

Medicare beneficiaries overspend by hundreds, research finds

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Medicare beneficiaries are overpaying by hundreds of dollars annually because of difficulties selecting the ideal prescription drug plan for their medical needs, an investigation by University of Pittsburgh Graduate School of Public Health researchers reveals.

Only 5.2 percent of beneficiaries chose the least-expensive Medicare prescription drug benefit (Part D) plan that satisfied their medical needs in 2009, overspending on Part D premiums and prescription drugs by an average of \$368 a year. The evaluation, published in the October issue of the journal *Health Affairs*, takes a national look at how well beneficiaries were making plan choices in the fourth year of the Medicare Part D program and could help guide changes to [health insurance](#) programs.

"People need assistance in choosing the least expensive plan for their medical needs," said lead author Chao Zhou, Ph.D., a post-doctoral associate at Pitt Public Health. "Educational programs that help people navigate the dozens of plans available would make it easier to select plans that best meet their health care needs without overspending."

"In particular, government officials could recommend the three most appropriate Part D plans for each person, based on their medication history," said co-author Yuting Zhang, Ph.D., associate professor of health economics at Pitt Public Health. "Alternatively, they could assign beneficiaries to the best plan for them based on their medication needs, while offering them the option to choose another plan instead."

The results of this study could be useful in designing health insurance exchanges, which are state-regulated organizations created under [health care reform](#) to offer standardized health care plans.

"In designing health insurance exchanges, models with more active assistance would be more helpful than models with large numbers of plans and information," Dr. Zhang said. "For example, health insurance exchanges could actively screen plans on quality and negotiate premiums to reduce the number of plans."

Implemented in 2006, Part D cost the federal government \$65.8 billion in 2011, according to the Congressional Budget Office.

The researchers looked at the difference in a patient's total spending, including the plan premium and out-of-pocket payment for the prescriptions filled, between the plan the patient chose and the cheapest alternative option in the region that would satisfy the patient's medication needs. The study looked at data for 412,712 people, with an average age of 75.

Beneficiaries tend to overprotect themselves by purchasing plans with more generous features, such as generic drug coverage in the coverage gap.

A few other trends emerged: As beneficiaries aged, they increasingly chose more expensive plans, with people older than 85 overspending by \$30 more than people 65 to 69 years old. Blacks, Hispanics and Native Americans chose less expensive plans than whites.

People with common medical conditions, such as diabetes and chronic heart failure, were not significantly more likely to choose more expensive plans. People with cognitive deficits or mental health issues, such as Alzheimer's disease, tended to choose less expensive plans,

spending an average of \$10 less than those without such conditions. The researchers could not determine if those people had assistance from caregivers.

As the number of plan options increased in a region, the amount of overspending increased by \$3.20 for every additional plan available.

"A previous study showed that in 2006, beneficiaries could have saved nearly 31 percent of their total drug spending by switching to the lowest cost plan," Dr. Zhou said. "Since our results are similar, this suggests people are not learning to reduce overspending."

One possible explanation for these consistent results over time is the impact of inertia and bias toward maintaining the status quo, she noted.

"When Medicare Part D started in 2006, the majority of beneficiaries did not choose the least expensive plan," Dr. Zhou said. "Over time, they may have simply stuck to their original plan and never switched to a better one. Beneficiaries might not spend much time researching and adjusting their plan choices based on changes in their medication needs and in plan options."

Findings from the private [health](#) insurance market support the authors' conclusion that people keep their current plan instead of spending time researching and optimizing their plan choices based on their insurance use and prescription spending in the previous year.

Provided by University of Pittsburgh Schools of the Health Sciences

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