

**BRIEF ANALYSIS**

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## Better Than Medicare

The Republicans have accomplished what no one in the Washington establishment contemplated when the Republican budget blueprint was adopted by Congress earlier this year. They have proposed a Medicare reform plan that actually offers the elderly a better system than Medicare, while still meeting the budget targets.

**The Proposed Reform: New Options for Seniors.** The essence of the plan is that it shifts power and control over Medicare dollars away from the government, the hospitals and the doctors to the elderly themselves. The key features of the plan are:

- Each senior would have the freedom to choose from a full range of private health plans, rather than remaining under traditional Medicare.
- Options include HMOs, Medical Savings Accounts (MSAs), traditional fee-for-service insurance, preferred provider networks, provider service networks (doctors and hospitals in an area organized to provide health coverage directly) and plans offered by associations such as AARP or unions or employers.
- Any senior could stay in the current Medicare system, forgoing the private options entirely.

**Rules for Private Sector Plans.** The private plans would be required to provide at least the same benefits as Medicare and to accept all seniors who choose them during an annual open enrollment period, regardless of health condition. Moreover:

- The amount the government pays to the private plans would vary, depending on the senior's age, geographic location and certain health factors; plans would get more for older and sicker enrollees and less for younger and healthier enrollees.

- If a chosen plan cost less than the government paid, the senior could keep the difference, up to the equivalent of the Medicare Part B premium, which will be around \$600 per person in 1996.
- The amounts the government would pay for these private options could grow no faster than the budget targets. Thus the targets would be automatically met to the extent that seniors chose the private options.

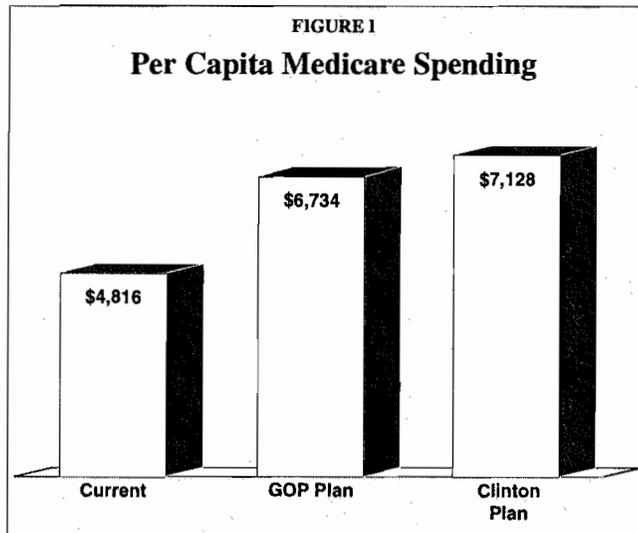
**Future Premiums.** Medicare premiums would be kept at their current level of 31.5 percent of costs for Medicare Part B. By 2002, premiums would be \$7 - \$10 per month higher than if they were only 25 percent of

Part B costs. Premiums would be raised substantially more for high-income retirees (couples with incomes over \$150,000 in the House plan, over \$100,000 in the Senate plan; singles with income over \$75,000 in either plan).

**Other Changes.** The House plan includes *no* increase in Medicare deductibles and copayments, even though Part B has a ridiculously low annual deductible of \$100. The Senate plan would increase this

deductible to \$150, then add \$10 per year up to \$210 in 2002. To offset higher costs for those who choose to stay in Medicare, expected increases in payments to doctors and hospitals would be reduced to the extent necessary to ensure that budget targets are met.

**Meeting Spending Targets.** Overall, these changes would reduce the rate of growth of Medicare from about 10 percent per year to 6.4 percent. This lower growth rate should be sufficient to cover benefits, since it is about the rate at which costs have been growing in private health plans. The reduced growth rate means Medicare would spend approximately \$270 billion less over the next seven years than it would have otherwise. But total Medicare spending would still grow sharply



over that time. By 2002, Medicare would be spending over 50 percent more than today. Medicare spending per retiree would grow by about 40 percent, from \$4,800 per person today to \$6,700 per person in 2002. [See Figure I.]

**Benefit of Reform: Better Coverage At a Lower Cost.** The key to this plan is that it would allow the elderly to take advantage of the incentives, competition, efficiencies and innovation of the private sector. Because of these factors, many of the private plans would be able to provide even better benefits than Medicare, while still staying within the budget targets.

For example, Milliman & Robertson, the nation's top actuarial firm, recently found that the private sector could offer retirees an MSA plan with full fee-for-service insurance coverage for all expenses over \$3,000 per year and deposit \$1,500 in the MSA to pay for expenses below the deductible. Or it could offer an MSA plan that provides managed care for all expenses over \$3,000, with \$2,100 deposited in the MSA.

Experience with HMOs and other managed care options shows that they can provide better benefits than Medicare as well, while also staying within the budget limits. They will likely be able to add catastrophic coverage and prescription drugs to the Medicare benefit package.

**Benefit of Reform: Genuine Catastrophic Insurance.** The fee-for-service MSA provides a maximum cap on out-of-pocket expenses of \$1,500 per year (the difference between the \$3,000 deductible and the \$1,500 in the MSA). The managed care MSA provides for an out-of-pocket cap of \$900 per year (the difference between the \$3,000 deductible and the \$2,100 MSA). By contrast, Medicare has no cap on out-of-pocket expenses. Because seniors can be liable for tens of thousands in expenses, 70 percent of them will pay almost \$1,200 next year, on the average, for private insurance to

supplement Medicare. With the MSA, the elderly could keep that \$1,200 per year. Or they could put it in the MSA, in effect eliminating any future out-of-pocket expenses.

**Benefit of Reforms: Rewards for Eliminating Waste.** Unspent funds in the MSA at the end of the year would belong to the retiree and could be saved for future expenses or withdrawn for any purpose, subject to certain minimum balance requirements in the House bill. This would allow the elderly to share directly in the reward for controlling health costs.

**Benefit of Reform: Access to High-Quality Care.** MSAs would not be subject to the payment and reimbursement limitations of Medicare or to Medicare's outdated limitations on new services and treatments. These limitations and controls are reducing access to care and quality of care for the elderly. Currently, some doctors refuse to see Medicare patients because payment rates are so low.

**Summary.** Seniors could get better benefits for the same money from a range of private plans. They could benefit directly from controlling costs through cash rebates from the MSAs and other private plans. They could gain control over their health care dollars and avoid limits on access to care that are increasing under Medicare. They would have the freedom to choose the health plan best suited to their needs and preferences, including plans that allow choice of doctors, hospitals, treatments and services. The Medicare financing crisis would be averted for today's retirees, while except for the highest-income retirees premiums would increase no faster than they have in the past.

*This Brief Analysis was prepared by NCPA Senior Fellow Peter J. Ferrara.*

