

Modernizing Medicare Cost-Sharing Rules

Cost-Sharing Reforms Can Improve the Value of the Medicare Benefit for Beneficiaries

- Modernizing the Medicare benefit by restructuring cost-sharing rules can make the program simpler to navigate by establishing uniform cost-sharing rules while providing seniors with more predictable costs.
- By reducing spending on unnecessary care and protecting against catastrophic costs with an out-of-pocket limit, cost-sharing reforms better target Medicare dollars where help is needed most.
- Compared to other reforms that rely more on cost shifting, cost-sharing reforms achieve savings by changing the incentives and behavior of beneficiaries to reduce costs and improve outcomes without increasing overall costs for seniors.
- Lowering premiums resulting from the reduction in the growth of Medicare spending will offset the modest increased out-of-pocket costs for Medicare services for most seniors.
- Comprehensive reforms of cost sharing rules establishing an out-of-pocket limit will eliminate the need for seniors to purchase expensive Medigap policies.
 - Roughly 80 percent of Medigap enrollees would see a reduction in out-of-pocket spending under a combination of cost-sharing benefit design and supplemental coverage reforms, with an average net reduction of \$415 per person.¹
- Reforms can provide additional protections for low-income and high-cost beneficiaries through income-related out-of-pocket limits or deductibles.

Cost-Sharing Reforms Encourage More Efficient Spending

- The lack of a coherent cost-sharing system drives over- and mis-utilization of care. Creating uniform rules and giving beneficiaries more “skin in the game” will allow seniors to more clearly understand high-value choices and lead to a more efficient use of resources, which will benefit seniors and society as a whole.
- Limiting supplemental first-dollar coverage will encourage more efficient use of resources and slow long-term health care spending growth.
 - Medicare spends about 33% more on care for beneficiaries with Medigap plans, and 17% more on those with supplemental retiree health plans due to higher utilization.
- These reforms can provide significant savings – up to \$175 billion over ten years – and extend the life of the Medicare trust fund.

Cost Sharing Reforms Have Broad Bipartisan Support

- President Obama, Senator Orin Hatch (R-UT), Senator Tom Coburn (R-OK), Senator Richard Burr (R-NC), and House Majority Leader Rep. Eric Cantor (R-VA) have all expressed support for cost-sharing reforms.²
- Cost-sharing reforms have been included in proposals from: the Fiscal Commission, Bipartisan Policy Center, Gang of Six, Urban Institute, Center for American Progress, National Coalition on Health Care, Heritage Foundation, American Enterprise Institute, Commonwealth Fund, MedPAC, and in several of the President's budget submissions.

A Bipartisan Path Forward's Cost Sharing Reform Proposal

In *A Bipartisan Path Forward to Securing America's Future*, former Senator Alan Simpson and Erskine Bowles proposed a modified version of the cost-sharing reforms in the Fiscal Commission report. The proposal includes:

- Replacing current Medicare cost-sharing rules with a unified deductible, uniform coinsurance, and an out-of-pocket maximum, while varying the deductible and out-of-pocket limit with income and allowing value-based adjustments in coinsurance for low- or high-value services.
- Restricting supplemental “Medigap” plans from providing first-dollar coverage of cost-sharing liabilities.
- Limiting near first-dollar coverage of supplemental TRICARE for Life plans.
- Requiring a reformed Federal Employees Health Benefits Program (FEHBP) to subsidize retirees' premiums rather than their cost-sharing.
- Imposing a surcharge on Medicare premiums for those with employer-sponsored retiree plans while offering an option for seniors to “cash out” and instead use the value to subsidize their Medicare premium.

¹ <http://kff.org/medicare/report/potential-effects-of-medigap-reforms/>

² http://www.nytimes.com/2013/03/29/us/politics/common-ground-in-washington-for-medicare-changes.html?pagewanted=all&_r=0