

## THE NEW HEALTH CARE

## Medicare Advantage Spends Less on Care, So Why Is It Costing So Much?

By Austin Frakt

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The Medicare Advantage program was supposed to save taxpayers money by allowing insurers to offer older Americans private alternatives to Medicare. The plans now cover 19 million people, a third of all those who qualify for Medicare. Enrollee satisfaction is generally high, and studies show that plans offer higher quality than traditional Medicare. But the government pays insurers more than they pay out for patient care — in some years, it turns out, a great deal more.

Concern about Medicare Advantage's cost has found sharp expression in a recent suit brought by the Justice Department charging UnitedHealth with excessive billing of the government. While that suit plays out, research published by the National Bureau of Economic Research provides context.

The study, released in January, found that the revenue Medicare Advantage plans received in 2010 exceeded the amount they paid out for medical care by a hefty 30 percent. At more than \$2,000 per enrollee per year, that probably topped \$20 billion dollars, nearly all from federal payments, not enrollee premiums. The study relied on Medicare Advantage billing data obtained from three large insurers across 36 states, a type of data the government doesn't yet release.

Paradoxically, even though Medicare Advantage plans cost taxpayers more than traditional Medicare, they spend less on care. In fact, one of the motivations of the program is to capture that lower spending as savings for taxpayers. It hasn't worked out that way.

"Our study found that health care spending for enrollees in Medicare Advantage plans is 10 to 25 percent lower than for comparable enrollees in traditional Medicare," said Amy Finkelstein, an M.I.T. economist and one of the study's authors. "Yet government payments to plans is far above their lower health care costs." The study was also conducted by four economists at Stanford: Vilsa Curto, Liran Einav, Jonathan Levin and Jay Bhattacharya.

The analysis raises two questions: How do Medicare Advantage plans spend so much less on care? And, given that, how do we account for their higher costs to taxpayers?

One reason for the lower spending is that Medicare Advantage enrollees use less care or use lower-cost care. For example, compared with traditional Medicare patients, Medicare Advantage patients are more likely to go home after a hospital visit, rather than to a skilled nursing facility. Medicare Advantage patients see specialists relatively less often and receive fewer inpatient operations, but more outpatient ones, which are cheaper. All of these are what you'd expect from care management techniques used by Medicare Advantage: referral requirements and narrow networks of doctors, for instance.

Previous studies have also shown that Medicare Advantage enrollees use less of some kinds of care, including hospital care, versus traditional Medicare beneficiaries.

"This is exactly what Medicare Advantage plans were designed to do," said Dr. Bruce Landon, a physician with Harvard Medical School. "They manage the utilization of services while also assuring that enrollees receive recommended care, all at lower cost to patients." Dr. Landon's research on the program found that Medicare Advantage enrollees use 20 percent to 30 percent less emergency department and outpatient surgical care, as well as receive fewer hip and knee replacements.

Medicare Advantage plans also attract enrollees who tend to be healthier than traditional Medicare beneficiaries, a feature that yielded intriguing results in light of the lawsuit against UnitedHealth. When the M.I.T.-Stanford team compared the two kinds of Medicare patients, they found that Medicare Advantage patients were 25 percent less costly than traditional Medicare patients. But when the team more rigorously matched the health of both sets of patients, the Medicare Advantage patients were just 10 percent less costly. This drop does not prove the suit's claims of overbilling, but it allows for the possibility.

Why does the government pay Medicare Advantage plans so much more than it costs them to cover care? It's partly an intentional, if controversial, design of the program. Congress has established payment formulas and authorized bonus programs intended to help the private market.

The government also pays insurers for administrative and marketing expenses. Yet even when these additional expenses are factored in, the government still pays plans an excess. According to the Medicare Payment Advisory Commission, federal payments to the plans exceeded health care costs and other expenses by 8.5 percent in 2010. Though the Affordable Care Act has reduced payments to plans and limits the amount they can attribute to administration and marketing, they still receive government payments in excess of their costs today.

Not all of the “excess” federal money goes to the insurers’ bottom line. Traditional Medicare entails significant cost sharing for beneficiaries; they are responsible for 20 percent of the costs of doctors visits, for example. Most Medicare Advantage plans don’t require as much cost sharing or out-of-pocket payments. And some of the influence of Medicare Advantage plans’ managed care techniques rub off on the traditional program, too, reducing spending — a spillover effect that partly explains the slowdown in growth of Medicare spending.

But is the cost of Medicare Advantage worth the benefits it delivers? It’s hard to know without knowing more about patients’ diagnoses, services used and other data. The Medicare program had been collecting such data since 2012 and was planning to release it, but, expressing concerns about its quality, recently put off doing so.

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*Austin Frakt answered questions from readers about this article in this post for The Incidental Economist.*

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