Medicare Supplemental Coverage: Weighing the Consequences and Tradeoffs for Medicare Spending and Beneficiaries

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1. **Prohibit first-dollar Medigap coverage**
   - Prevent Medigap coverage of all or a portion of Medicare’s deductible; limit Medigap coverage of cost sharing above that amount and before an out-of-pocket spending limit.

2. **Discourage first-dollar Medigap coverage**
   - Part B premium surcharge for enrollees with first-dollar Medigap coverage
   - Excise tax on Medigap insurers

3. **Restructure Medicare’s benefit design**
   - Combined Parts A and B deductible, uniform coinsurance, out-of-pocket spending limit

4. **Restructure Medicare’s benefit design AND prohibit first-dollar Medigap coverage**

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**Reform Proposals**
1. Prohibit First Dollar Coverage for Medigap Policies

- **Why do it?**
  - Some research shows Medigap enrollees tend to have higher Medicare spending than others
  - Medicare expected to achieve savings if enrollees use fewer services (due to higher cost sharing)

- **Why not?**
  - Beneficiaries may forego needed care (which could increase Medicare costs over the long term)
  - Raises beneficiaries out-of-pocket costs for Medicare covered services
  - Makes it more difficult for policyholders to guard against unpredictable costs
  - Equity issues in prohibiting first dollar coverage under one source of supplemental coverage but not others (e.g., MA and employer/retiree plans)

- **CBO Option:** Policyholders pay first $550 in cost sharing for A/B services, 50% up to $3,025 out-of-pocket limit
  - Estimated Medicare savings of $53.4 billion over 10 years (CBO)

- **Similar option:** Bowles-Simpson, Rivlin-Ryan, and Lieberman-Coburn

Prohibiting first-dollar Medigap coverage would reduce costs for many, but ONE IN FIVE are expected to pay more.

- Among 21%, average increase = $806
- Among 79%, average reduction = $749

Total Medigap Enrollees = ~ 8 million

Average Medigap premiums would fall because Medigap would cover a smaller share of claims; enrollees’ cost sharing would rise.
Reforms would disproportionately and negatively affect Medigap enrollees in relatively poor health, those with inpatient stays, and those with modest incomes.

<table>
<thead>
<tr>
<th>Health Status</th>
<th>Percent with cost reduction</th>
<th>Percent with cost increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>Excellent/very good/good</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Fair/poor</td>
<td>63%</td>
<td>37%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Federal Poverty Level (FPL)</th>
<th>Percent with cost reduction</th>
<th>Percent with cost increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 200% FPL</td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>200% - 299% FPL</td>
<td>76%</td>
<td>24%</td>
</tr>
<tr>
<td>300% - 399% FPL</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>400% FPL and over</td>
<td>86%</td>
<td>14%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Inpatient Use During Year</th>
<th>Percent with cost reduction</th>
<th>Percent with cost increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>No admissions</td>
<td>87%</td>
<td>13%</td>
</tr>
<tr>
<td>One or more admissions</td>
<td>34%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Key Considerations

- Increasing Medigap enrollees’ exposure to cost sharing could induce them to use fewer services (source of Medicare savings)
- If enrollees forgo needed care, could lead to future health problems and medical needs, and thereby potentially new spending in the long run
- Individuals decrease use of both ineffective and effective care in response to cost sharing (RAND Health Insurance Experiment, 1971-1982)
  - Low-income individuals with chronic illnesses had worse health outcomes when faced with cost sharing
- Increases in copayments for ambulatory care and/or pharmaceuticals in some Medicare Advantage plans and a large retiree health plan led to increased hospitalization rates (Gruber et al. 2007 and Trivedi et al. 2010)
  - Particularly true for those with chronic conditions, as well as the low-income and those with lower education levels

President Obama recommended a 30% Part B premium surcharge for enrollees with “near first-dollar” coverage (“Living Within Our Means and Investing in the Future,” September 2011)

Would apply only to new Medicare beneficiaries beginning in 2017

Estimated savings: $2.5 billion over 10 years (OMB)
3. Restructure Medicare’s Benefit Design

**NEED HOSPITAL CARE?**
- You pay $1,132 deductible
- Then nothing for 60 days
- Then $283 per day for the next 30 days
- Then $566 per day for the next 60 days
- Then Medicare coverage ends

**VISITING THE DOCTOR?**
- You pay $162 deductible
- Plus 20% of the total cost – unless:
  - For mental health, you pay 40%
  - For preventive services, you pay nothing

**NEED HOME HEALTH CARE?**
- You pay nothing

**MEDICARE REFORM OPTION**
- One deductible of $550
- Uniform coinsurance of 20%
- $5,500 out-of-pocket spending limit
3. Restructure Medicare’s Benefit Design

- **Why do it?**
  - Simplify Medicare’s relatively complex cost-sharing structure
  - Limit out-of-pocket spending for those with high medical expenses
  - Reduce Medicare spending

- **Why not?**
  - Could increase costs for beneficiaries and other payers

- **CBO Option:** unified $550 deductible for Parts A and B, 20% coinsurance, and $5,500 limit on out-of-pocket spending
  - Estimated to reduce Medicare spending by $32.2 billion over 10 years (CBO)

- Similar options proposed by Bowles-Simpson, Domenici-Rivlin, Rivlin-Ryan, and Lieberman-Coburn
Restructuring Medicare’s cost sharing would reduce Medicare spending, but shift costs to other payers.

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit. NO Medigap Restrictions

**SPENDING DECREASES**

- **Medicare (Federal and State)**: $4.2 billion decrease
- **Medicaid (Federal and State)**: $0.1 billion decrease

**SPENDING INCREASES**

- **Beneficiaries**: $2.3 billion increase
- **Other supplemental insurers (employers, TRICARE, and other)**: $1.3 billion increase

**NET CHANGE**

- Total = $0.7 billion decrease

Most Medicare beneficiaries would be expected to have higher out-of-pocket spending under this proposal; some would have lower costs.

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit (2013). NO Medigap Restrictions

Among 5%, average reduction = $1,570

Spending reduction

No/nominal change 24%

5%

71%

Average among 12% with increase greater than $250 = $660

Spending increase

Among 71%, average increase = $180

Total Medicare FFS Beneficiaries, 2013 = 40.8 million

EXHIBIT 12

Simplified Medicare cost sharing: Increases costs for healthier beneficiaries, reduces costs for the sick (in general)


NOTE: Healthier beneficiaries include those using physician but not hospital services; sicker beneficiaries include those using hospital and skilled nursing facility services.
Effects of Proposed Benefit Redesign Would Vary by Source of Supplemental Coverage

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit (2013). NO Medigap Restrictions

- Spending increase >$250
- Spending increase <$250
- No/nominal change
- Spending reduction

<table>
<thead>
<tr>
<th>Source</th>
<th>Spending increase &gt;$250</th>
<th>Spending increase &lt;$250</th>
<th>No/nominal change</th>
<th>Spending reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FFS Medicare</td>
<td>12%</td>
<td>60%</td>
<td>24%</td>
<td>5%</td>
</tr>
<tr>
<td>Employer-sponsored insurance</td>
<td>10%</td>
<td>77%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>Medigap</td>
<td>8%</td>
<td>84%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Medicare only</td>
<td>14%</td>
<td>14%</td>
<td>40%</td>
<td>4%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>3%</td>
<td>11%</td>
<td>83%</td>
<td>4%</td>
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NOTES: FFS is fee-for-service. Out-of-pocket spending includes premiums and cost-sharing requirements. No/nominal change group includes beneficiaries with changes in spending no more than $25. Amounts may not total 100% due to rounding.
4. Restructure Medicare’s Benefit Design AND Prohibit First-Dollar Medigap Policies

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit (2013).

**Medicare Savings Without Medigap Restrictions (2013):**

- $4.2 billion

**Medicare Savings With Medigap Restrictions (2013):**

- No Medigap coverage of $550 deductible
- Medigap coverage limited to 50% between deductible and catastrophic limit

$8.8 billion

## Expected Change in Out-of-Pocket Spending Under an Alternative Medicare Benefit Design, With and Without Medigap Restrictions

<table>
<thead>
<tr>
<th></th>
<th>HEALTHIER</th>
<th>SICKER</th>
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<tbody>
<tr>
<td><strong>Without Medigap Restrictions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spending increase</td>
<td>78%</td>
<td>26%</td>
</tr>
<tr>
<td>No/nominal change</td>
<td>21%</td>
<td>11%</td>
</tr>
<tr>
<td>Spending reduction</td>
<td>1%</td>
<td>63%</td>
</tr>
<tr>
<td>30 million beneficiaries</td>
<td></td>
<td>2 million beneficiaries</td>
</tr>
</tbody>
</table>

**With Medigap Restrictions**
- Spending increase: 52%
- No/nominal change: 23%
- Spending reduction: 26%


**NOTE:** Healthier beneficiaries include those using physician but not hospital services; sicker beneficiaries include those using hospital and skilled nursing facility services.

$550 deductible, 20% coinsurance for all services, $5,500 cost-sharing limit (2013).
Summary

1. Prohibit first-dollar coverage Medigap policies
   - Expected to reduce costs for many, but one in five Medigap enrollees would be expected to pay more
   - Disproportionately likely to negatively impact those in relatively poor health, those with inpatient stays, and those with modest incomes
   - Equity issues in prohibiting first dollar coverage under one source of supplemental coverage but not others (e.g., MA and employer/retiree plans)

2. Discourage first-dollar coverage Medigap policies
   - Part B premium surcharge, if applied prospectively, would apply to fewer people and have no impact on current beneficiaries – though some considered option to apply to current beneficiaries
   - The premium surcharge, as proposed by the Administration, would have lower savings than the prohibition on first dollar coverage ($2.5 billion versus $53.4 billion over 10 years)
3. Alternative Medicare benefit design WITHOUT Medigap restrictions
   - Expected to raise costs for healthier beneficiaries due to the higher Part B deductible, but reduce spending for some of the sickest due to the out-of-pocket limit
   - Even some with an inpatient hospital stay could pay more due to the 20% coinsurance (if they don’t reach out-of-pocket limit)
   - Changes in out-of-pocket spending are greatly influenced by beneficiaries' medical needs and supplemental coverage
   - Estimated Medicare savings over 10 years: $32.2 billion (CBO)

4. Alternative Medicare benefit design WITH Medigap restrictions
   - Adding Medigap restrictions increases the proportion of beneficiaries with reductions in out-of-pocket spending (due to lower premiums), although half of beneficiaries would still spend more as a result of the combined proposal
   - Adding Medigap restrictions would increase the proportion of “high users” with spending increases relative to the alternative benefit design alone
   - Estimated Medicare savings over 10 years: $92.5 billion (CBO)

5. Proposals that require higher cost-sharing are expected to result in beneficiaries using fewer services (necessary and unnecessary) with uncertain effects on health and long-term spending
Additional Resources

- Restructuring Medicare’s Benefit Design: http://www.kff.org/medicare/8256.cfm
- Examining Sources of Supplemental Insurance and Prescription Drug Coverage Among Medicare Beneficiaries: http://www.kff.org/medicare/7801.cfm

For more information, visit kff.org