

**Background Information
On the Privatization of Medicare
(prepared for PSC Retirees Chapter)**

Traditional Medicare, the publicly-funded health insurance plan for the nation's elderly and disabled—enacted under Pres. Lyndon Johnson in 1965—is rapidly disappearing. It is being replaced by private Medicare Advantage plans, owned and operated like all other U.S. health insurance plans, by private insurance companies. Over 50% of Medicare-eligible people are now in private Medicare Advantage plans.

How can this be happening?

- **Over the past 20 years, both the federal government and private health insurance companies have actively sought to privatize health insurance for the elderly.**
- Traditional Medicare pays for only 80% of doctor and other Part B non-inpatient services and not all hospital costs. To cover this "gap" people pay out-of-pocket to buy Medigap insurance. This typically costs \$200-\$350/month, paid for by individuals or their past employers/unions.
- Paying for Medigap is in addition to the standard monthly Medicare Part B premium that is withheld from people's Social Security payments and is \$164.90 per month in 2023--compared to \$3/month in 1965 (about \$29 in today's dollars according to the CPI, or about \$79 according to medical care inflation calculators).
- **Because covering the gaps in traditional Medicare is very expensive for individuals and for employers sponsoring group plans, insurance companies can "lowball" the cost of their MA plans to make them attractive and price traditional Medicare out of the market.**
- The premiums for MA plans are significantly less than for Medigap plans. 73% of MA enrollees pay \$0/month¹. (Enrollees continue to pay the Medicare Part B premium.) MA plans also often promise to provide or subsidize supplemental benefits, e.g., hearing aids, dental care, "Silver Sneakers" health clubs, that traditional Medicare does not cover.
- This cost savings is irresistible to individuals on limited means and, more recently, to employer and union sponsors of group plans for retirees^{2 3}. NYC claimed it would save up to \$600 million/year by switching all its retirees to a Medicare Advantage plan. Public employers all over the country are doing the same, though there has been pushback in places like NYC, Vermont, Washington State and Delaware.

How are beneficiaries affected by this privatization of Medicare?

- **Beneficiaries run the risk of receiving less medical care since MA plans spend a smaller proportion of Medicare dollars (and fewer actual dollars) on healthcare.** The money spent on overhead (administrative costs plus profit) in MA plans is about 17% vs. 1.3% in traditional Medicare.⁴
- Some retirees—particularly the younger and healthier ones—can usually get the medical care they need under an MA plan, as long as the plan includes a sufficient choice of hospitals and providers in its network. But other seniors, especially those with complicated medical conditions and those living in areas with limited health care resources may do not do as well as they would under traditional Medicare.
- Retirees may not be able to receive needed care. MA plans require pre-authorization for many tests and procedures, as well as for inpatient hospital services and stays in rehabilitation facilities. Studies have found that denial rates range from 3% to 12%, depending on the insurance company. 80% of denials are overturned on appeal, but only 11% of patients or doctors appeal⁵.

- Some doctors who participate in Medicare will not take MA insurance and those that do may not order tests and procedures that would be beneficial because they refuse—or cannot afford—the hassle of the pre-authorization process.
- Disruption in care is a particular problem for the elderly. As doctors and other medical providers go in and out of MA networks, patients can lose the providers they have relied on, which can result in delays in and complications with care.
- Studies comparing patient outcomes are few, but some have shown that patients needing complex cancer surgery have increased mortality. While they found that costs are less, MA patients have less access to the top cancer facilities⁶.
- As a result of these factors, **sick and disabled elderly and those with limited access to health care resources run a very real risk of receiving less medical care under MA than under traditional Medicare.**
- Medicare beneficiaries who have the financial means to choose, usually do not choose MA. At a January 9, 2023, NYC City Council hearing on the City's attempt to force all NYC retirees into MA, not one beneficiary spoke in favor of the MA plan⁷.

How do Medicare Advantage plans make money?

- **By managing their provider networks, requiring prior authorizations for many procedures and "upcoding", among other practices.**
- An Oct. 2, 2022 NY Times article⁸ described some of the fraudulent practices engaged in by insurance companies to boost their MA profits.
- MA plans negotiate lower payments to a limited network of doctors and hospitals—not necessarily the top facilities in a particular field—and reward them by streamlining paperwork and payments.
- MA plans are paid on a per capita basis by the Centers for Medicare and Medicaid Services (CMS) for each beneficiary they enroll, depending on the health status of the patient (rather than "fee for service"), so the plans often "upcode," adding spurious diagnostic codes to collect more money for patients who are actually healthy.
- Including upcoding and other schemes, MA plans are paid about 6% more by CMS for their participants than the same enrollees would have cost under traditional Medicare⁹.
- In addition to higher administrative spending, some of the extra money buys ancillary benefits like dental and hearing. But one estimate¹⁰ is that MA plans spend as much as 24% less than traditional Medicare on medical care. Billions of Medicare dollars are transferred to senior executives' paychecks and to insurance company shareholders.
- MA plans deny necessary tests and services (see above).
- One study by the Kaiser Family Foundation found that the average gross margin (average amount by which premium income exceeds claims costs per enrollee) in MA plans was about double the margins in the private (non-Medicare) individual and group health insurance markets¹¹ (i.e., insurance companies are making twice as much money from their MA plans as from their other health insurance plans).
- MA plans have become so lucrative that one insurer, Humana, recently announced it was exiting the employer health insurance market to focus on its Medicare Advantage plans¹².

How is the taxpayer affected?

- **Taxpayers spend more for patients in MA plans, but less money is being spent on actual medical care.** [Remember, traditional Medicare is highly efficient—it spends less than 10% of what MA plans pay in administrative overhead costs.]

- A recent report¹³ from Physicians for a National Health Program--based on a wide variety of sources--estimates that MA plans overcharge taxpayers by a minimum of \$88 billion and up to \$140 billion per year, based on 2022 payments.
- An increasing proportion of our tax dollars is going to insurance company executives' high salaries and excessive profits rather than to the medical care we expect to be paying for when we pay our Medicare taxes.

What can be done?

- **"Level the Playing Field" so that Traditional Medicare becomes as affordable for employers and unions sponsoring group plans and for individuals as Medicare Advantage is, and legislate government funding to pay for critical supplemental health benefits like hearing, vision and dental and to eliminate out-of-pocket spending requirements.**
- The Be a Hero Foundation has a long list of possible actions¹⁴.
- Reject the political pressure to "privatize" Medicare. Taxpayers should not have to subsidize excessive overhead costs or profit.
- Support HR 33, Medicare Dental, Vision and Hearing Benefit Act of 2023¹⁵ introduced by Rep. Lloyd Doggett (D-TX) to add missing, needed benefits to Medicare.
- The net cost of improving Medicare coverage to include some dental, vision and hearing services and to eliminate beneficiaries' out-of-pocket spending requirements can be accomplished step by step, as the system re-absorbs the excess funding of MA plans¹⁶ currently estimated at \$75 billion per year in overpayments.
- Hold MA plans accountable by requiring more regular data reporting, including timely disclosures of denial-of-care rates, mortality rates and disenrollment rates. Limit profiteering through more frequent audits of how Medicare dollars are spent by MA plans.
- Mandatory enrollment in an MA plan should not be permitted in employer and union sponsored retiree health plans. Beneficiaries should have the option to remain in traditional Medicare.

Many unions have begun to mobilize against the privatization of Medicare. Our union--the Professional Staff Congress City University of New York (PSC) - has passed a "Resolution in Opposition to the Privatization of Medicare" https://psc-cuny.org/wp-content/uploads/2023/07/Resolution_re_Medicare_privatization_May19.2022.pdf

¹ "Medicare Advantage in 2023: Premiums, Out-of-Pocket Limits, Cost Sharing, Supplemental Benefits, Prior Authorization, and Star Ratings." KFF. Aug. 9, 2023. <https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2023-premiums-out-of-pocket-limits-cost-sharing-supplemental-benefits-prior-authorization-and-star-ratings/>

² "More Retiree Health Plans Move Away from Traditional Medicare." New York Times. March 10, 2023. <https://www.nytimes.com/2023/03/10/business/medicare-advantage-retirement-nyc.html>

³ "Employers are saving money by moving retirees to Medicare Advantage -but the switch may disrupt care." By Susan Jaffe and Kaiser Health News. Fortune. March 2, 2022. <https://fortune.com/2022/03/02/employers-medicare-advantage-health-insurance-retirees/>

⁴ "What to Know about Medicare Spending and Financing." Juliette Cubanski and Tricia Neuman. KFF. Jan. 19, 2023. <https://www.kff.org/medicare/issue-brief/what-to-know-about-medicare-spending-and-financing/>

⁵ "Over 35 Million Prior Authorization Requests Were Submitted to Medicare Advantage Plans in 2021". KFF. Feb. 2, 2023. <https://www.kff.org/medicare/issue-brief/what-to-know-about-medicare-spending-and-financing/>

⁶ "Medicare Advantage: A Disadvantage for Complex Cancer Surgery Patients." Journal of Clinical Oncology. Feb.20, 2023. <https://ascopubs.org/doi/abs/10.1200/JCO.21.01359>

⁷ NYC. City Council Hearing. Health insurance coverage for city employees, city retirees, and their dependents. January 9, 2023. <https://legistar.council.nyc.gov/Calendar.aspx>
Video: <https://councilnyc.viebit.com/player.php?hash=pAr4LZcnYro9>

⁸ "The Cash Monster was Insatiable': How Insurers Exploited Medicare for Billions." New York Times. Oct. 8, 2022. <https://www.nytimes.com/2022/10/08/upshot/medicare-advantage-fraud-allegations.html>

⁹ Medpac: March 2023 Report to the Congress: Medicare Payment Policy. Mar. 15, 2023. Chapter 11, p. 340. https://www.medpac.gov/wp-content/uploads/2023/03/Ch11_Mar23_MedPAC_Report_To_Congress_SEC.pdf

¹⁰ Leonard Rodberg. "Medicare Dis-Advantage: Shortchanging the Patients While Enriching the Insurer." Common Dreams. Aug. 30, 2022. <https://www.commondreams.org/views/2022/08/30/medicare-dis-advantage-shortchanging-patients-while-enriching-insurer>

¹¹ "Financial Performance of Medicare Advantage, Individual and Group Health Insurance Markets." KFF Issue Brief. Aug. 5, 2019. <https://www.kff.org/report-section/financial-performance-of-medicare-advantage-individual-and-group-health-insurance-markets-issue-brief/>

¹² Sara Hansard. "Humana Exit from Employer Coverage Illuminates Medicare's Lure." Feb. 27, 2023. Bloomberg Law. <https://news.bloomberglaw.com/health-law-and-business/humana-exit-from-employer-coverage-illuminates-medicares-lure>

¹³ PNHP. "Our Payments, Their Profits." September, 2023. https://pnhp.org/system/assets/uploads/2023/09/MAOverpaymentReport_Final.pdf

¹⁴ Tell President Biden: Reclaim Medicare. https://act.newmode.net/action/be-hero-fund/tell-president-biden-protect-medicare-corporate-greed/?source_code=reclaim_bitly

¹⁵ <https://www.congress.gov/bill/118th-congress/house-bill/33>

¹⁶ "Pocan, Khanna, Schakowsky Introduce Bill to Strengthen Medicare, Define Alternative Plans." Jan. 31, 2023. <https://pocan.house.gov/media-center/press-releases/pocan-khanna-schakowsky-introduce-bill-to-strengthenmedicare-define>