

Overpayments to Medicare Advantage plans could exceed \$75 billion in 2023

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Enrollment in the Medicare Advantage program—which allows Medicare beneficiaries to get their health care through plans administered by private insurance companies—has been growing so

rapidly that it has recently surpassed enrollment in traditional Medicare. A new analysis by USC researchers warns that overpayments to Medicare Advantage plans now exceed 20 percent or \$75 billion annually, underscoring the urgent need for reform.

Researchers with the USC Schaeffer Center for Health Policy & Economics found that the millions of beneficiaries in traditional Medicare who have switched to Medicare Advantage plans have lower spending than those with similar health risks who remain.

They report this pattern of favorable selection more than doubles prior overpayment estimates made by the Medicare Payment Advisory Commission (MedPAC), which reflected aggressive coding of enrollee health conditions plus certain easily-achieved bonus payments related to quality—but did not include favorable selection.

The Centers for Medicare and Medicaid Services (CMS) sets Medicare Advantage payments based on county-level expenditures derived from claims data for those remaining in traditional Medicare, not data from Medicare Advantage expenditures—a payment mechanism that is fueling concern.

"The current Medicare Advantage payment structure results in overpayments markedly higher than previously understood," says Paul Ginsburg, senior fellow at the USC Schaeffer Center and professor of the practice at the USC Price School of Public Policy. "Our analysis highlights how Medicare Advantage currently operates and the need to reform how the plans are paid."

Medicare Advantage plan enrollment surpassing traditional Medicare

Medicare Advantage has experienced substantial growth, with more than half of Medicare beneficiaries opting for the [private insurance](#) plans over the traditional program, in which CMS acts as the insurer, processing claims and reimbursing most providers directly. With Medicare Advantage, CMS transfers risk to private insurers, which receive a fixed monthly capitation amount per beneficiary. Medicare Advantage plans earn profit or incur loss based on enrollees' healthcare service utilization.

MedPAC estimates that Medicare Advantage plans will be overpaid by \$27 billion (6%) in 2023, primarily due to coding differences (\$23 billion) and excessive Star Rating (quality) bonuses. However, this estimate does not include the effects of differences in spending between those who enroll in Medicare Advantage and those who remain in traditional Medicare.

The researchers found that Medicare Advantage beneficiaries had significantly lower expenditures than those remaining in traditional Medicare with similar risk factors. In 2020, 46.9% (11.3 million) of Medicare Advantage enrollees had switched from traditional Medicare in 2006-2019; just counting the 29.5% (7.1 million) who switched to MA in 2015-2019, payments to plans for these beneficiaries were twice their expected expenditures.

"The skewed distribution of expenditures and the consistent trend of beneficiaries with below-average spending choosing Medicare Advantage plans have significant financial implications and are adding to the fiscal strain on the Medicare system," says Steven Lieberman, a nonresident senior fellow at the USC Schaeffer Center.

"Reform options must strive to improve the relationship between FFS expenditures and Medicare Advantage payments. Another option is to delink Medicare Advantage payments from FFS as the current rate

setting system grows increasingly unreliable and problematic."

Improving accuracy of Medicare Advantage rate setting

The researchers point to two key strategies to improve rate setting:

- Reform the current payment approach linking plan rates to average spending by traditional Medicare beneficiaries. This could include measures to reduce the impact of aggressive coding by plans and mandating new data reporting requirements for Medicare Advantage plans to improve accuracy, completeness, and comparability of the data to make it akin to claims data in traditional Medicare.
- Abandon the current approach and institute competitive bidding by Medicare Advantage plans. This option could use [market forces](#) to determine what Medicare pays Medicare Advantage plans with the aim of capturing efficiency gains for taxpayers instead of higher benefits or profits for Medicare Advantage plans.

"Regardless of which approach is chosen, policymakers should proceed with a solution to shore up the fiscal solvency of the Medicare Trust Fund and the impact on overall federal budget deficits," notes Ginsburg.

Without reform, the researchers concluded that overpayments to Medicare Advantage plans will only increase, costing tens of billions in federal healthcare spending and threatening the long-term viability of the Medicare program.

The study authors provide additional perspective in *Health Affairs Forefront*.

More information: Steven M. Lieberman et al, Favorable Selection Ups The Ante On Medicare Advantage Payment Reform, *Health Affairs Forefront* (2023). [DOI: 10.1377/forefront.20230606.520135](https://doi.org/10.1377/forefront.20230606.520135)

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