



November 29, 2008
Editorial

Medicare's Too Costly Private Plans

Private health insurance plans were supposed to bring better care and lower costs to elderly patients covered by Medicare. Instead they have increased the cost and complexity of the program without improving care, according to new analyses published by the respected journal Health Affairs. Congress clearly has more work to do to remove unjustified subsidies that prop up many of the most inefficient private plans.

Back in the 1980s, private plans — known as health maintenance organizations — were seen as a savior for Medicare. They could provide the same or better services as traditional fee-for-service Medicare, but because of managed care they could do it at a lower cost. Over the years Congress brought other, less managed private plans into Medicare, and in 2003 the Republican-dominated Congress substantially increased government payments to private plans.

Medicare currently pays the private plans — now called the Medicare Advantage program — 13 percent more on average than the same services would cost in the traditional fee-for-service program. Some of the added payments are used to provide extra benefits for enrollees, like reduced cost-sharing or reduced premiums for such extra benefits as vision and dental care.

The added value averages more than \$1,100 a year per patient. Not surprisingly, that makes them attractive to individuals and employers seeking coverage for retirees. It has fueled an explosive growth in enrollments. Almost a quarter of all Medicare beneficiaries, more than 10 million people, are enrolled in private plans.

The managed-care plans still arguably do a better job than traditional Medicare at coordinating care and eliminating duplicative services. Unfortunately, the fastest growth has occurred in private-fee-for-service plans, which do very little to coordinate care. They simply piggyback on the traditional Medicare program, relying on the same doctors and hospitals while using their subsidies to offer cost savings or extra benefits to enrollees.

As these plans have proliferated, Medicare's costs to cover the subsidies have risen — with the taxpayers and the beneficiaries in traditional Medicare picking up the tab. The many competing plans have also increased Medicare's bureaucratic burden and costs. And there is no sign that these plans provide better quality of care. Congress started this year to reduce the unjustified subsidies. But a lot more needs to be done. President-elect Barack Obama called during the campaign for eliminating the excessive subsidies and paying private plans only what it would cost to treat the same patients under traditional Medicare.

That would anger millions of enrollees as well as the insurance companies that use the subsidies to attract hordes of new customers. But it is only fair to treat all Medicare beneficiaries equally. Eliminating the subsidies could provide savings to help finance broader health care reform.