Weekly Checkup

CBO Examines Premium Support, Finds Savings

SEPTEMBER 26, 2013

A recent study by the Congressional Budget Office (CBO) reveals that Medicare premium support models could significantly reduce the costs of the program for both the federal government and beneficiaries. Under the two reform models evaluated, Medicare beneficiaries would have the option to purchase coverage in a competitive market-like system, selecting between the fee-for-service Medicare program and private health plans offering the same benefits as the traditional program. The proposals differ based on whether the premium support offered would be calculated based on the second lowest bid or via the average bid. The study focused on four areas of potential savings for each proposal, detailed below in Table 1.

Table 1. CBO Budget Projections for Premium Support Models

Areas of Potential Savings	Second-Lowest-Bid Option	Average-Bid Option
Effects on Federal Spending	$45 billion reduction in 2020	$15 billion reduction in 2020
Effects on Beneficiaries' Premiums	Average 31% increase	Average 6 % decrease
Effects on Beneficiaries' Total Payments	11% increase	6% decrease
Effects on Combined Federal Spending & Beneficiaries' Total Payments	5% decrease	4% decrease

The CBO concludes that, as compared to current law, the growth of Medicare spending would be reduced due to the increased competition fostered by the policy change. The CBO sees potentially wide-ranging effects as a result of premium support, stating confidently that "by strengthening price-based competition in Medicare, a premium support system could change that dynamic within the program and perhaps in the broader health care system."

While the CBO found that both proposals created an overall decrease in federal and beneficiary spending, the paths to those reductions are markedly different. Under the second-lowest-bid option, the government would be required to make reduced payments to insurers, enabling significant federal savings. On the other hand, the average-bid option requires a larger government contribution towards plan costs, which has the effect of decreasing premiums for beneficiaries. The report found that both reforms would reduce out-of-pocket costs, such as deductibles and copays, as increased competition would drive down the total cost of services.

The two reform proposals yield nearly identical cost-savings when the effects on federal and beneficiary spending are combined. The second-lowest-bid option results in a combined 5 percent decrease in spending, while the average-bid option results in a combined 4 percent decrease. Considering the report estimates implementation in 2018 and calculates savings in 2020, it is clear that both reforms could significantly reduce spending within a short amount of time. Which proposal is ultimately best for reforming the Medicare system is certainly up for debate. However, as a result of this study, it is clear that premium support could reduce the ever-ballooning costs associated with Medicare.