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Fed Report Cites Private Plans for Higher Medicare Costs

WASHINGTON 04/09/2004 (BestWire)-For the second time since the Medicare program was revamped to provide more money to private health plans, a nonpartisan government report says that private Medicare plans are costing more than traditional, fee-for-service Medicare.

In a report issued the week of March 5, the federal Medicare Payment Advisory Commission says that managed-care plans cost an average of 107% of what regular Medicare does to treat the same patients, or 7% more. In nearly a third of the country, payments to health-maintenance organizations and other managed-care plans are 20% or more higher than payments to Medicare.

In fighting against the higher Medicare payments to insurers last year, Democrats argued that HMOs will always cost more than Medicare. Some Democrats hammered away at that again after the report's release.

"Time and again, objective analysis shows that HMOs and private plans cost Medicare more. The bottom line is that no private company can offer the same benefits for less than Medicare," said Rep. Pete Stark, D-Calif., in a statement that typified Democrats' responses.

The MedPAC study found that, for 2004, managed-care payment rates will be higher than or equal to regular Medicare in every county in the U.S. Using county and payment data obtained from the Centers for Medicare and Medicaid Services, MedPAC found that managed-care payments were higher than fee-for-service payments by 20% or more in 31% of all counties.

The report comes two weeks after Medicare's trustees reported that the hospital component of the government-run health care system will be insolvent by 2019, due in large part to the increased funding earmarked for private health plans (BestWire, March 24, 2004). A key part of the new Medicare law, one backed by insurers, set aside \$12 billion or more to encourage insurers to offer Medicare products. Democrats have called that a giveaway to HMOs, but the bill's Republican backers repeatedly said the pilot project was aimed at saving money; the intent is to see whether insurers can do the same job as Medicare but at a lower cost.

About 4.6 million of the 41 million elderly and disabled Americans on Medicare, roughly 11%, are enrolled in health maintenance organizations or other types of managed-care plans. During the debate over the new Medicare law, the White House and the U.S. Department of Health and Human Services, which oversees Medicare, had both predicted that about a third of all Medicare recipients will eventually join HMOs over the next 10 years.

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