



## CUTTING OVERPAYMENTS TO PRIVATE MEDICARE PLANS CAN HELP FUND CHILDREN'S HEALTH COVERAGE

**T**he federal Medicare Program – which provides health services to seniors and persons with disabilities – pays private Medicare plans substantially more than it would to cost to treat the same beneficiaries in the traditional Medicare Program. Private Medicare plans in California received \$1 billion in overpayments in 2005.<sup>1</sup> Eliminating these overpayments could save more than \$50 billion over five years, which could be redirected to help expand coverage for millions of uninsured children when Congress reauthorizes the State Children's Health Insurance Program (SCHIP).

### Overpayments Are Substantial

Private plans were originally brought into the Medicare Program to reduce costs. However, on average, private Medicare plans – known as Medicare Advantage plans – now cost 12 percent more than the traditional Medicare Program to cover the same beneficiary, according to the Congressional Budget Office and the Medicare Payment Advisory Commission, Congress' expert advisory body on Medicare payments.<sup>2</sup> In 2005, private Medicare plans in California received \$1 billion in overpayments, accounting for nearly one-fifth (19.3 percent) of overpayments nationally, which totaled \$5.2 billion.<sup>3</sup> These additional payments, which the Medicare Modernization Act of 2003 increased and which the Congressional Budget Office expects to increase over time, fuel higher profits for health plans, pay for marketing and administrative costs, and support some additional benefits.<sup>4</sup>

Overpayments to private plans will cost an estimated \$54 billion over the next five years, and Congress could save \$149.1 billion over a 10-year period by eliminating the overpayments.<sup>5</sup> Since 2001, the Medicare Payment Advisory Commission has recommended reducing payments to private Medicare plans to level the playing field between those plans and traditional Medicare providers.<sup>6</sup>

### Many Medicare Beneficiaries in California Are in Private Plans

The magnitude of overpayments to private Medicare plans in California reflects the large number of Medicare beneficiaries enrolled in these plans. About 1.4 million Californians – nearly one-third (31.2 percent) of Medicare beneficiaries in the state – received coverage through private Medicare Advantage plans rather than traditional Medicare in 2005.<sup>7</sup> Approximately one-quarter (24.2 percent) of all Medicare Advantage enrollees in 2005 were in California. The substantial enrollment in private plans explains why so much of the aggregate overpayments occur in California.

### Overpayments Raise Medicare Premiums for Seniors

The overwhelming majority of seniors and persons with disabilities who receive health care services through traditional Medicare rather than through private plans must pay higher premiums because of the overpayments to private plans. Premiums that beneficiaries pay are tied to Medicare costs; since the overpayments drive up costs, Medicare beneficiaries face

higher premiums.<sup>8</sup> The state of California also faces higher costs due to the overpayments, since the state helps pay premiums for low-income seniors and persons with disabilities who are enrolled in both Medicare and Medicaid.

## Low-Income and Minority Beneficiaries Are More Likely to Receive Supplemental Coverage Through Medicaid, Not Private Plans

Many Medicare beneficiaries have additional health coverage to supplement the benefits Medicare provides or to help pay for Medicare premiums and copayments. Medicare beneficiaries who have very low incomes or are non-white are far more likely to receive supplemental coverage through Medicaid (Medi-Cal in California) than through private plans. Medicaid provides additional benefits and/or pays the premiums and copayments for nearly half (48 percent) of beneficiaries with very low incomes – below \$10,000 per year – while only 10 percent have supplemental coverage through a private Medicare plan.<sup>9</sup> In addition, higher shares of black, Latino, and Asian beneficiaries receive supplemental coverage through Medicaid than through private plans.

Despite claims that curbing overpayments would disproportionately harm low-income and minority beneficiaries,

such individuals are less likely to enroll in private health plans than are other beneficiaries.<sup>10</sup> In fact, the overpayments harm many beneficiaries – including minority beneficiaries – by increasing the premiums they pay. In addition, growing evidence suggests that some enrollees – particularly those with substantial health care needs – may be worse off in private plans than under traditional Medicare because they may have to pay more for high-cost services such as hospitalizations.<sup>11</sup> Private Medicare plans appear to charge more for or reduce the scope of these services as a way of discouraging sicker individuals from enrolling.<sup>12</sup>

## Congress Can Curb Overpayments to Fund Children's Coverage

Congress has an opportunity to reduce overpayments to private Medicare plans when it reauthorizes SCHIP. Both the House and the Senate will likely consider legislation in July to reauthorize SCHIP, which expires on September 30, 2007. Although Congress has included an additional \$50 billion over five years in its budget plan to expand children's health coverage, budget rules require that Congress either increase revenues or reduce spending to pay for the expansion. Savings from curbing the \$54 billion in overpayments to private plans could help provide the resources Congress needs to expand coverage to millions of uninsured children.

*David Carroll prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at [www.cbp.org](http://www.cbp.org).*

## ENDNOTES

- <sup>1</sup> Brian Biles, et al., *The Cost of Privatization: Extra Payments to Medicare Advantage Plans – Updated and Revised* (The Commonwealth Fund: November 2006).
- <sup>2</sup> See Peter R. Orszag, *The Medicare Advantage Program: Enrollment Trends and Budgetary Effects*, testimony before the Senate Committee on Finance (Congressional Budget Office: April 11, 2007) and Mark Miller, *The Medicare Advantage Program and MedPAC Recommendations*, testimony before the House Committee on the Budget (Medicare Payment Advisory Commission: June 28, 2007).
- <sup>3</sup> Brian Biles, et al., *The Cost of Privatization: Extra Payments to Medicare Advantage Plans – Updated and Revised* (The Commonwealth Fund: November 2006).
- <sup>4</sup> These additional benefits can include help in paying Medicare premiums and cost-sharing and some health benefits not covered by traditional Medicare. Edwin Park and Robert Greenstein, *Curbing Medicare Overpayments to Private Insurers Could Benefit Minorities and Help Expand Children’s Health Coverage* (Center on Budget and Policy Priorities: Revised May 14, 2007).
- <sup>5</sup> See Peter R. Orszag, *The Medicare Advantage Program: Enrollment Trends and Budgetary Effects*, testimony before the Senate Committee on Finance (Congressional Budget Office: April 11, 2007).
- <sup>6</sup> See Medicare Payment Advisory Commission, *Report to the Congress Promoting Greater Efficiency in Medicare* (June 2007).
- <sup>7</sup> Brian Biles, et al., *The Cost of Privatization: Extra Payments to Medicare Advantage Plans – Updated and Revised* (The Commonwealth Fund: November 2006).
- <sup>8</sup> Edwin Park and Robert Greenstein, *Curbing Medicare Overpayments to Private Insurers Could Benefit Minorities and Help Expand Children’s Health Coverage* (Center on Budget and Policy Priorities: Revised May 14, 2007).
- <sup>9</sup> Edwin Park and Robert Greenstein, *Low-Income and Minority Beneficiaries Do Not Rely Disproportionately on Medicare Advantage Plans Industry Campaign to Protect Billions in Overpayments Rests on Distortions* (Center on Budget and Policy Priorities: Revised April 12, 2007).
- <sup>10</sup> Edwin Park and Robert Greenstein, *Low-Income and Minority Beneficiaries Do Not Rely Disproportionately on Medicare Advantage Plans Industry Campaign to Protect Billions in Overpayments Rests on Distortions* (Center on Budget and Policy Priorities: Revised April 12, 2007).
- <sup>11</sup> Patricia Neuman, Sc.D., *Medicare Advantage: Key Issues and Implications for Beneficiaries*, testimony before the House Committee on the Budget (Kaiser Family Foundation: June 28, 2007) and Medicare Rights Center, *Too Good to Be True: The Fine Print in Medicare Private Health Plan Benefits* (April 2007).
- <sup>12</sup> Edwin Park and Robert Greenstein, *Curbing Medicare Overpayments to Private Insurers Could Benefit Minorities and Help Expand Children’s Health Coverage* (Center on Budget and Policy Priorities: Revised May 14, 2007).