2016 MAKING ISSUES COUNT

MEDICARE: PREMIUM SUPPORT

PREMIUM SUPPORT IS A REFORM OPTION that has been proposed as a way to improve Medicare's financial condition. Currently, Medicare beneficiaries can choose to enroll either in the traditional fee-for-service (FFS) Medicare program or in a private Medicare Advantage (MA) plan. Under traditional Medicare, beneficiaries receive a specified benefit package, and pay a Part B premium. Medicare Advantage plans must cover the same benefits offered under FFS, but can also offer additional benefits, such as vision, hearing, or wellness coverage. MA enrollees also pay the Part B premium, but depending on the plan, might have to pay an extra premium. In some cases, the MA plan might pay part of the Part B premium.

Under a premium support approach, Medicare beneficiaries would receive a government contribution to apply toward the premium of a health plan of their choice, potentially with the traditional Medicare program being one of the choices. Beneficiaries who choose a plan with a premium greater than the government contribution would be responsible for paying the difference.

A premium support approach would limit the federal contribution toward Medicare, which could more directly foster competition between plans. This could encourage insurers to develop and beneficiaries to choose more cost-effective health plans. On the other hand, depending on how the government contribution is determined, premium support could simply shift costs to beneficiaries rather than reduce overall Medicare spending. Ensuring overall Medicare savings rather than just savings to the federal government may require that plans are structured to facilitate higher-quality care and more cost-effective health care payment and delivery systems.

Several details are important in determining how beneficiaries would fare and whether Medicare spending would be contained.

What Is the Government Contribution?

Options for setting the initial government contribution include setting it at the estimated average per-beneficiary cost under the current Medicare program or using competitive bidding to determine the amount (e.g.,

American Academy *of* Actuaries
Objective. Independent. Effective.

the lowest bid, a percentage of the average bid). Contributions could be set nationally or by region. Depending on the specific option chosen and premiums for plans offered, beneficiary premiums could be greater or less than what they would have paid under the current Medicare program.

Another question is how the government contribution would increase over time. Indexing the government contributions to general inflation or another index that doesn't keep pace with health spending growth could put pressure on insurance plans to contain costs. Yet, such a practice also could risk a greater share of Medicare costs being shifted to beneficiaries over time, either through higher premiums or higher cost sharing. Tying government contributions to plan bids could help prevent costs from being shifted to beneficiaries because bids would track better to changes in health spending.

Can Beneficiaries Keep Their Traditional FFS Medicare?

A premium support program could be structured such that the current FFS plan remains available to all Medicare beneficiaries, is available only to beneficiaries already enrolled in Medicare at the time premium support is implemented, or is eliminated. Retaining the FFS option for all current and future Medicare beneficiaries would provide greater continuity with the current program, but rules might be needed to ensure fair competition between FFS and the private plan options. Allowing only current Medicare enrollees to continue having the FFS option would mean that over time the FFS program would consist of older beneficiaries with higher per capita costs. That could have negative consequences for the financing of the program unless funds are shifted from other plans to reflect the higher-cost FFS population. Eliminating the FFS program altogether could have implications for the costs of the private plans, as the FFS program serves as a constraint on MA provider payment rates.

How Is the Benefit Package Defined?

Similar to the current requirement for MA plans, plans operating under a premium support structure could be required to provide at least the same benefits offered in traditional Medicare FFS. An alternative would allow for more leeway in designing benefit packages so innovative benefits and designs could be more quickly adopted. If more flexibility were allowed, it would also be important to ensure that such flexibility does not lead to adverse risk selection issues. Plans should not be allowed to use benefit design flexibility to attract only lower-cost enrollees or avoid higher-cost enrollees.

Are Low-Income Beneficiaries Financially Protected?

Low-income individuals can be more at risk for avoiding or delaying health care due to costs. Currently, many low-income Medicare beneficiaries receive premium subsidies, cost-sharing subsidies, or expanded benefits, funded and administered in part by state Medicaid programs. A premium support program could be structured to include such protections, however several complex issues would need to be resolved including how such protection would be funded, whether state-by-state variations in Medicaid coverage would be retained, and the how the plan bidding process would reflect these protections.

Additional Resources From the Academy

A Guide to Analyzing Medicare Premium Support READ MORE...