Can Medicare Advantage survive PPACA?

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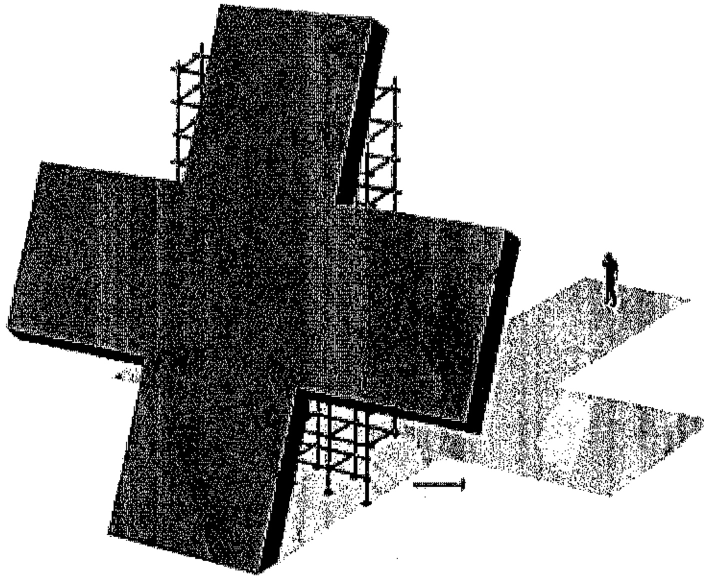

Across America, agents are waiting with considerable anxiety to see what the 2014 Medicare Advantage plans will look like. While there's a high level of interest every year in what the new plan designs will look like, this year is perhaps the most anticipated in recent history.

That's because the implementation of **various parts of the Patient Protection and Affordable Care Act** is set to strip tens of billions of dollars from the Medicare Advantage program at a time when participation is higher than ever.
According to the Kaiser Family Foundation, **more than 14 million beneficiaries** are enrolled in these plans — an all-time high — accounting for more than 28 percent of all Medicare beneficiaries. It's also likely that only a fraction are even aware that pending funding cuts could possibly affect their benefits in the near future.
"Many Medicare beneficiaries have no idea about the Medicare funding cuts built into PPACA and what they could potentially do to their Medicare Advantage coverage," says Taylor Martin, chief marketing officer for Senior Security Benefits Inc. in Fort Worth, Texas.

A closer look at the history of the Medicare Advantage program reveals a landscape littered with funding starts and stops that have created considerable instability in the program over the years.

The program's history

1972

Congress enacts legislation to allow health maintenance organizations to provide coverage for Medicare beneficiaries, beginning a long history of private Medicare plan options. Originally plans were paid based on the average per capita costs of providing traditional Medicare-approved services in certain geographic locations. In some cases where per capita costs were not easy to estimate, the plans were then based on what Medicare officials determined to be the reasonable cost of providing such services.

1982

Congress sets Medicare payments to these health plans at 95 percent of traditional Medicare payments in each county, causing an explosion in the number of available plans. Unfortunately, the growth was not uniform, and there continued to be pockets around the country where no private plan options existed. Low-income beneficiaries living outside of urban areas did not have the same access to the cost savings provided by private plans in urban areas where networks were easier to form.

1997

The Balanced Budget Act officially names the private plan options "Medicare Plus Choice," but redirects some of the program's previous funding into other areas of government as part of the reconciliation of the budget. Oddly enough, the legislation sought to increase availability of the programs but also wanted to rein in costs by replacing the existing plans with tight networks of providers for greater cost control.

The result was catastrophic. By capping increases in the plan payments while at the same time growing Medicare's regulatory reach over their operations, the legislation doomed more than half of the nearly 350 plans existing at that time. Scores of plan closures occurred around the country, resulting in more than a million beneficiaries being dumped from their plans back into the original fee-for-service Medicare system.

2003

As costs for traditional Medicare continues to skyrocket, Congress reverses some of the cuts it enacted in the late 90s. It approves additional funds for the program in an effort to entice private plans back into the program, which now becomes the Medicare Advantage program. Insurance carriers respond predictably by rolling out new plan options and increasing benefits in existing plans. Within a few short years, a nearly complete reversal of the fallout that happened after the BBA occurs, and record numbers of enrollments ensue due to richer benefits that include disease management and care coordination.

2010

The Patient Protection and Affordable Care Act produces another shift in payment policy by reducing federal payments to Medicare Advantage plans over time, bringing them closer to the average costs of care under the traditional Medicare program. In addition, the legislation requires plans to maintain a medical loss ratio of at least 85 percent beginning in 2014, restricting the share of premiums that Medicare Advantage plans can use for administrative expenses and profits. In 2014, plans also will begin to absorb a $220 per member annual premium tax.

What the future holds

Some industry veterans are worried that PPACA will result in fewer plans available in the marketplace or that the plans still available will be a harder sell.

"Agents who sell Medicare products full-time are concerned that the benefits reductions and premium increases will make them less attractive to consumers," says Clifton Stubbs, a senior broker sales executive with BenefitMall in Dallas.

In fact, just after PPACA passed, Medicare's chief actuary predicted that MA enrollment would decline sharply, with as many as half the current number of enrollees leaving private plan coverage. But despite these predictions, enrollment in Medicare Advantage since 2010 has climbed from 11.1 million to 14.4 million in 2013.

But predictions for what will happen after 2014 differ greatly. As large carriers have bought up some of the smaller plans, insurance company stock prices have risen, giving favorable outlook to the idea that Medicare Advantage companies will find ways to cut costs and remain in the game.

The CBO now projects plan enrollment to swell to 21 million participants by 2023. Insurers have been routinely working through reimbursement reductions since 2010, yet enrollment has accelerated and the benefits have been relatively consistent. Insurers have been able to mitigate these rate cuts through various cost savings mechanisms internally, so there's hope that they will somehow continue that trend even in the face of further cuts.

Others predict that unless changes are made, the program will necessarily fold in many markets. As the plans are already affected by the 2 percent cuts resulting from sequestration, could they really sustain any further loss in funding under the implementation of PPACA?

If they can't, and scores of plans across the country close, it's likely that reduced plan availability would have the greatest impact upon low-income beneficiaries, Stubbs says.

"I fully expect that there will be only 5 major players in the market and offerings will be confined to metroplex areas where a large number of beneficiaries reside," Stubbs says.

These individuals often can't afford a traditional Medigap policy and have opted for the more affordable private plans. In today's market, it's estimated that more than 40 percent of the nation's beneficiaries earn less than $20,000 per year, and low-premium Medicare Advantage plans have played an important role in providing access to affordable benefits.

In many markets where private plans, particularly HMO plans, have no premiums, seniors with low incomes have relied on Medicare Advantage for years to deliver affordable copays and even some ancillary benefits, such as dental or vision, that traditional Medicare doesn't offer them. Unfortunately, when plans go out of business or pull out of certain areas, beneficiaries get stuck with some tough choices, Stubbs explains.

"A large portion of seniors cannot afford a supplement and unless there is another advantage plan offered, they end up back on original Medicare," he says.

There is also a third possible future for Medicare Advantage — a continuation of the status quo by Congress.

"Politicians understand that a high percentage of seniors turn out to vote and any negative changes to their coverage will likely result in losing their vote," Martin explains. "President Bush made seniors very happy with his introduction of Medicare Part D, and likewise President Obama expanded the Star Bonuses to plans with 3 stars as a way to head off significant funding cuts to plans with three starts — in an election year, no less."

In other words, there may be legislation introduced that would save the funding for Medicare Advantage because no political party wants to be known as the party that allowed Medicare Advantage plans to die on their watch.

All the uncertainly leads us back to same central truth that health economists have been clamoring about for years, which is that the Medicare program is unsustainable on its present course and needs major reform. If original fee-for-service Medicare remains unchanged and inefficient, then it will continue to have out-of-pocket costs that are unpredictable.

Any savings generated by PPACA's changes to Medicare Advantage won't save enough to sustain all of Medicare long-term under any scenario, insiders argue. More likely, any adverse effects on Medicare Advantage will further the problem by forcing beneficiaries back into the traditional fee-for-service program, which is fraught with fraud and burdensome regulations which make it far from cost effective.

There are some unpleasant changes that must be made by both carriers and beneficiaries if we are to ever hope for a measure that will truly solidify the availability of Medicare for future beneficiaries.

Perhaps AHIP President Karen Ingagni said it best in her March letter to CMS: "To prevent the MA program from going into a tailspin, the agency needs to implement a solution that will be big enough to solve the problem."

To be sure, there is much in front of Congress that must be dealt with even beyond private plans, such as permanent fixes for the decrease in payments to doctors that continually get kicked down the road by legislators. Until these deeper issues are resolved, it's anyone's guess as to whether private plans will survive.