



Weekly Checkup

Medicare Cuts

JACKSON HAMMOND | FEBRUARY 24, 2023

Ever since President Biden’s State of the Union (SOTU) address, Democrats and Republicans have spent a good deal of time accusing each other of cutting (or planning to cut) Medicare spending. **Democrats claim Republicans *want* to cut traditional fee-for-service (FFS) Medicare, while Republicans claim the Biden Administration *is* cutting Medicare Advantage (MA). Let’s look at what these supposed “cuts” are and see if we can separate the political rhetoric from the policy reality.**

First, let’s review the “cuts” to MA. **Recently, the Center for Medicare and Medicaid Services (CMS) released the [proposed rate notice rule](#) for MA. By its own calculations, CMS predicts that MA plans will see a 1.03 percent increase in revenue in 2024. There’s dispute about this, however – that number represents a 2.27 percent *decrease* before factoring in the expected growth of the “risk adjustment trend” of 3.3 percent. The operative word here is “trend” – CMS doesn’t actually know how much risk adjustment payments will go up in 2024 until the 2023 data come in. The 2.27 percent decrease in plan revenue before factoring in the “trend” prediction is largely from updates to hierarchical condition categories (HCCs) – essentially the payment codes for a given condition. **CMS is trying to synchronize MA HCCs with FFS Medicare HCCs and so eliminated around 2,000 of these codes – many of which were for the early stages of a disease (prediabetes, for example). Synchronizing these codes may appear to make sense until one learns the reason the code systems were different in the first place.** In a nutshell, the MA codes were intended to incentivize plans to identify conditions earlier, thus leading to both treatment savings and better care for beneficiaries. One [Avalere Health study](#), which doesn’t factor in the “trend” prediction, finds that the new rule will decrease benefits for MA enrollees by an average of \$540, which would mean around \$15 billion in decreased benefits, or “cuts,” in one year. A lot of the decrease hinges on how the risk adjustment growth pans out, and plans may actually see a slight bump if CMS’ prediction is correct.**

Next, let’s review the “cuts” to FFS Medicare. **Raising the specter of FFS cuts is a pastime of those on the left (and, in many cases on the right) to attack any plan that might affect recipients’ benefits.** During the midterms and after the SOTU, Democrats pounced on Republican proposals for entitlement reform, specifically that of the [Republican Study Committee](#) (RSC) and a [plan](#) by Senator Rick Scott (R-FL). Senator Scott’s plan would have sunset every federal law not reauthorized by Congress in five years, including (until he edited it) Medicare and Social Security. This plan went exactly nowhere, so we’ll focus on the RSC plan.

The [RSC’s plan](#) would raise the age of Medicare eligibility to 67 (in line with Social Security) and then index the age of eligibility to life expectancy, create a federal plan that combines Parts A, B, and D, merge the trust funds, eliminate quality scoring bonuses from MA, and make reforms to Medigap plans, among other items. **The exact math of the RSC changes isn’t made clear in the document, but neither is Democrats’ reasoning that it would “cut” FFS. The closest thing to a “cut” is simply delaying when seniors, who are living and working longer than ever, can claim benefits, and of course a later eligibility means less money spent.**

Are there, in fact, cuts looming for America’s favorite health entitlement program? Probably not. The RSC reforms are intended to make FFS Medicare sustainable – which it is [currently not](#). A real cut would be

refusing reforms and letting the Medicare Part A trust fund go broke and forcing benefit cuts and/or tax increases. As for MA, much hinges on the risk adjustment changes. One reason CMS made changes to the HCCs is that numerous MA plan sponsors [have been accused](#) of inflating their risk adjustment scores by manipulating HCC codes. If the plans are indeed engaging in this practice, cracking down on them wouldn't exactly constitute a "cut."

While yelling "Medicare cut!" might be an easy way to attack one's political opponents, it does nothing to actually fix the program's enormous problems. Congress and the administration would far better serve Medicare beneficiaries by focusing their energy on the latter.