare Extra should be able to lower administrative costs. Administrative costs for Medigap policies average at least 20 percent, compared with Medicare's 2 percent.

Estimated Impact on a Typical Beneficiary Switching from Medigap Coverage to Proposed Medicare Extra Financed by a Budget-Neutral Premium

	Current law (with Medigap)	Medicare Extra	Net change
Total outlays for covered services	\$9,615 ^a	\$9,258 to \$9,308 ^b	-\$357 to -\$307
Paid by Medicare	\$6,170	\$6,170	\$0
Total cost to beneficiary	\$3,445	\$3,088 to \$3,137	-\$357 to -\$308
Out-of-pocket costs	\$933	\$873 to \$885	-\$60 to -\$48
Medigap premiums	\$1,400 ^a	— ^c	-\$1,400
Premiums for Parts B and D	\$1,112	\$1,112	\$0
Part E premium	— ^c	\$1,103 to \$1,140	\$1,103 to \$1,140

Note: Where a range is presented, higher value estimates indicate higher spending that might result if improved drug coverage encourages higher use of prescription drugs.

^a Includes an estimated 20% administrative expenses associated with Medigap plans.

^b Includes an estimated 2% administrative expenses associated with Medicare Extra.

^c Not applicable.

Source: K. Davis et al., "Medicare Extra: A Comprehensive Benefit Option for Medicare Beneficiaries," *Health Affairs* Web Exclusive (October 4, 2005): W5-442-W5-454. Reproduced with permission from the publisher.