The Daily Dish

Considering the Effects of a Medicare Buy-In

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Eakinomics: Considering the Effects of a Medicare Buy-In
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Previous editions of the Dish detailed the obvious problems with Medicare buy-in proposals. In this edition, I take a different line. Let's assume that there was a popular public option in the individual marketplace for people between the ages of 50 and 64 for little to no taxpayer cost. Yes, it's a bit of a fantasy-land assumption, but it's a worthwhile thought experiment to consider the market dynamics that would result from such a policy.

If such a plan were popular, it would be in large part because of its competitive premiums, made possible by Medicare payment rates that are often substantially lower than private rates. One study estimates that private payers paid 241 percent of Medicare rates on average in 2017, while the Congressional Budget Office estimated private payers' payments were 189 percent of Medicare for inpatient expenses in 2013.

Medicare might pay significantly less per treatment, but the population for this Medicare buy-in is older and thus costlier on average. Therefore, these reduced rates would need to be sufficiently low to overcome the adverse selection that comes from such a risk pool while maintaining a competitive premium.

Furthermore, in our assumed scenario, a large group of older individuals have moved out of the individual market and into a Medicare-type program. For a reference point, in 2016, the last year these numbers were available, over a quarter of individual market enrollees were older than 55, and nearly half of individual market enrollments were made up of those over 45. Such a departure of older individuals from the individual market risk pool would leave it younger, which would place significant downward pressure on private-insurance premiums.

That same large group of older people, however, would now be covered by insurance that reimburses providers at the significantly reduced rates stipulated by Medicare, placing more pressure on providers to negotiate higher rates with private insurers to offset the loss in income. Such a shift would place upward pressure on individual market premiums. With providers reimbursed by a larger proportion of Medicare rates, they would also be incentivized to seek out more private contracts, take on fewer Medicare patients, or curtail the services they offer to Medicare patients.

What would be gained in this scenario? There would be a smaller individual market with a healthier risk pool, yes, but not necessarily lower premiums for these people. It doesn't look like this would be a win for patients currently enrolled in Medicare either, as providers would be incentivized to limit their services to them. And I've only assumed that the premium offered by the expansion is competitive with plans of similar coverage, not the least expensive plan, so it would not be right to also assume that the number of insured would increase—an objective of buy-in proponents.

In short, there's no way a Medicare expansion bill insures more people without costing more money.

Government intervention in this way would set off a domino effect of cost shifting that would leave few people untouched.