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Turning Medicare Into a Premium Support System: Frequently Asked Questions

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Premium support is a general term used to describe an approach to reform Medicare that aims to reduce the growth in Medicare spending by increasing competition among health plans and providing a stronger incentive for beneficiaries to be cost-conscious in their plan selection. On June 22, 2016, the House Republicans included in their health care reform plan a proposal to gradually transform Medicare into a system of premium supports, building on proposals of the Speaker of the House, Paul Ryan, when he was Chair of the House Committee on Budget, as well as the proposals of many other policymakers.¹

These FAQs raise and discuss basic questions about the possible effects of a premium support system. Many proposals advance the concept of premium support without providing all of the details needed to assess the possible effects of the proposal on key stakeholders. Other proposals are more detailed, although they differ markedly in their specific policy features, and these differences have important implications for Medicare beneficiaries, the federal budget, health care providers, and private health plans.² This issue brief is intended to highlight some of the key questions that could be considered once proposals' details emerge.

1) What is premium support?

In a premium support system, the federal government would provide a payment on behalf of each Medicare beneficiary toward the purchase of a health insurance plan – either a private plan, similar a Medicare Advantage plan, or traditional Medicare. This approach is sometimes called a defined contribution or voucher approach. Under a premium support system, health plans would compete for enrollees and people on Medicare would choose among plans for their coverage – an approach that sounds similar to the current system, but is not the same. A key difference is that payments for services provided to beneficiaries in traditional Medicare would be capitated rather than the current approach that generally ties payments to the specific services that beneficiaries use.³

A number of premium support proposals have been introduced in recent years; these proposals are similar in their general approach, but often differ in key policy parameters, and some are more specific than others. Premium support proposals vary in several ways, including: the role of traditional Medicare in the new system, the extent to which benefits would be defined, the rules for health insurers, and the methodology used to set payments to plans, including traditional Medicare. For example, some proposals would base the federal payment to plans on the average bid (the cost to the plan of providing all Medicare-covered services) submitted by plans in a given area while other proposals would base federal payment on the second lowest plan bid. These

policy specifications have important implications for federal savings, beneficiaries' costs, the viability of private plans in markets across the country, and the sustainability of traditional Medicare.

Typically, premium support proposals would affect services covered under Medicare Parts A and B, but not Part D.

2) How could a premium support system for Medicare affect beneficiaries' premiums and out-of-pocket costs?

Beneficiaries' premiums and out-of-pocket costs could rise or fall, relative to current law, depending on a number of factors, including the overall design of the new system, the response of plans to a different payment policy, and the role of traditional Medicare. In contrast to the current system, in which Medicare Part B premiums are generally the same for all beneficiaries regardless of which plan they select,⁴ premiums for Medicare-covered services would be expected to vary from one part of the country to another, and from one plan to the next, under a premium support system.⁵

According to the Congressional Budget Office (CBO), if the federal payments to plans were tied to the average plan bid, then beneficiaries' total out of pocket costs (including premiums) generally would decrease, but if the federal payment was tied to the second lowest plan bid, then beneficiaries' total out of pocket costs generally would increase.⁶ However, even in a situation where average premiums go down in the aggregate, some beneficiaries would pay higher premiums while others would pay less. According to the CBO, most beneficiaries who choose to remain in traditional Medicare would pay higher premiums than they would under current law, regardless of whether the federal payment was tied to the second lowest plan bid or tied to the average plan bid.⁷

Under any premium support scenario, though, the change in out of pocket costs for beneficiaries would vary depending on where beneficiaries live and which plan they choose. In areas with high medical costs, beneficiaries would pay more to stay in traditional Medicare than they would under the current system; in contrast, in areas with lower medical costs, beneficiaries would likely pay more to be in a private plan.⁸

3) What could a premium support system mean for Medicare benefits?

Under the current system, all Medicare beneficiaries are generally entitled to the same set of benefits whether they are in traditional Medicare or Medicare Advantage plans. Medicare Advantage plans currently have some flexibility to modify cost-sharing requirements, but are required to cover, at a minimum, the same benefits as traditional Medicare. It is not clear whether this requirement would be maintained under a premium support system.

Some proposals would only require plans to provide benefits that are actuarially equivalent to the benefits provided under traditional Medicare. A policy such as this could give plans the freedom to modify cost-sharing and benefits in order to tailor their benefit package to the needs of their enrollees. A disadvantage, some have argued, is that this approach could unravel the promise of a guaranteed set of benefits under Medicare. Further, without careful oversight, a system without clearly defined benefits could potentially result in plans

offering benefits that appeal more to healthier, lower-cost enrollees than to sicker, higher-cost enrollees. Wide variations in benefits and cost sharing requirements across plans could also make it more difficult for beneficiaries to compare plans.

4) Could a premium support system reduce federal spending on Medicare?

A primary goal of many premium support proposals is to reduce long-term federal spending on Medicare, and a premium support system has the potential to reduce future, federal spending on Medicare if it increases competition among plans, decreases premiums, and provides stronger incentives for beneficiaries to be cost-conscious in their plan selection.

The CBO has said that a premium support system could save the federal government money, although the magnitude of savings would depend on the details of the proposal. Some of the critical details in premium support proposals that are important for assessing the potential for federal savings include how the federal payments are set initially and over time, the rules with respect to plan bids, whether traditional Medicare is included as an option, how and when the program is phased-in and whether current beneficiaries are “grandfathered,” the amount of financial assistance provided to low-income beneficiaries, and the extent of price competition among plans.

The CBO has said that including traditional Medicare as an option would increase federal savings because the rates that traditional Medicare pays providers would help to hold down the rates paid by private plans and thereby hold down the bids of private plans. Additionally, in some regions, the traditional Medicare program would be the lowest-bidding plan and therefore could lower the amount the federal government pays to private plans.⁹

It is also possible that a premium support system could be budget neutral or even increase costs for the federal government, depending on the details of the system. For example, federal spending could rise under a premium support system, if political pressure resulted in higher payments to plans.

Under some premium support proposals, federal spending on Medicare would be constrained by a back-stop spending cap – a feature of some older premium support proposals, but not more recent proposals. Such a feature would make federal spending more predictable, but could shift costs onto beneficiaries.

5) How could a premium support system affect traditional Medicare?

Most of the recent premium support proposals would include traditional Medicare and treat it in a similar manner as private plans. This means that the federal government would make a capitated payment on behalf of each beneficiary enrolled in traditional Medicare, just as it would make to a private plan. This would be a significant change from the current system under which traditional Medicare generally makes payments to hospitals, doctors and other health care providers generally based on the services provided.

A number of questions would need to be sorted through, if traditional Medicare were to compete toe-to-toe with private plans in a premium support system, including: whether traditional Medicare would be

administered as a national plan or separate regional/local plans, whether its benefits and premiums would change or vary by locale, how it would pay providers, and whether it would establish provider networks, among others. Each of these policy decisions could have important implications for the sustainability of traditional Medicare over time, the viability of private plans in Medicare, and the impact on beneficiaries, health care providers, and federal savings.

The long term sustainability of traditional Medicare could be affected by whether it disproportionately attracts sicker beneficiaries (risk selection), as a result of its expansive provider network, or other factors. While risk adjustment of the payments to plans and traditional Medicare should help to account for the higher health care costs of sicker people, no risk adjustment system is perfect and the system would likely not fully account for their higher costs. As a result, if sicker people disproportionately enroll in traditional Medicare, premiums in traditional Medicare could rise, potentially leading to what's known as a "death spiral."

As noted below, some proposals would "grandfather" current beneficiaries and create a new system for people who are younger than age 55 and not yet eligible for Medicare, essentially creating two separate traditional Medicare programs that may operate under different rules, with different premiums, benefits, participating providers, and long-term financial challenges.

6) What could be the implications of "grandfathering" current beneficiaries while phasing in a premium support system?

Typically, premium support proposals would "grandfather" current Medicare beneficiaries. That is, the new system would only apply, for example, to people under age 55, while current Medicare beneficiaries could continue to receive their Medicare benefits as they do today and would not need to enroll in the premium support system. Dividing Medicare beneficiaries in this manner could create some logistical issues. For example, there could be two sets of private Medicare plans – Medicare Advantage plans for "grandfathered" beneficiaries and premium support plans for others – with potentially different rules that apply to each.

Similarly, there could be two so-called traditional Medicare programs – one for "grandfathered" beneficiaries and another for beneficiaries integrated into the premium support system – both administered by the federal government but simultaneously operating with different benefits and premiums. In addition to administrative challenges, premiums could rise for people on Medicare who are "grandfathered" if younger, lower-cost beneficiaries are enrolled in a separate traditional Medicare program.

7) How could a premium support system affect low-income Medicare beneficiaries?

It is unclear how people with low incomes would be affected by a premium support system. Some proposals would provide additional subsidies to low-income beneficiaries. However, an open question is whether the additional subsidies would enable low income beneficiaries to enroll in a plan other than the cheapest plan, and if not, how the federal government would ensure that the cheapest plan provides high quality of care to its enrollees. Depending on whether the market is stable or not, low income beneficiaries may also need to switch plans fairly frequently (churning) to continue to receive low-income subsidies and avoid a major hike in premiums and other costs.¹⁰

8) How could a premium support system affect private Medicare plans?

A major change for plans under a premium support system would be how they are paid. Under the current system, plans submit bids based upon their costs of providing care, but the amount that the plan receives from the federal government is independent of the bids submitted by other plans in the area. Under a premium support system, plans would be paid based on the average plan bid or the second lowest plan bid in their area – a change that could create greater financial uncertainty for insurers.

Another major change from the current system is that private plans could be competing more directly with traditional Medicare; however, traditional Medicare could be expected to be a stronger competitor in some areas of the country than in others. The presence of a public plan competing directly with private plans would influence the level of payments plans receive and the competitive dynamics among plans, with uncertain effects on premiums, plan stability, and benefits, and variation in all of the above in communities across the country.

An important issue for plans (and consumers) is how the Medicare marketplace would be governed. In many proposals for a premium support system, it is unclear how the marketplace would be regulated or even which federal agency would regulate it. Many premium support proposals would maintain an annual open enrollment period, guaranteed issue requirements, and some form of risk adjustment. However, other factors that affect plans would change or are not specified. For example, many proposals do not specify whether premiums would be community rated or age-rated, or whether plans would be required to offer Medicare benefits. Many proposals would also “grandfather” current beneficiaries (not requiring them to enroll in the premium support system) which would create two separate systems – one for beneficiaries who are “grandfathered” and a separate system for new enrollees aging onto the program – and insurers could be required to maintain plans that operate under two different sets of rules and payments.

9) How could a premium support system affect the implementation of payment and delivery system reforms in traditional Medicare?

As described in recent premium support proposals, a premium support system would likely have no direct effect on most payment and delivery system reform models being implemented in traditional Medicare, such as Accountable Care Organizations or bundled payments; however, it could add some uncertainty for providers involved in the reforms. Additionally, if enrollment greatly declined in traditional Medicare under a premium support system, then providers may have less of an incentive to voluntarily participate in future reform efforts and pilot programs in traditional Medicare.

10) How could a premium support system affect hospitals and other providers that currently receive additional payments under the traditional Medicare program?

For teaching hospitals, rural hospitals, and other providers that are subsidized by the Medicare program, it is unclear whether these providers would continue to receive this financial support from Medicare, and if so, how such payments would be financed under a premium support system.

11) How could a Medicare premium support system differ from the ACA marketplaces?

A major difference between a premium support system for Medicare, as described in most premium support proposals, and the ACA marketplaces is the presence of a dominant public plan (traditional Medicare) and the lack thereof in the ACA marketplaces. The presence of a public plan competing toe-to-toe with private plans in Medicare would influence the competitive dynamics among plans, with uncertain effects on premiums, plan stability, and benefits. This is not an issue for the ACA marketplaces.

A premium support system for Medicare also differs from the ACA marketplace in its primary objective. For Medicare, a premium support system is motivated by fiscal and philosophical aims. A key objective is to slow the growth in federal spending. Another goal, at least for some, is to expand the role of private plans and minimize the role of a public program. The ACA marketplaces are designed mainly to provide health insurance for people who would otherwise be uninsured – a non-issue for people on Medicare given the universal nature of the program, by design.

12) What does the public think about premium support?

Turning Medicare into a premium support system would represent a fairly major change to Medicare and at least so far, most Americans oppose such a change. According to a recent survey, the majority (70%) of people support keeping Medicare as it is today, with only 26 percent supporting a shift to premium support.¹¹ This finding is fairly consistent across political party lines with 21 percent of Democrats and 31 percent of Republicans supporting the idea.¹² Medicare continues to be a highly popular program and is particularly popular among seniors, with only 18 percent of seniors supporting the idea of turning Medicare into a premium support system.

Discussion

While these questions demonstrate the large impact that a premium support system could have upon beneficiaries, health care providers, private plans, and the federal budget, the actual impact on each of these depends on specific policy decisions. Such policy choices include: how Medicare would set payments to plans; whether traditional Medicare would be sustained and if so, how would it differ in the future; whether Medicare would continue to be a program with guaranteed benefits; how and when a new system would be phased in and administered in tandem with the current system; how a new system would affect other programs currently supported by Medicare, such as graduate medical education and rural hospitals; and how a premium support system would affect beneficiaries with low incomes and complex care needs. Turning Medicare into a premium support system would be a significant transformation for the Medicare program and have implications for many parts of the health care system.

Endnotes

¹ Kaiser Family Foundation. Comparison of Medicare Premium Support Proposals. July 2012. Available at: <http://kff.org/medicare/issue-brief/comparison-of-medicare-premium-support-proposals/>

² Fuchs B and Potetz L. The Nuts and Bolts of Medicare Premium Support Proposals. Kaiser Family Foundation, June 2011. Available at <http://kff.org/medicare/issue-brief/the-nuts-and-bolts-of-medicare-premium/>

³ Increasingly, traditional Medicare is adopting incentives to encourage greater efficiencies (e.g., bundled payments and Accountable Care Organizations) and tie payments to quality (e.g., penalties for preventable readmissions).

⁴ A small share of Medicare beneficiaries with higher incomes pay higher premiums, and beneficiaries with low incomes who qualify for the Medicare Savings Programs have their premiums paid by their state's Medicaid program.

⁵ Premiums for Medicare Advantage plans currently include extra benefits and prescription drug coverage.

⁶ Congressional Budget Office. A Premium Support System for Medicare: Analysis of Illustrative Options. September 2013. Available at: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-18-PremiumSupport.pdf>

⁷ Congressional Budget Office. A Premium Support System for Medicare: Analysis of Illustrative Options. September 2013. Available at: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-18-PremiumSupport.pdf>

⁸ Jacobson G, Neuman T, and Damico A. Transforming Medicare into a Premium Support System: Implications for Beneficiary Premiums. Kaiser Family Foundation. September 2012. Available at: <http://kff.org/medicare/report/transforming-medicare-into-premium-support/>

⁹ Congressional Budget Office. A Premium Support System for Medicare: Analysis of Illustrative Options. September 2013. Available at: <http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-18-PremiumSupport.pdf>

¹⁰ Hoadley J, Summer L, Hargrave E, et al. To Switch or Be Switched: Examining Changes in Drug Plan Enrollment Among Medicare Part D Low-Income Subsidy Enrollees. Kaiser Family Foundation, July 2015. Available at: <http://kff.org/medicare/report/to-switch-or-be-switched-examining-changes-in-drug-plan-enrollment-among-medicare-part-d-low-income-subsidy-enrollees/>

¹¹ Norton M, DiJulio B, and Brodie M. Medicare and Medicaid At 50. Kaiser Family Foundation. July 2015. Available at: <http://kff.org/medicaid/poll-finding/medicare-and-medicaid-at-50/>

¹² Altman D. Will House Republican Health Proposal and Trustees' Report Make Medicare a Factor in Election? Wall Street Journal. June 24, 2016. Available at: <http://blogs.wsj.com/washwire/2016/06/24/will-house-republican-health-proposal-and-trustees-report-make-medicare-a-factor-in-election/>