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Obamacare and Medicare Advantage Cuts: Undermining Seniors' Coverage Options

James C. Capretta

Medicare Advantage (MA) plans are private insurance options available to Medicare beneficiaries. The Patient Protection and Affordable Care Act (PPACA)[1] cuts deeply into the projected payments to MA plans. Millions of Medicare beneficiaries enrolled in MA plans, or who would have been enrolled if not for the cuts, will experience very substantial reductions in the value of health care services provided to them by the Medicare program.

Summary. PPACA[2] cuts payments to MA plans in two ways. First, in Section 3201, the new law modifies the formula for making payments to MA plans by tying maximum rates to measured fee-for-service (FFS) costs in a county. Second, the new law cuts payments made by FFS to hospitals and other providers of medical services, and these cuts are automatically passed through to MA in the form of even lower maximum MA rates.

The cuts in MA begin in 2011 with a freeze in plan payment rates at their 2010 levels. Then, beginning in 2012, the law will implement a new formula for paying MA plans by tying payment "benchmarks"—or the maximum rate an MA plan can be paid in a county—directly to the average per-beneficiary spending under the FFS program as measured by the Medicare actuaries. To set the new benchmarks, the law requires that all counties and similar jurisdictions in the U.S. be ranked in order of their average FFS spending and divided into quartiles based on these rankings.

Counties with the highest FFS spending will receive benchmarks set at 95 percent of measured FFS spending, counties in the second-highest quartile will receive 100 percent of FFS costs, counties in the third-highest quartile will receive 107.5 percent of FFS costs, and counties in the lowest quartile will have benchmarks equal to 115 percent of measured FFS costs. These new benchmarks are scheduled to be phased in from 2012 to 2017.

Impact. These MA plan cuts will disrupt Medicare coverage for millions of seniors.[3]

Cuts Passed on to Seniors. On a dollar basis, the average nationwide cut in services provided to MA enrollees, or to those who would have been enrolled in MA if not for the cuts, will total $3,700 per beneficiary in 2017, or nearly 27 percent below what would have been provided under prior law. This reduction is from the combined effect of the MA formula changes and the pass-through effect of FFS cuts. When just the effect of the MA payment formula is considered, the average per-beneficiary reduction in 2017 will be about 13 percent, or $1,800.

The aggregate cut will reach nearly $55 billion annually in 2017 from the combined effect of the MA formula changes and the pass-through effect of FFS cuts. The MA formula changes alone will cut

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the value of services provided to MA and would-be MA enrollees by $27 billion annually in 2017.

Higher Premiums and Fewer Benefits. These deep cuts will force participating MA plans to raise their premiums, increase their deductibles and co-payments, and eliminate some coverage for things like preventive services that are not covered by Medicare and vision and dental care. Some plans may have to exit markets entirely because of these cuts. Medicare's Chief Actuary estimates that MA enrollment would have reached 14.8 million in 2017 under prior law but will now fall to 7.4 million. Thus, PPACA's MA cuts will cause a reduction of 50 percent in MA enrollment.

Low-Income and Minority Seniors Hit Hardest. The deep reductions in MA payment rates and services covered will hit low-income and minority seniors disproportionately hard. Hispanic Americans are twice as likely to be enrolled in MA plans as is the average Medicare beneficiary; African Americans are 10 percent more likely. Almost 300,000 Hispanics and over 800,000 African Americans will lose access to MA. MA and would-be MA enrollees with incomes under $30,000 per year will lose a total of $38.5 billion in health care services from PPACA cuts.

Seniors Forced Back into Poorly Performing Traditional Medicare. Large reductions in MA will force a mass migration back into the traditional FFS program, which is the source of many problems observed in American health care. Medicare FFS provides strong incentives for fragmented care that is poorly coordinated across institutions and provider settings. The result is an emphasis on volume instead of quality care for patients. Moreover, downsizing the role of MA plans will make it more difficult to pursue the kinds of structural changes that are needed to ensure that Medicare can be financially sustained over the long term.

A New Direction. Reductions in Medicare Advantage plans will reduce seniors' access to quality health care by limiting the health care plan options currently available to them. Instead, Congress should consider Medicare reform based on the principles of consumer choice and competition.

In the late 1990s, the bipartisan leadership of a Medicare commission recommended reforming the program so that private insurance options and the traditional FFS option would compete on a level playing field. Both types of plans would submit bids for covering Medicare enrollees in a region, and the weighted average of those bids would become the basis for Medicare's payment rate in that region, including for enrollees in the FFS option. Some version of this reform should be considered by Congress as the foundation for a sustainable Medicare program.[4]

*—**James C. Capretta** is a Fellow at the Ethics and Public Policy Center.*

1. Congress cannot build sound market-based health care reform on the foundation of a flawed health care law. Therefore, the health care law must be repealed in its entirety.

   The House of Representatives has taken a major step towards full repeal of the Patient Protection and Affordable Care Act (PPACA—otherwise known as "Obamacare"). Until full repeal occurs, Congress must continue to focus on the core failures and consequences of PPACA and block its implementation to allow time to achieve repeal and lay the groundwork for a new market-based direction for health care reform.
2. Patient Protection and Affordable Care Act of 2010, Public Law 111–148, and Health Care and Education Reconciliation Act of 2010, Public Law 111–152.
3. Robert A. Book and James C. Capretta, "Reductions in Medicare Advantage Payments: The Impact on Seniors by Region," Heritage Foundation *Backgrounder* No. 2464, September 14, 2010, at *http://www.heritage.org/Research/Reports/2010/09/Reductions-in-Medicare-Advantage-Payments-The-Impact-on-Seniors-by-Region.*
4. Robert E. Moffit and James C. Capretta, "How to Fix Medicare: A New Vision for a Better Program," Heritage Foundation *Backgrounder* No. 2500, December 13, 2010, at *http://www.heritage.org/Research/Reports/2010/12/How-to-Fix-Medicare-A-New-Vision-for-a-Better-Program.*

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