



HEALTH INSURANCE REFORM AT A GLANCE

CURBING TAXPAYER SUBSIDIES FOR PRIVATE INSURERS IN MEDICARE

BACKGROUND

When private insurance companies first petitioned to join Medicare in the 1980s, they asserted they could provide more care for less than it costs Medicare to provide its services and agreed to be paid 5 percent less than Medicare fee-for-service rates to prove that point. Today, these same companies – now called Medicare Advantage (MA) plans – are paid on average 14 percent more than it costs to provide care through the traditional fee-for-service Medicare program. These overpayments drain the Medicare trust fund, raise premiums for all Medicare enrollees, and cost taxpayers \$12 billion a year.

HEALTH INSURANCE REFORM TRIMS OVERPAYMENTS, REWARDS QUALITY AND EFFICIENCY

The proposal in the Reconciliation bill is a compromise between the House and Senate bills. Payment rates for private plans that contract with Medicare will be set to certain benchmarks that are linked to local Medicare spending. In addition:

- Payment benchmarks range from 95 percent of local Medicare spending in relatively high spending parts of the country, to 115 percent in relatively low spending areas;
- High-quality plans that improve their enrollees' health receive an increase in their payment;
- Plans that are more efficient and provide care for less than the maximum payment rate get to keep a rebate of anywhere from 50 to 75 percent of the difference, depending on the quality ranking of the plan. This money can be used to offer extra benefits or reduce cost sharing.

SENIORS WILL HAVE BETTER MA CHOICES

Payment rates in 2011 will simply be frozen, with no reduction in the levels from 2010. Plans will have three years to transition to the reformed payment system, with up to seven years for counties facing more significant changes. Efficient plans that offer true value will be able to adapt to these changes over the transitional period and continue to offer coverage.

Seniors will have the guarantee that their premium dollars will pay for care and not pad profit margins. The bill requires MA plans to spend at least 85 percent of their revenue on clinical services and activities that improve quality of care.

Insurance companies have protested that these reforms will hurt their ability to do business, trying to scare seniors currently enrolled in MA plans. However, the non-partisan Congressional Budget Office disputes this -- estimating that after ten years, 9.1 million people will be enrolled in these plans. The reforms ensure that Medicare beneficiaries' premiums are not artificially inflated to subsidize private insurance companies, and Medicare stays solvent and stable into the future.