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## Studies Say Private Medicare Plans Have Added Costs, for Little Gain

By **ROBERT PEAR**

WASHINGTON — Private [health insurance](#) plans, which serve nearly a fourth of all [Medicare](#) beneficiaries, have increased the cost and complexity of the program without any evidence of improving care, researchers say in studies to be published Monday.

The studies, questioning the value of some private plans for Medicare beneficiaries and taxpayers, were issued as President-elect [Barack Obama](#) and Congressional Democrats take aim at the plans and consider cutting the payments they receive.

Enrollment in private Medicare plans has nearly doubled in five years, to 10.1 million.

In one study, Marsha Gold, a senior fellow at Mathematica Policy Research, says that private Medicare Advantage plans “are now widely available nationwide,” even in rural areas, as Congress intended when it revamped the program in 2003.

But the study, to be published in the journal Health Affairs, says that 48 percent of the additional enrollment comes from a type of plan that mimics traditional Medicare and generally does little to coordinate care. Enrollment in these “private fee-for-service plans” has shot up to 2.3 million, from 26,000 in December 2003.

In a separate article, two analysts from the Medicare Payment Advisory Commission, Carlos Zarabozo and Scott Harrison, said that growth in private plans had driven up costs because the government pays them 13 percent more on average than what it would spend for the same beneficiaries in traditional Medicare.

The commission, an independent federal panel that advises Congress, has expressed concern about the disparity for years.

Source: [http://www.nytimes.com/2008/11/24/business/24medicare.html?\\_r=1&ref=business](http://www.nytimes.com/2008/11/24/business/24medicare.html?_r=1&ref=business)

“The higher payment rates have financed what is essentially a Medicare benefit expansion for Medicare Advantage enrollees, without producing any overall savings for the Medicare program, and with increased costs borne by all beneficiaries and taxpayers,” Mr. Zarabozo and Mr. Harrison write.

The annual open enrollment period began on Nov. 15. Beneficiaries can sign up for private plans offered by companies like UnitedHealth and [Humana](#) and by many Blue Cross and Blue Shield companies.

Under the formula adopted in the 1980s, Medicare paid private plans 95 percent of the projected cost for each beneficiary in traditional Medicare, on the theory that the private plans would save money by coordinating care and being more efficient.

The private plans, which frequently offer additional benefits like vision and [dental care](#), have proved popular. Over the years, Congress has increased payments to private plans, as an incentive to enter more markets.

Beneficiaries choose from an average of 35 private Medicare Advantage plans in each county, Mr. Zarabozo and Mr. Harrison report. But they say, “Payment increases have been so large that plans no longer need to be efficient to offer extra benefits.”

Payments to health maintenance organizations are, on average, 12 percent higher than what the government would spend for beneficiaries in traditional Medicare, they write, while payments to private fee-for-service plans were 17 percent higher.

Insurance company executives and Bush administration officials defend the role of private plans.

“Medicare Advantage plans are offering an average of over \$1,100 in additional annual value to enrollees in terms of cost savings and added benefits,” said Kerry N. Weems, the acting administrator of the Centers for Medicare and [Medicaid](#) Services.

Karen M. Ignagni, president of America’s Health Insurance Plans, a trade group, said two types of plans — H.M.O.’s and preferred provider organizations — had produced

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tangible benefits by coordinating care. As a result, she said, disease is detected earlier and people have fewer visits to hospital emergency rooms.

But, Ms. Gold said, “these are not the types of plans that have been growing most rapidly.” Instead, the private fee-for-service plans are growing fastest, and they, she said, “are not set up to coordinate care.”

The Medicare Payment Advisory Commission has said the payments to private plans should gradually be reduced to the level of traditional Medicare.

In a campaign statement, Mr. Obama declared, “We need to eliminate the excessive subsidies to Medicare Advantage plans and pay them the same amount it would cost to treat the same patients under regular Medicare.” In a debate on Oct. 15, Mr. Obama described the subsidies as “just a giveaway” to private insurers.

Similar views have been expressed by former Senator [Tom Daschle](#) of South Dakota, who is Mr. Obama’s choice for secretary of health and human services. “Medicare’s solvency is now threatened by overpayments to private insurers,” Mr. Daschle said in a book published this year.