The Daily Dish

A Novel Medicare Reform Proposal

DOUGLAS HOLTZ-EAKIN | JANUARY 25, 2024

It is no secret that the current Medicare program is financially unsustainable, with the most visible indication being the exhaustion of the Hospital Insurance trust fund inside of 10 years. Accordingly, policymakers have important choices to make regarding the structure of the program in the future.

It is less widely recognized that beneficiaries have choices as well, and must make decisions regarding Medicare Advantage, Part D (prescription drugs) plans, and private Medigap plans. These choices will respond to future Medicare reforms, and it is important to understand these changing dynamics.

Fortunately, AAF's Center for Health and the Economy (H&E) houses a microsimulation model for analyzing Medicare that is based on the concept of beneficiaries' choices among the options: traditional fee-for-service (FFS) Medicare, Medicare Advantage, private Medigap insurance, and stand-alone or bundled Part D plans. The outlook under current law – the "baseline" – can be seen here.

Today, H&E is releasing analysis of an innovative reform to the Medicare program. As the author, Steve Parente, notes:

> Market solutions for Medicare have been a Medicare reform proposal concept for well over a decade. Broadly, market reform policies involve providing beneficiaries with a fixed amount of money, often in the form of a voucher or subsidy, to help them purchase private health insurance. This is in contrast to the current Medicare structure, which is a government-run program, albeit with the option of purchasing Medicare Advantage plans, which are managed by private health insurance firms with Medicare program oversight. The central tenet of Medicare market reform is that by introducing competition among private insurers, premiums may more accurately reflect costs and quality of care.

In contrast, the Medicare Market Choice proposal analyzed in this new paper does not simulate a voucher available for all health reform options. In that way, it is not a traditional "premium support" reform. Instead, the proposal retains the option of choosing Medicare FFS, the default Medicare option. Yet FFS is priced as a separate Medicare choice with a market-based premium based on current FFS spending. Beneficiaries choose between this market-priced Medicare FFS option and Medicare Advantage.

What happens?

Not shockingly, the simulations indicate a big shift from Medicare FFS to Medicare Advantage (2.7 million in 2025 and 3.0 million by 2033). Perhaps more impressive is that the Market Choice policy would result in significant saving of nearly $1 trillion over 10 years if implemented from 2023 to 2033 (uh, that is by yesterday, but still a lot at any point in the future). The per-capita cost of the Medicare program would be reduced under Market Choice by about $1,000 per person, primarily through a reduction in expenses on Medicare FFS.

How does all this happen? Incentives. The premiums paid by seniors would be significantly higher under Market Choice for the FFS population, with additional premiums ranging from $271 to $446 per month over the 10-year period. This accounts for the higher cost of pricing Medicare FFS as a choice based on its current cost. Medicare Advantage has the lowest premium, ranging from $214 to $351 per month from 2023 to 2033.