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MEDICARE ADVANTAGE: IMMEDIATE IMPROVEMENTS IN BENEFITS, PREMIUMS, AND COPAYMENTS

The Medicare Modernization Act (MMA) made many changes to the Medicare Program. Not only did it provide a prescription drug benefit, it transformed the Medicare+Choice (M+C) program into the Medicare Advantage (MA) program. Under MMA's improvements to the M+C program, which already offered some limited drug coverage, preventive benefits, and disease management programs that Medicare hasn't covered in the past, beneficiaries will have, for the first time, access to modern integrated health insurance plans, including preferred provider organization (PPO) plans with drug coverage like that available to Federal employees and many millions of Americans under 65.

While many changes in the Medicare Advantage program do not take effect until January 1, 2006, some immediate changes to payments for Medicare Advantage organizations are already improving access to health plan options and reducing costs and improving benefits for Medicare beneficiaries. The new legislation actually starts providing more funding to Medicare Advantage plans right away. This increased funding will make up for years of payment updates in Medicare that were behind the cost increases M+C organizations were facing, which in turn prompted many plans to drop out of the program. And, the new law requires these additional payments to be used to benefit enrollees.

Beneficiaries Get Savings

Studies show that enrollees in Medicare+Choice/Medicare Advantage plans not only receive more benefits than beneficiaries who have coverage in the traditional Medicare fee-for-service (FFS) program only, they pay less out of their own pockets to receive these benefits. A recent published report found that out-of-pocket payments for beneficiaries in Medicare Advantage plans are 34 percent less than out-of-pocket payments for beneficiaries with FFS Medicare. While out-of-pocket costs (including the Medicare Part B premium) for beneficiaries with FFS with no supplemental coverage average about $2,631 per year, the average for Medicare Advantage enrollees in 2003 was $1,964. Thus, on average, a beneficiary could expect to save about $56 a month as a Medicare Advantage enrollee.[1] And, with the MMA, further benefit improvements to reduce beneficiary costs have occurred.

Right now, about 3.7 million enrollees in Medicare Advantage plans are seeing improved benefits offered by their health plan because of these significant increases in federal payment rates. Premiums dropped for 1.9 million enrollees, and 2 million enrollees had a decline in cost sharing. And, some enrollees will benefit from more than one of these changes in their health plan. The enrollment-weighted average premium for Medicare

[1] (Marsha Gold and Lori Achman, "Average Out-of-Pocket Health Care Costs for Medicare+Choice Enrollees Increase 10 Percent in 2003," Commonwealth Fund Issue Brief #667, August 2003.)

Advantage plans dropped from $42 to $31 as a result of the improved payments. In addition, the percentage of enrollees that will receive some type of drug coverage increased from 78 percent to 80 percent.

Overall, 95 percent of the increased funding is being used to help beneficiaries, with:

- 31 percent being used to reduce enrollee premiums;
- 5 percent being used to reduce the amount enrollees pay for cost sharing and co-payments;
- 17 percent being used to enhance existing benefits; and,
- 42 percent of the additional funds are being used to strengthen provider networks and ensuring that beneficiaries continue to have more choices of physicians, specialists, and other health care providers.

Changing Payment Methodology for More Choices, Better Service

While providing immediate positive results for beneficiaries in the short-term, the increased funding also supports several longer-term goals for the Medicare Advantage program. The funds encourage stabilization of the program by not penalizing Medicare Advantage plans when their cost increases are less than in fee-for-service (FFS) Medicare, and pave the way for the arrival of a new managed care option for Medicare beneficiaries, regional preferred provider organizations (PPOs) in 2006. These increased payments, effective in 2004 and 2005, are the first step in a transition to a new competitive bidding methodology, to be implemented in 2006. In 2004, the MMA again linked managed care rates to local FFS costs.

For 2005 and succeeding years, the MMA changed the Medicare Advantage rate methodology so that the Medicare Advantage payment rate is based on the minimum percentage increase unless the 100 percent FFS rate is being rebased for that year. In these years, the rate is the higher of the two-either the 100 percent FFS rate or the minimum percentage increase. This new methodology works to ensure that payment rates in high cost areas remain on a level playing field with fee-for-service costs. These rate increases are greater than increases in years before enactment of the MMA, when annual rate updates were less than the cost increases faced by most health plans. Our impact analysis shows that the increased rates should not only decrease premiums and improve networks for those existing Medicare Advantage plans, but should also encourage Medicare Advantage plans to expand service areas, or for those M+C plans that dropped out of the market, to re-enter the program to provide beneficiaries with even greater choices of coverage.

Comments on the proposed regulations will be accepted until October 4, 2004. Comments should be submitted to the Centers for Medicare & Medicaid Services at www.cms.hhs.gov/regulations/ecommentsT