The Daily Dish

Get Ready for the Medicare Advantage Debate

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Health policy wonks (and devoted readers of Jackson Hammond in the Weekly Checkup) are familiar with Medicare Advantage (MA), but the policy world in general should become acquainted, too. The untethered spending dreams of the progressive left have been consigned to the dustbin of history, yet the federal budget remains on an unsustainable trajectory. Congress will quickly realize that even cutting annual discretionary spending back to fiscal 2022 levels will not put a dent in the spending growth that outstrips revenue increases as far as the eye can see. The road to fiscal sanity runs through entitlement reform.

In the case of Medicare, this means slower spending growth and it also asks the question: Which Medicare? Traditional Medicare consists of Part A (inpatient/hospitals), Part B (outpatient/doctors), and Part D (outpatient drugs) and is delivered largely in a fee-for-service (FFS) manner: The beneficiary sees the doctor and the doctor sends Medicare the bill. MA is comprehensive coverage of all health services similar to the PPO or HMO in the commercial sector. MA plans receive a monthly payment to manage all the health services of the beneficiary and are rated on the quality of their operations using the MA Stars program.

To frame the debate, consider the recent report of the Medicare Payment Advisory Commission (MedPAC), a non-partisan body established by Congress. It drives home the first important point: MA is very popular. In 2023, a majority of Medicare beneficiaries will choose MA over traditional Medicare. Among the reasons it is popular is that the average beneficiary has a choice among 41 plans.

The report notes that MA plans can deliver the basic bundle of Medicare benefits at 83 percent of the cost of FFS. The key to having a choice among 41 plans is that there are several options as to what plans can do with the 17 percent savings. It can simply reduce the monthly premium. Or it can offer supplemental benefits – for example, vision and dental care – that are not available elsewhere in Medicare. Or it can do some combination of both. MedPAC notes that the average MA beneficiary has access to $2,350 in extra benefits.

But from Eakinomics' perspective, the key insight offered by those 41 plans is that they can be, and are, different across the country. MA can be tailored to the local population characteristics. And if beneficiaries are choosing one of the 41 plans, they are not choosing 40 of them. That means business models that do not meet the desires of the beneficiaries can simply go out of business. One could not imagine the political system allowing FFS to simply go away. This makes MA a much better foundation on which to build the future of Medicare.

This hardly means that MA is perfect. But it does ensure that when entitlement reform gets serious, MA will be at the center.