The Future of Medicare Advantage

The Heritage Foundation
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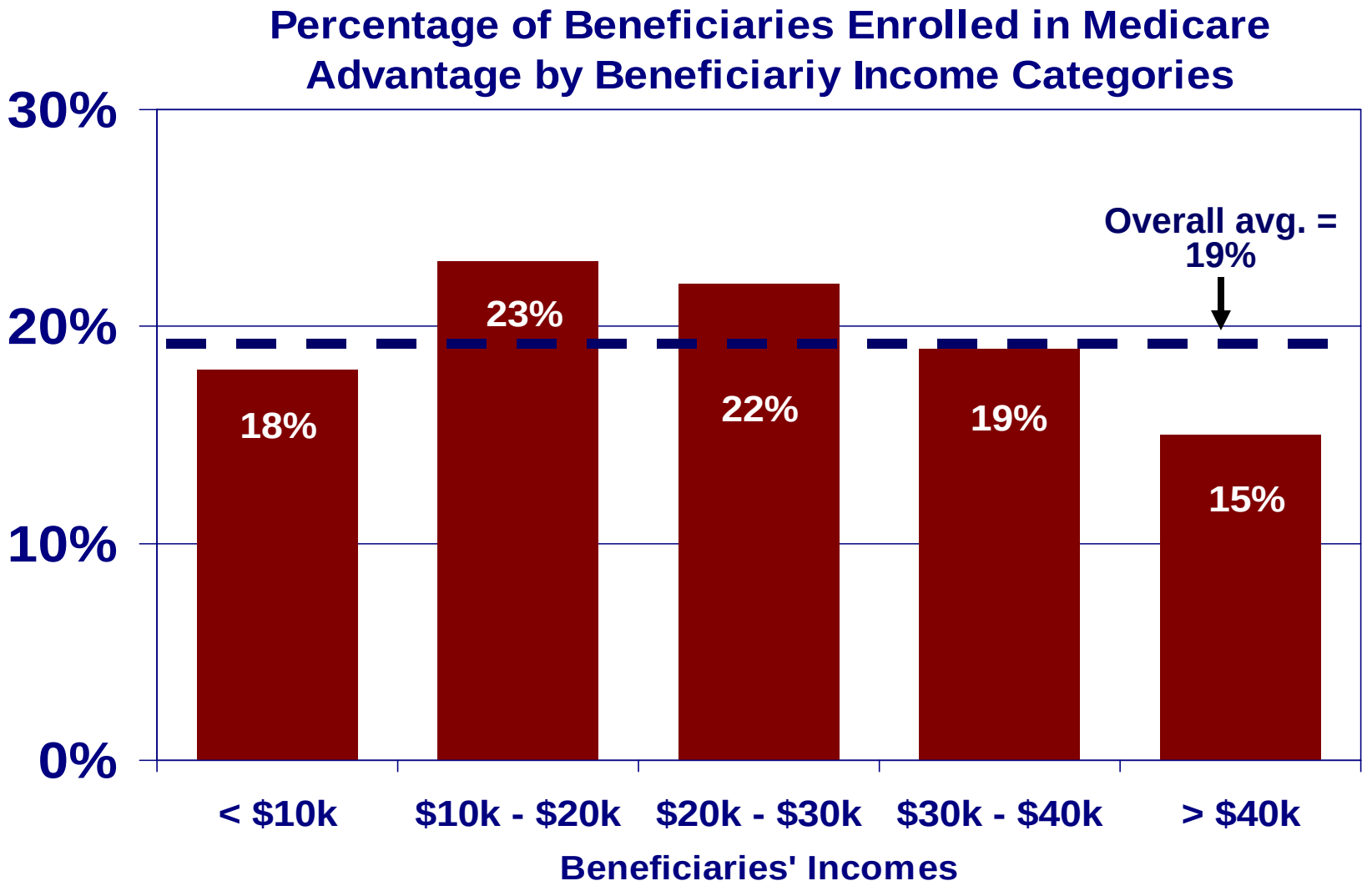
Disclosure

- I am a consultant to health insurance industry clients. This consulting work includes research and analysis of issues related to Medicare Advantage payment rates.

MA Enrollment by Income



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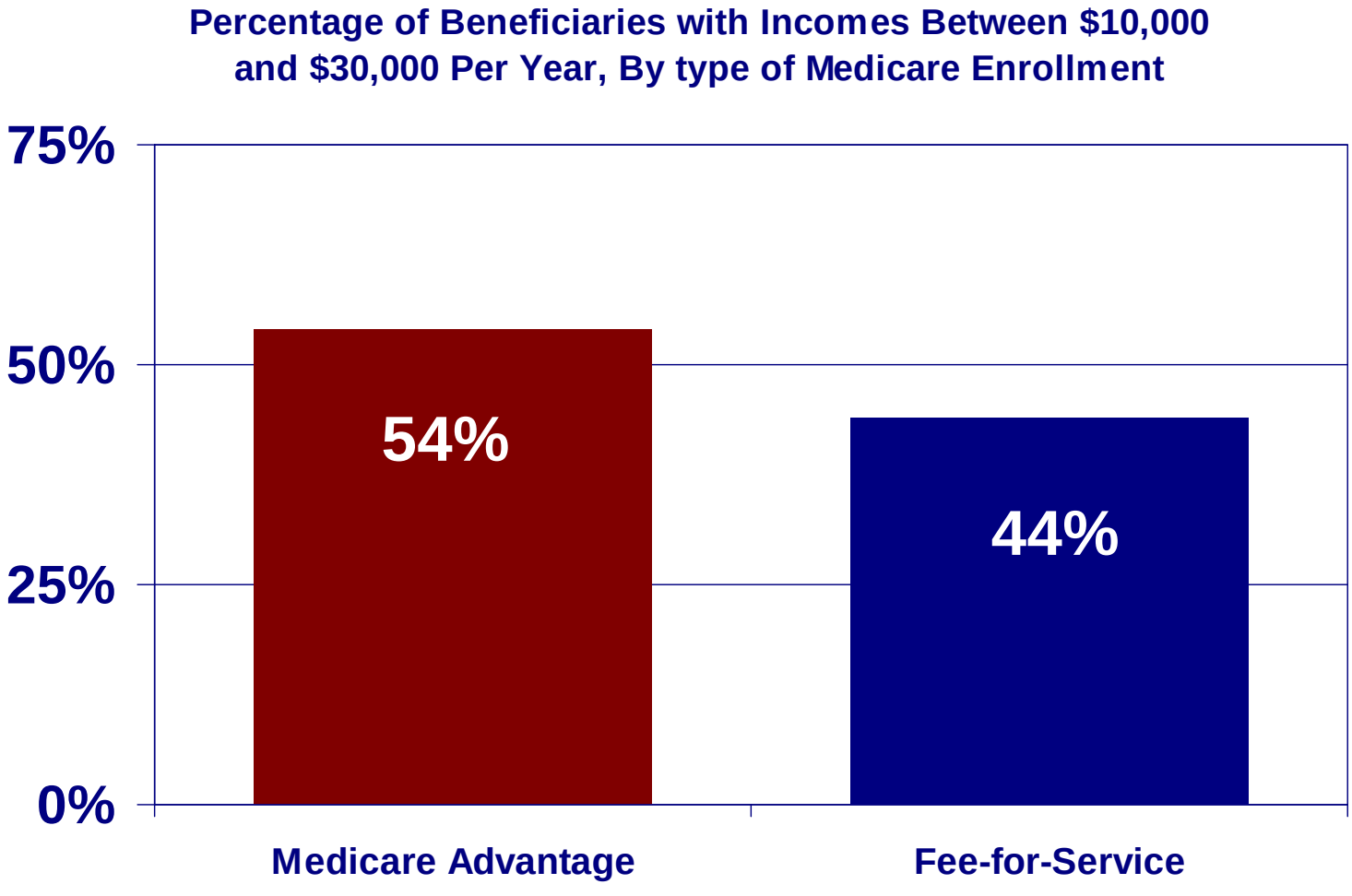
Source: "Examining Sources of Coverage Among Medicare Beneficiaries: Supplemental Insurance, Medicare Advantage, and Prescription Drug Coverage," Kaiser Family Foundation, August 2008 (based on 2006 Current Beneficiary Survey).

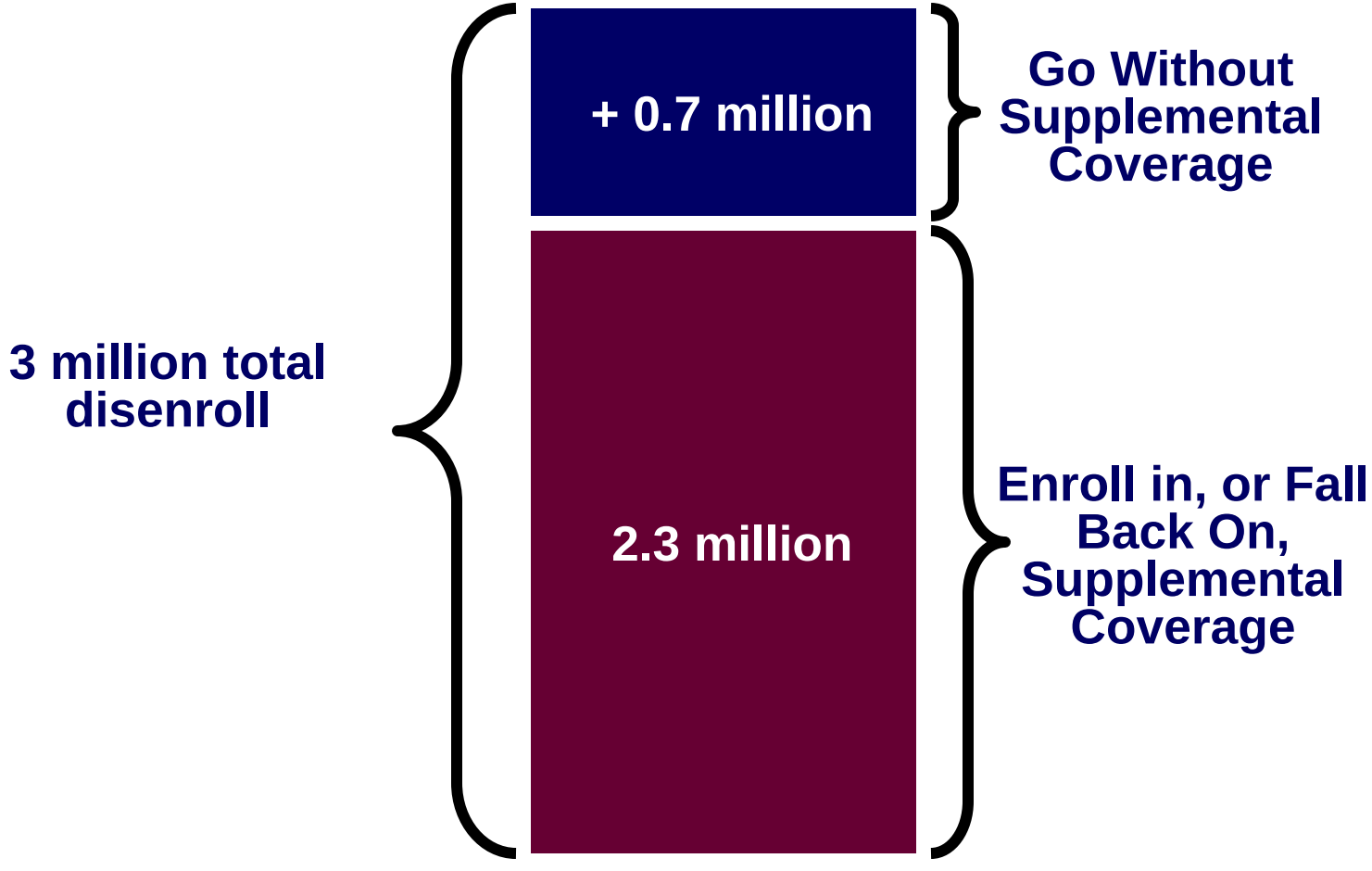
MA and FFS Enrollment, by Income



Source: "Examining Sources of Coverage Among Medicare Beneficiaries: Supplemental Insurance, Medicare Advantage, and Prescription Drug Coverage," Kaiser Family Foundation, August 2008 (based on 2006 Current Beneficiary Survey).

MA and Supplemental Coverage

MA Disenrollment Assuming Benchmarks Set at County-Measured FFS Costs



Source: "The Impact of Reductions in Medicare Advantage Funding on Beneficiaries," Adam Atherly, Ph.D. and Kenneth E. Thorpe, Ph.D., Rollins School of Public Health, Emory University, April 2007.

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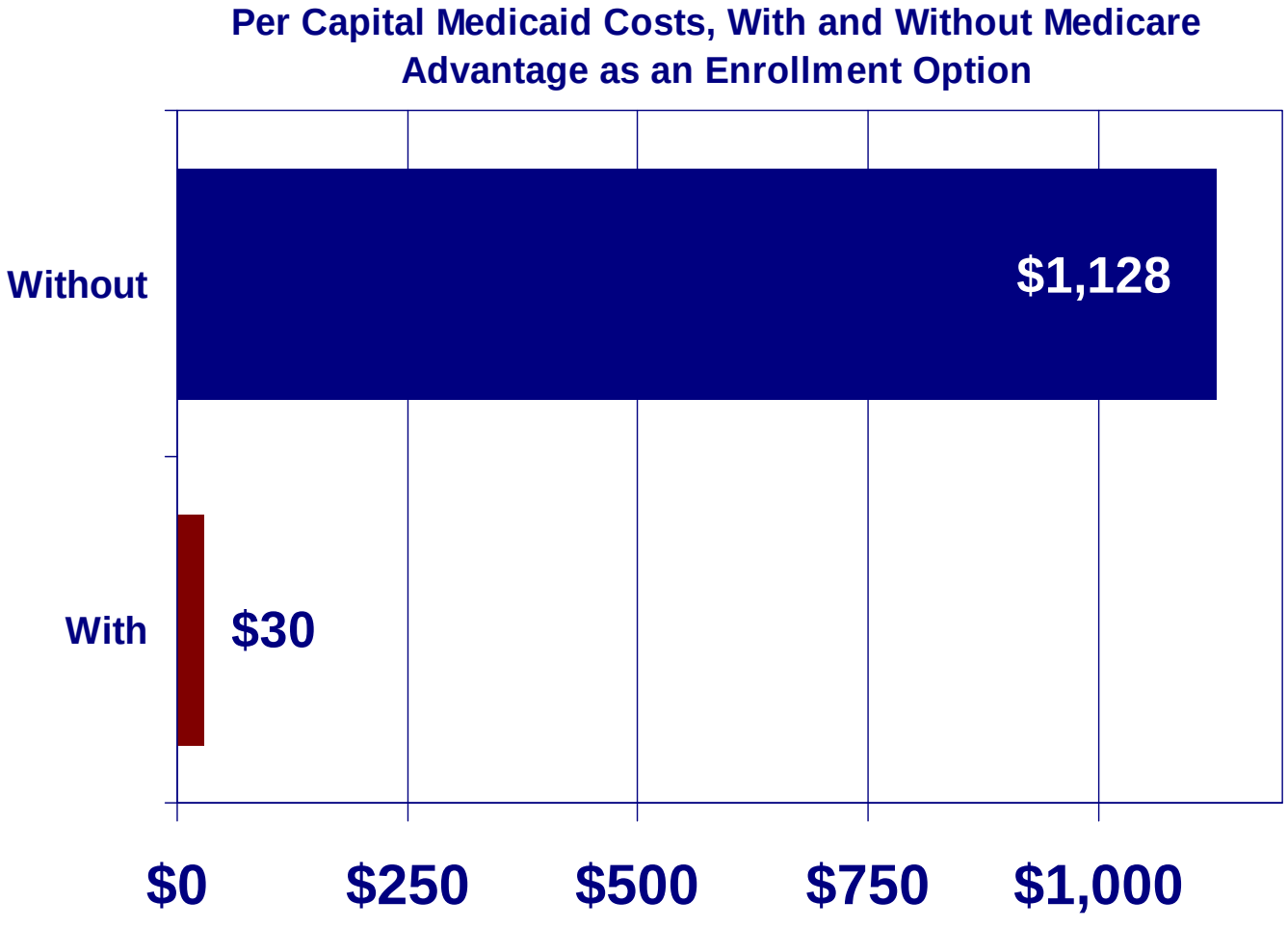
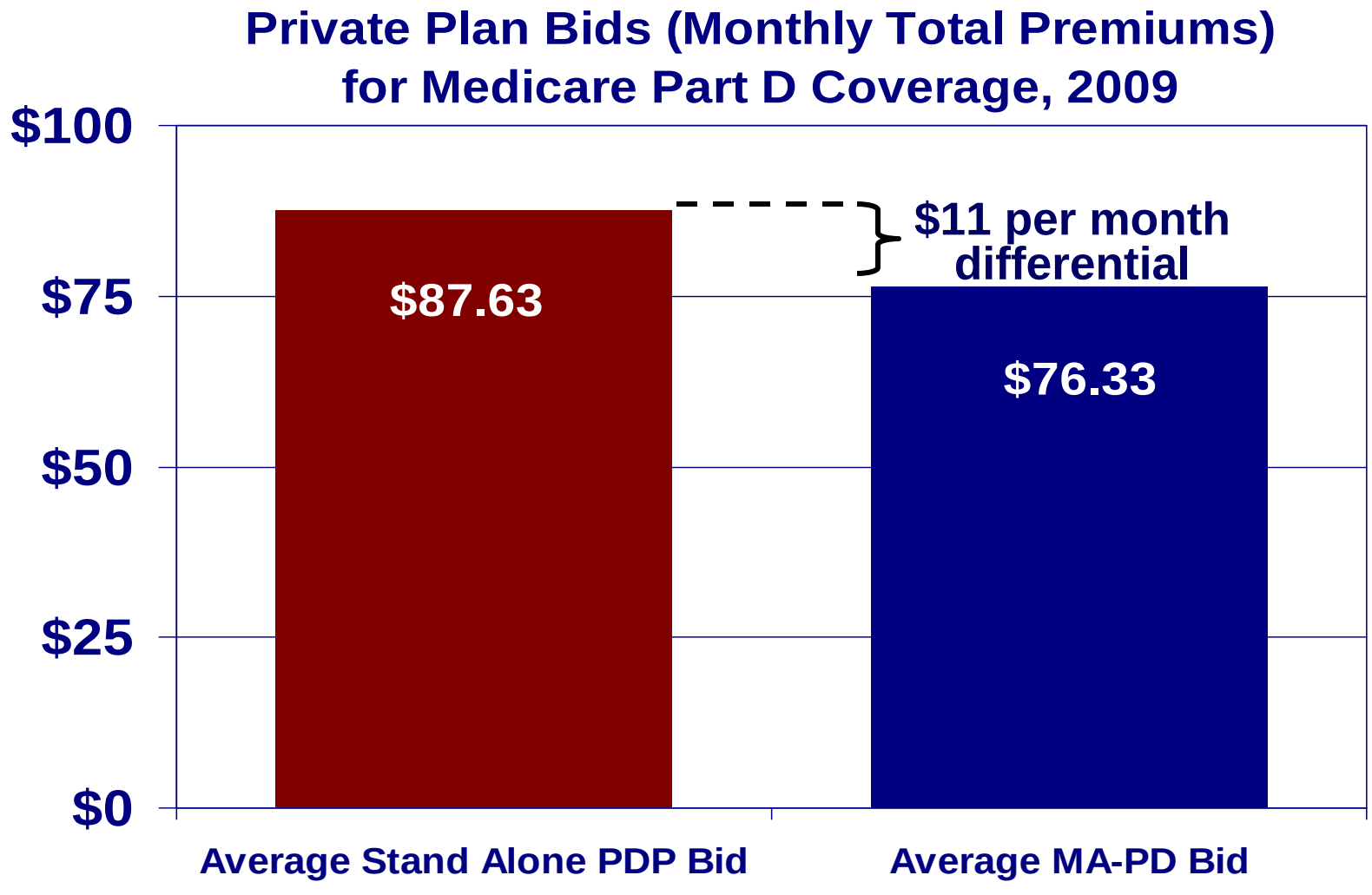
MA Enrollment and Medicaid Cost Interaction



The study found that overall Medicaid costs would increase about $4 billion over five years if MA plans were not available (that estimate would be much higher today).

Source: "Value of Medicare Advantage to Low-Income and Minority Medicare Beneficiaries," Adam Atherly, Ph.D. and Kenneth E. Thorpe, Ph.D.,Rollins School of Public Health, Emory University, September 20, 2005.

MA and Medicare Part D



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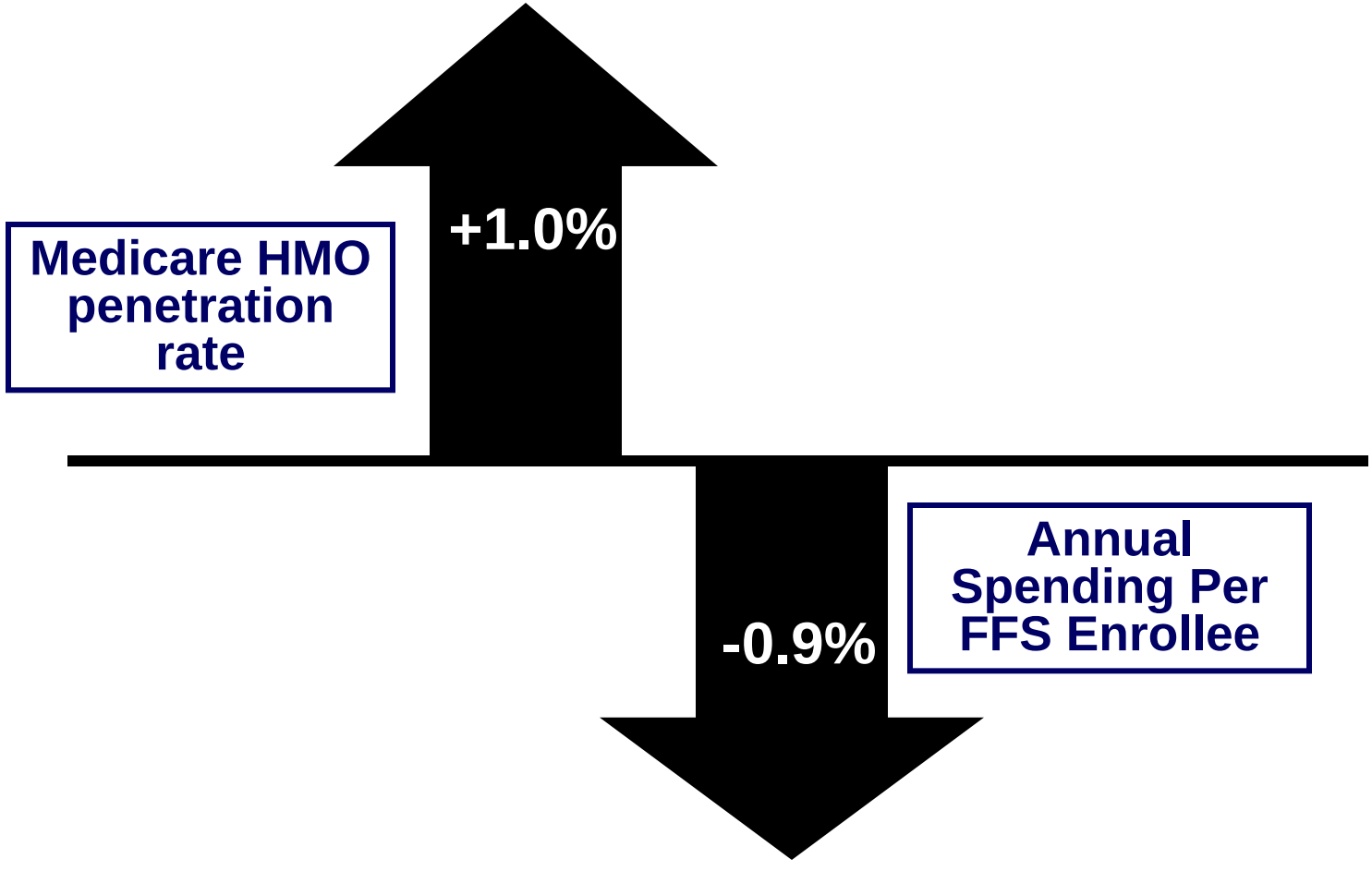
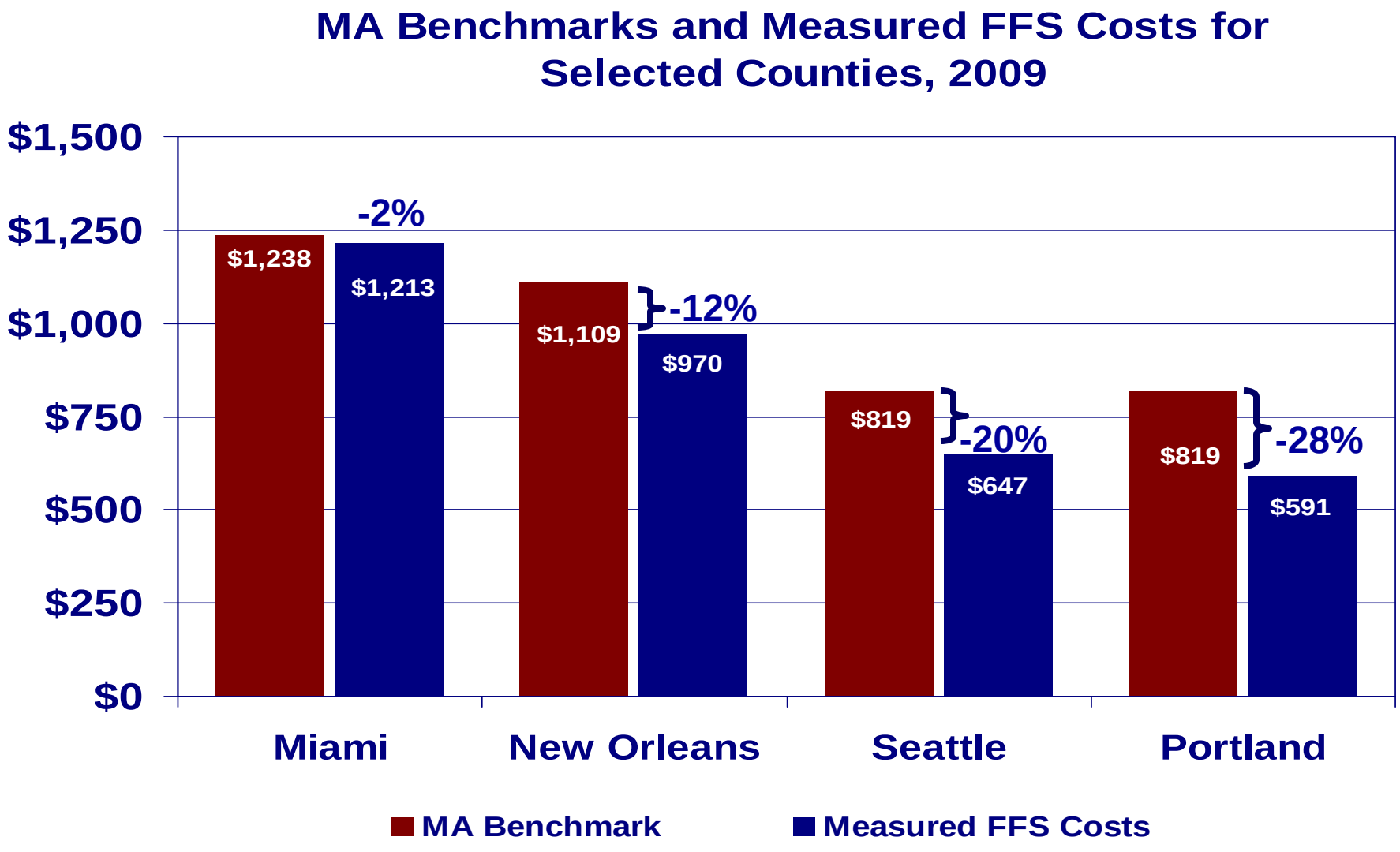
Source: Differential average bids imputed from $11 difference cited in CMS press release dated August 14, 2008 ("Lower Medicare Part D Costs Than Expected in 2009"). See CMS press releases at: http://www.cms.hhs.gov/apps/media/press_releases.asp.

Managed Care Spillover



Source: "Managed Care and Medical Expenditures of Medicare Beneficiaries," Michael Chernew, Philip DeCicca, and Robert Town, August 2007.

MA Benchmarks and Measured FFS Costs



Source: CMS 2009 Medicare Advantage Ratebook, available at: http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/

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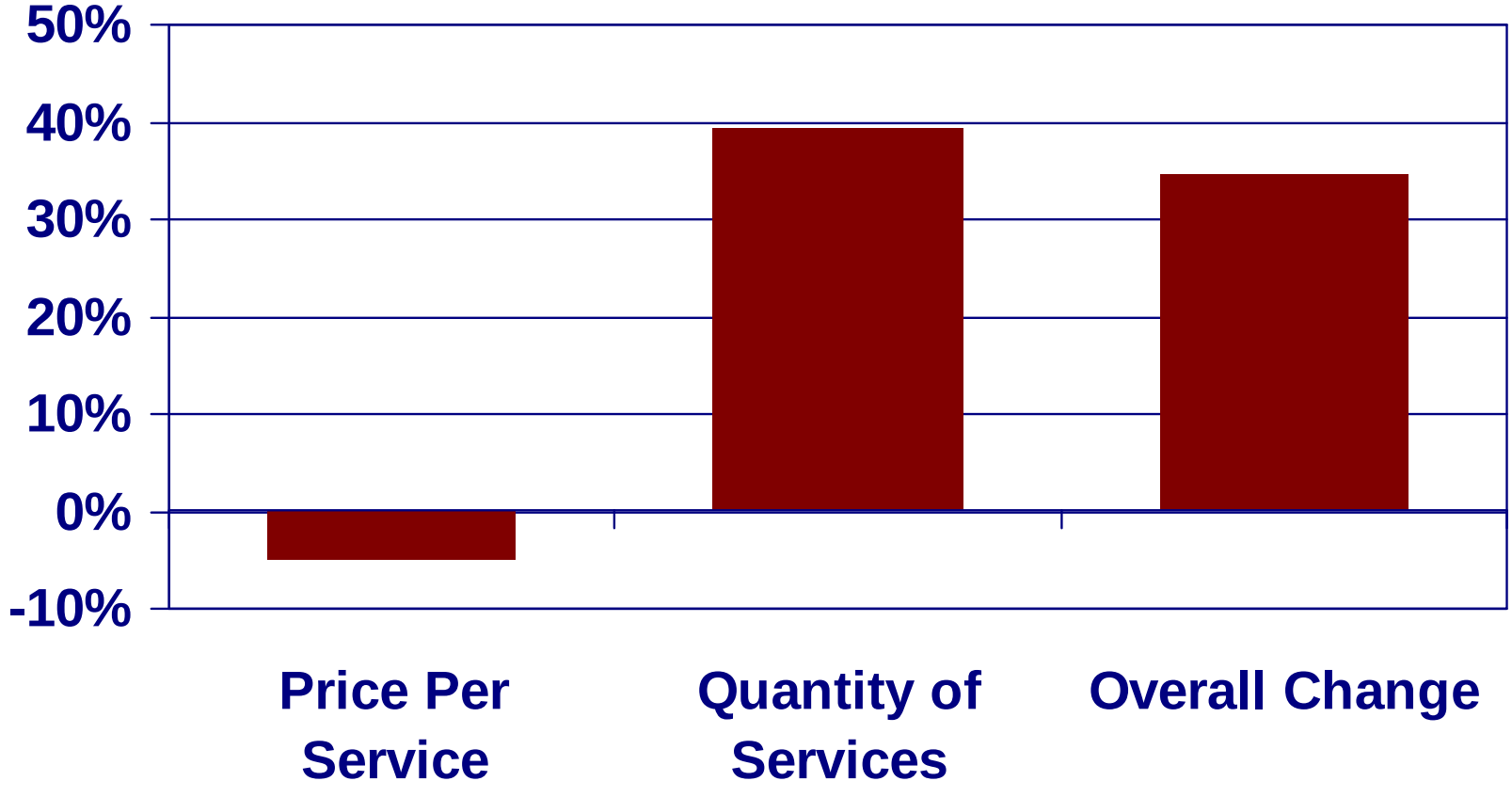
Medicare Fee-for-Service

"In previous reports, the Commission has recommended that Medicare adopt tools for increasing efficiency and improving quality within the current Medicare payment systems.... However, in the current Medicare FFS [fee-for-service] payment system environment, the benefit of these tools is limited for two reasons. First, they may not be able to overcome the strong incentives inherent in any FFS system to increase volume. Second, paying for each individual service and staying within the current payment systems (e.g., the physician fee schedule or the inpatient PPS [prospective payment system]) inhibit changes in the delivery system that might result in better coordination across services and lead to efficiencies or better quality across the system."

Reforming the Delivery System
Medicare Payment Advisory Commission
June 2008

Medicare: "Volume and Intensity"

Composition of the Change in Real Medicare Physician Spending Per Beneficiary, 1997 to 2005



Source: "Factors Underlying the Growth in Medicare Spending on Physician Services," Congressional Budget Office, Background Paper, June 2007, p. 15.

Medicare Part D Competitive Design

1. No Government-run competing plan.
2. No Government-administered price controls.
3. Private plans compete for market share on a level playing field.
4. No distortions from supplemental insurance filling in cost-sharing.
5. Employers act as plan sponsors rather than wrap around insurers.
6. Market areas are larger than counties.
7. Annual open enrollment with clear and transparent consumer information.