



Congress of the United States
House of Representatives
Washington, DC 20515

Health Insurance Reform Daily Mythbuster: Top Five Medicare Advantage Myths

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Health insurance reform opponents continue to spread myths about America's Affordable Health Choices Act, including saying that health reform will eliminate Medicare Advantage (MA) plans. America's Affordable Health Choices Act continues MA plans, but eliminates wasteful taxpayers' overpayments that increase private insurance company profits, not patient care.

Here are the Top Five Medicare Advantage Myths debunked:

MYTH: Medicare Advantage plans run by private insurance companies have been able to provide better value to U.S. taxpayers than traditional Medicare.

FACT: According to the nonpartisan Medicare Payment Advisory Commission, U.S. taxpayers pay 14 percent more on average to private Medicare Advantage plans to cover Medicare beneficiaries than it would cost traditional Medicare to cover them.

These overpayments to private insurers were created in the Medicare Modernization Act, which the Republican-controlled Congress passed in 2003 and President George W. Bush signed into law.

When the Medicare Advantage program was created, insurance companies said that they would offer coverage for less than it was costing the government under traditional Medicare to provide the same services. Today, this promise has been broken and the taxpayers are paying the price – these Medicare Advantage plans are receiving 14 percent more.

On average, this giveaway to private insurers costs an extra \$1,000 per enrollee. This adds up to an extra \$12 billion a year—and that cost is passed on to all Medicare beneficiaries.

The nonpartisan Medicare Payment Advisory Commission has recommended phasing out these overpayments to Medicare Advantage – which is what the America’s Affordable Health Choices Act does.

MYTH: The current system of Medicare Advantage plans, despite the overpayments, is a good investment for everyone – including America’s seniors.

FACT: Everyone pays the price for these overpayments – including the 77 percent of Medicare beneficiaries who are enrolled in traditional Medicare. According to the Chief Actuary for the Medicare program, seniors in traditional Medicare pay higher premiums to subsidize Medicare Advantage plans – a typical couple paying an additional \$90 a year.

The Chief Actuary has also stated that the overpayments to the Medicare Advantage program speeds up the depletion of the Medicare trust fund by 18 months and threatens the long-term solvency of Medicare.

MYTH: Enactment of the House health insurance reform bill will mean the elimination of private Medicare Advantage plans.

FACT: The House health insurance reform bill does not eliminate Medicare Advantage plans – instead, it simply phases out the overpayments going to these plans. Indeed, the Congressional Budget Office projects that most private Medicare Advantage plans would continue to operate, once the current overpayments are phased out.

MYTH: Enactment of the House health insurance reform bill will undermine Medicare Advantage plans and prevent them from offering good values for the seniors enrolled in the plans.

FACT: Under the House bill, Medicare Advantage plans that are able to operate efficiently and provide extra value to their enrollees through care coordination will continue to flourish. As AARP’s Executive Vice President of Policy John Rother has pointed out, “Gradually, eliminating these excess payments [to private Medicare Advantage plans] will permit good plans to continue and put pressure on others to offer better value to their enrollees... That’s what fair competition is supposed to do.”

Additionally, the House bill makes reforms to Medicare Advantage that will improve the coverage of care for seniors enrolled in those plans. As the Medicare Rights Center has pointed out, “[Currently,] enrollees in [Medicare Advantage plans] often end up with higher out-of-pocket costs and more coverage restrictions than they would under

traditional Medicare.” For example, some Medicare Advantage plans offer lower cost-sharing for prescription drugs and vision care but higher cost-sharing for services such as hospitalizations and home health services. As a result, a senior can end up spending more out-of-pocket under a Medicare Advantage plan, not less.

The House bill contains key provisions that limit cost-sharing requirements in Medicare Advantage plans to the amount charged for the same services in traditional Medicare coverage – which can end up saving seniors enrolled in certain Medicare Advantage plans thousands of dollars.

MYTH: Phasing out these subsidies to Medicare Advantage plans will undermine the economic viability of these plans.

FACT: The House bill phases out these overpayments to private Medicare Advantage plans at a time when the profits of the major health insurance companies are skyrocketing. Profits at 10 of the largest publicly traded health insurance companies increased 428 percent between 2000 and 2007 – rising from \$2.4 billion in 2000 to \$12.9 billion in 2007. And one of the sources of profits for many of these insurers is their Medicare Advantage plans.

Health care costs have surged in recent years, with premiums growing three times faster than wages. Shrinking competition among health insurance companies is a major cause of these spiraling costs. In the past 13 years more than 400 corporate mergers have involved health insurers. As a result, a small number of health insurance companies often dominate the local market. Specifically, currently, in the vast majority of states, the top two health insurers in the state control more than 50 percent of the market.

Partly as a result of all of the consolidation in the health insurance industry, profits of large health insurance companies have skyrocketed. Profits at 10 of the largest publicly traded health insurance companies increased 428 percent between 2000 and 2007 – rising from \$2.4 billion in 2000 to \$12.9 billion in 2007.

In many cases, the profits of major insurers are growing right along with their Medicare Advantage business. For example, today, UnitedHealth posted a bigger-than-expected 13 percent increase in third-quarter profits over a year earlier. Its profits grew despite a continued drop in commercial enrollees due to the recession. Indeed, since January, UnitedHealth has lost 1.6 million consumers served through its commercial plans. However, at the same time, its public-sector businesses have fared better, with growth in its Medicare Advantage plans. As MarketWatch (10/20/09) points out, “The company said Medicare, prescription and specialty programs all saw quarterly revenue growth, while UnitedHealth’s traditional health insurance revenues slipped \$347 million to stand at \$10.1 billion on enrollment declines.”