

Private insurers' Medicare Advantage plans cost Medicare an extra \$34.1 billion in 2012

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A study published online today finds that the private insurance companies that participate in Medicare under the Medicare Advantage program and its predecessors have cost the publicly funded program for the elderly and disabled an extra \$282.6 billion since 1985, most of it over the past eight years. In 2012 alone, private insurers were overpaid \$34.1 billion.

That's wasted money that should have been spent on improving patient care, shoring up Medicare's trust fund or reducing the federal deficit, the researchers say.

The findings appear in an article published in the *International Journal of Health Services* by Drs. Ida Hellander, Steffie Woolhandler and David Himmelstein titled "Medicare overpayments to private [plans](#), 1985-2012: Shifting seniors to private plans has already cost Medicare US\$282.6 billion."

Hellander is policy director at Physicians for a National Health Program (PNHP), a nonprofit research and [advocacy group](#). Woolhandler and Himmelstein are professors at the City University of New York School of Public Health, visiting professors at Harvard Medical School and co-founders of PNHP.

Medicare has contracted with private insurance plans – previously referred to as Medicare HMOs and now called [Medicare Advantage plans](#) – since 1985. Such plans, most of them for-profit, currently cover

about 27 percent of Medicare enrollees and have been growing at a fast clip. UnitedHealth and Humana are among the largest players in this market, and together operate about one-third of such plans.

Medicare pays these privately run plans a set "premium" per enrollee for hospital and physician services (averaging \$10,123 in 2012) based on a prediction of how costly the enrollee's care will be.

The authors find that private insurers have four strategies that make them more costly than the traditional Medicare program.

1. Private plans cherry-pick healthier beneficiaries who cost less to care for, guaranteeing large profits. Although private plans must accept all seniors who choose to enroll, they cherry-pick by selectively recruiting the healthiest seniors through advertising, office location, etc. They also induce sicker ones to disenroll by making expensive care inconvenient.
2. They recruit otherwise healthy seniors with very mild (and inexpensive) cases of sometimes serious conditions – automatically triggering higher premiums for these beneficiaries from the risk-adjustment scheme implemented in 2004, but escaping payments for expensive care. For instance, many seniors have very mild cases of arthritis, heart failure and bronchitis that require little or no treatment.
3. They enroll patients who get most of their care free at the Veteran's Administration.
4. They heavily lobby Congress to raise their reimbursement. The insurance industry successfully induced Congress and the Bush administration to add bonus payments to Medicare Advantage premiums beginning in 2003.

Since the study was completed, the industry has again successfully

lobbied the administration to raise payments to Medicare Advantage plans, reversing a planned cut of 2.2 percent in reimbursement rates and instead obtaining a 3.3 percent increase. Stock prices of private insurers soared over the announcement.

"We've long known that Medicare has been paying private insurers more than if their enrollees had stayed in traditional fee-for-service Medicare, but no one had added up the total extra cost to the taxpayer since contracting with private insurers began 27 years ago," said Dr. Ida Hellander, lead author of the study. "Nor has anyone systematically examined the many ways that private insurers have gamed the system to maximize their bottom line at taxpayers' expense."

"In 2012 alone, [private insurers](#) are being overpaid \$34.1 billion, or \$2,526 per Medicare Advantage enrollee," Hellander said.

Co-author Dr. Steffie Woolhandler said: "It's clear that having Medicare Advantage programs compete with Medicare doesn't save us money. In fact the opposite is the case. The [private plans](#) only add waste, and the aggregate waste is staggering – enough to be a significant drag on the economy.

"It's time we look to proven, cost-effective ways of providing high-quality care to Medicare's beneficiaries and to the entire population," Woolhandler said. "That means taking a fresh look at the single-payer model of reform."

More information: "Medicare overpayments to private plans, 1985-2012: Shifting seniors to private plans has already cost Medicare US\$282.6 billion." Ida Hellander, M.D., Steffie Woolhandler, M.D., M.P.H., David U. Himmelstein, M.D. *International Journal of Health Services*, May 10, 2013 (online first), Vol. 43, No. 2. [DOI: 10.2190/HS.43.2.g](#)

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