FactSHEET

Private Plans: A Bad Choice for Medicare

The Bush Administration and Republican Congressional leaders want to privatize the Medicare program. Specifically, they want to induce seniors and people with disabilities to leave the traditional Medicare program and to enroll in private managed care plans. One way of achieving this is by providing disproportionate federal subsidies to private managed care plans so that they can offer better benefits, like prescription drugs, than traditional Medicare.

Senate Republican Conference Chair Rick Santorum most bluntly stated the privatization sentiment among Republican leaders: "I believe the standard benefit, the traditional Medicare program, has to be phased out."[1]

Today, however, seven out of eight people in Medicare receive their coverage through the traditional Medicare program, not through private managed care plans.[2] The traditional Medicare program is not only more popular, it serves seniors and disabled persons better. Privatizing Medicare would cause many beneficiaries to lose their choice of doctors; would cost considerably more; and would mean that health coverage is less available and less reliable.

Private plans are not a real choice in rural areas

- ***They are totally unavailable in most rural communities.*** Eighty (80) percent of the 9.3 million Medicare beneficiaries in rural counties live in areas that are not served by any Medicare managed care plan.[3]
- ***In rural areas that have a private plan, most Medicare beneficiaries have no choices.*** Only 15 percent of those living in rural areas have more than one plan available.[4]

Private plans pull out of Medicare markets, disrupting care for millions

- ***Many private plans have left the Medicare+Choice program.*** Between 1998 and 2003, the number of Medicare+Choice plans dropped by more than half.[5]
- ***Millions have been left stranded by private plan pullouts.*** Since 1999, more than 2 million Medicare beneficiaries have been forced to switch plans and doctors largely because their private plans decided Medicare was no longer profitable in their communities.[6]

Private plans often cause patients to lose their choice of doctors

- ***Unlike traditional Medicare, people enrolling in private managed care plans often lose their choice of doctors.*** If patients wish to choose a doctor not in their private health plan's network, they usually have to pay considerably more for the privilege to do so. In some private plans, their choice of doctors, hospitals, and other health providers is very limited.

Private plans do not control health care spending as well as Medicare

- ***Medicare's per capita spending growth has been lower than the growth in private plans.*** From 1970 to 2000, Medicare's average per capita annual growth in spending was 9.6 percent; for private plans, it was 11.1 percent.[7]

- ***Traditional Medicare is more cost-effective than the Medicare+Choice program's private plans.*** According to the General Accounting Office, in 1998, Medicare paid private plans 21 percent, or $5.2 billion, more than traditional Medicare would have paid for the same enrollees—largely because the private plans focus on enrolling healthier individuals.[8] Medicare+Choice accounts for 15 percent of the program's budget even though it serves only 11 percent of those in Medicare.[9]

Private plans are costing patients more and more

- ***Private plans have shifted increasing costs to patients.*** Out-of-pocket costs for those in Medicare+Choice nearly doubled from 1999 to 2002. In 1999, the average Medicare beneficiary in a private managed care plan paid $976 out-of-pocket; in 2002, that amount was $1,786, an increase of 83 percent.[10]

Private plans have higher administrative costs than traditional Medicare

- ***Medicare's administrative costs are low compared to private plans.*** Administrative costs—often an indicator of an organization's efficiency—in Medicare are 2 percent, compared to an average of 9.5 percent in private health plans.[11] These higher costs are partially attributable to advertising and marketing expenses, agents' fees, and corporate profits.

- ***Private plans provide huge compensation packages to top executives, contributing to high administrative costs.*** For example, in a review of executive compensation in leading publicly traded health plans with over 50,000 Medicare enrollees, the average compensation for the highest paid executive, not including stock options, exceeded $15 million in 2002.[12] The average value of unexercised stock options for the most highly compensated executive exceeded $65 million dollars.[13] By contrast, the chief executive responsible for the Medicare program had a salary of $130,000 in 2002.[14]

Private plans have not been a reliable source of drug coverage

- ***Fewer plans are offering drug coverage in Medicare+Choice.*** In 1999, 84 percent of those enrolled in Medicare+Choice had a basic drug benefit.[15] However, plans have significantly cut back, or even eliminated, drug benefits. In 1999, there were nine states with no private plans offering drug coverage; in 2002, that number had increased to 15.[16]

- ***Many of the plans that still cover drugs severely limit coverage.*** Sixty percent of Medicare+Choice plans that offer a drug benefit only cover generic drugs; many plans limit the annual drug benefit to $750 or less.[17]

Private plans fail the chronically ill and the disadvantaged

- ***Private managed care plans do not provide better health outcomes.*** Studies show that individuals with low-incomes or in poor health have better health outcomes in fee-for-service health care than in managed care; among seniors, those with low-incomes or in poor health fare better in traditional Medicare than in private managed care plans.[18]

Private plan enrollees are less satisfied and have more trouble getting care

- ***Beneficiaries in traditional Medicare are generally happier with their health care than younger adults with private insurance.*** In a survey of over 3,000 adults, those receiving health care through traditional Medicare were nearly three times more likely to rate their health insurance as "excellent" than adults with private insurance, such as employer-sponsored plans or the Federal Employees Health Benefits Program. Traditional Medicare beneficiaries were only one-third as likely to report problems obtaining care.[19]

- ***Medicare beneficiaries in traditional Medicare are more satisfied than those in managed care plans.*** Among Medicare beneficiaries, those in traditional Medicare report greater access to, and satisfaction with, their health care than those enrolled in private managed care plans.[20]

Private managed care plans are not popular with people on Medicare

- ***Traditional Medicare continues to serve 89 percent of those on Medicare.*** The Congressional Budget Office (CBO) originally projected that more than one-third of those in Medicare would enroll in private plans through Medicare+Choice by 2005. However, since 2000, enrollment in Medicare+Choice has declined by 27 percent to just 11 percent of those in Medicare. CBO now estimates that, by 2010, enrollment will shrink further, to only 8 percent of beneficiaries. The program's poor performance reflects private plans' unreliability and enrollees' dissatisfaction with services.

Endnotes

[1] Robert Pear and Robin Toner, "Bush Drug Proposal in Medicare Plan Faces a Stiff Battle," *New York Times*, May 21, 2003.

[2] Approximately 4.5 million Medicare beneficiaries, or 11 percent of the approximately 40 million people enrolled in Medicare, are enrolled in private managed care plans in the Medicare+Choice program; the remaining 89 percent receive care through the traditional fee-for-service Medicare program. Centers for Medicare and Medicaid Services, Medicare Eligibility, Enrollment, & Premiums, available online at (http://www.medicare.gov/Basics/Overview.asp); estimates for February 2003 Medicare+Choice enrollment are from Lori Achman and Marsha Gold, *Medicare +Choice Plans Continue to Shift More Costs to Enrollees* (New York: The Commonwealth Fund, April 2003).

[3] Amanda McCloskey, "Managed Care Plans Offer No Real Choice for Rural Medicare Beneficiaries" (Washington: Families USA, May 2003).

[4] Amanda McCloskey, op. cit.

[5] Kaiser Family Foundation, "Medicare+ Choice Fact Sheet," (Washington: Kaiser Family Foundation, April 2003).

[6] Debra Draper, et al., *The Role of National Firms in Medicare+Choice* (Washington: Kaiser Family Foundation, June 2002).

[7] Cristina Boccuti, Marilyn Moon, "Comparing Medicare and Private Insurers: Growth Rates in Spending Over Three Decades," *Health Affairs* 22, no. 2 (March/April 2003): 230-237.

[8] General Accounting Office, *Medicare+Choice Payments Exceed Cost of Fee-For-Service Benefits, Adding Billions to Spending*, GAO/HEHS-00-161 (Washington: GAO, August 2000).

[9] Scott Harrison, Presentation to the Senate Committee on Finance Staff, *The Medicare+Choice Payment System*, Medicare Payment Advisory Commission, March 7, 2003, available online at: (http://www.medpac.gov/publications/congressional_reports/MplusCpay_sys_SH.pdf).

[10] Marsha Gold and Lori Achman, *Average Out-of-Pocket Health Care Costs for Medicare+Choice Enrollees Increase Substantially in 2002* (New York: The Commonwealth Fund, November 2002).

[11] Committee on Ways and Means, U.S. House of Representatives, *Medicare and Health Care Chartbook 1997*, available online at (http://www.access.gpo.gov/congres/house/ways-and-means/sec3.pdf).

[12] Dee Mahan, *Top Dollar: CEO Compensation in Medicare's Private Insurance Plans*, forthcoming report on executive compensation in publicly traded managed care plans participating in Medicare+Choice program based on data drawn from SEC filings (Washington: Families USA Foundation, June 2003).

[13] Dee Mahan, op. cit.

[14] 2002 salary information for the Administrator of the Center for Medicare and Medicaid Services was obtained through the Office of Personnel Management.

[15] Kaiser Family Foundation, op. cit.

[16]Amanda McCloskey, *Failing America's Seniors: Private Health Plans Provide Inadequate Coverage* (Washington: Families USA, May 2002); Families USA calculations based on Medicare Compare database for 1999 and 2002. Data for 2002 are based on data available on April 1, 2002.

[17] Center for Medicare and Medicaid Services, "Distribution of Beneficiaries by Type of Drug Coverage in Basic Plans, 2001 Versus 2002, Enrollees Unaffected by Non-Renewals," in *Changes in Access and Benefits and in Medicare+Choice in 2002* (Washington: U.S. Department of Health and Human Services, 2002); Kaiser Family Foundation, op. cit.

[18] DG Safran, et al., *Health Outcomes in Traditional Medicare and Medicare HMOs: Equal for All?* presented at Academy Health's June 2002 conference; JE Ware, MS Bayliss, WP Rogers, "Differences in four-year health outcomes for elderly poor, chronically ill patients treated in HMO and fee-for-service systems," *JAMA* 276, no. 13 (October 2, 1996):1039-1047.

[19] Karen Davis, Cathy Schoen, Michelle Doty, and Katie Tenney, "Medicare Versus Private Insurance: Rhetoric and Reality," *Health Affairs* Web Exclusive, October 9, 2002.

[20] Marsha Gold, "Can Managed Care and Competition Control Medicare Costs?" *Health Affairs*, Web Exclusive, April 2003.

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