Paying More for Less: Medigap Cost Sharing

Since 1965, Medicare has ensured guaranteed health care benefits for older adults and people with disabilities. As policymakers grapple with how to reduce the nation's deficit, many are looking to Medicare for savings. Unfortunately, some of the most discussed Medicare proposals share a common theme: **forcing people with Medicare to pay more for less health security.**

Some proposals would increase costs for beneficiaries who purchase Medigap plans – a widely used form of supplemental insurance to Medicare. Some proposals would add a surcharge (or tax) to Medigap premiums. Other plans would eliminate or discourage first dollar coverage under Medigap plans – meaning people would pay a larger share of health care costs through increased deductibles, coinsurance and/or co-pays.

Increased Medigap cost sharing wrongly places the burden on beneficiaries – as opposed to providers – to self-ration and decide what treatments they need or may not need. Prohibiting or discouraging Medigap first dollar coverage would bring the most harm to those beneficiaries who have the greatest need for coverage – the sickest individuals and people with low and modest incomes.

People with Medigap: Just the Facts

9.3 million people rely on Medigap plans. About **one in four** Medicare beneficiaries chooses a Medigap plan to cope with high and sporadic out-of-pocket costs resulting from gaps in Medicare coverage. Most of these beneficiaries do not have access to another form of supplemental insurance, like retiree benefits or Medicaid.

People with Medigap plans are not wealthy. Nearly one half (**46%**) of people with Medigap have annual incomes under **$30,000**. People living in rural communities with low incomes are more likely to choose a Medigap plan.

People pay high premiums for Medigap plans. On top of Medicare Part B and D premiums, people pay a significant premium for Medigap coverage. Nationwide, the average Medigap plan costs **$183** per month.

Most select a Medigap plan with low cost sharing. Beneficiaries can select between 10 different Medigap plans. The two most utilized plans (Plan C and Plan F) are those with the least amount of cost sharing. More than half (**54%**) of people with a Medigap plan have first dollar coverage.

Many seniors would pay more and forgo needed health care.

- One of the most harmful Medigap proposals is that offered by Alan Simpson and Erskine Bowles, co-chairs of the National Commission on Fiscal Responsibility and Reform. Under this plan, one in five beneficiaries would experience significant cost increases, with the average increase amounting to $806 per year.[i]

- A proposal offered by the Obama Administration would add a Part B premium surcharge equivalent to 15% of the average Medigap plan premium for those who choose Medigap plans with low cost-sharing requirements.[ii] Like the Bowles-Simpson idea, this plan saves dollars merely by forcing beneficiaries to pay more.

- **Medicare beneficiaries pay a high price for health security through Medigap coverage**. Premiums for Medigap Plan C range from $161 to $213 in most states. People with a Medigap plan pay this premium on top of the Part B premium of $105 per month, Part D premium, averaging about $30 per month nationwide and other out-of-pocket costs depending on a person's health needs and Medigap coverage.[iii]

People with Medigap: Mary

"As an [Original] Medicare user since 1992, my needs have been limited, but when necessary, it is there to help me with my medical issues. I know there are efforts to get the consumer to pay more. Presently, my Medigap, [Part] D and Social Security deduction cost me annually about $4,000, with Social Security being the rock of my income. **I could not handle additional costs.**"

– Mary (Orlando, Florida)

- When forced to pay more out-of-pocket, people are more likely to skip necessary visits to the doctor's office. Going without this care is shown to increase hospitalizations and emergency room visits among low-income and older populations, leading to higher Medicare costs over the long term.[iv]

- Studies show that providers – not beneficiaries – determine the necessity of health care services.[v] Even well-informed patients follow their doctor's advice, yet Medigap proposals provide no incentive for providers to make wise, cost-effective choices.

Prohibiting first dollar coverage harms the most vulnerable.

- People with Medicare who need the most protection would be among those hardest hit by eliminating first dollar coverage in Medigap plans. Under the Bowles-Simpson proposal, a greater share of Medigap beneficiaries in fair or poor health (37%) and people who have one or more hospitalizations per year (66%) would pay more for health care.[vi]

- Similarly, those with low and modest incomes would be disproportionately harmed. One in four Medigap beneficiaries with incomes under 300% of the federal poverty level ($34,470 per year) would face higher costs – a greater share than those with higher incomes. [vii]

The Real Deal: Cost Savings vs. Cost Shifting

Proposals to increase Medigap cost sharing achieve savings solely by shifting costs to people with Medicare. Instead, policymakers should address the real spending problem – rising health care costs overall. One promising option involves allowing the federal government secure lower prices on pharmaceutical drugs for Medicare beneficiaries, a practice that already exists in Medicaid. Restoring Medicaid-level drug rebates for low-income Medicare beneficiaries would save over **$141 billion** in federal spending over ten years.

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[i] Kaiser Family Foundation. "Medigap Reforms: Potential Effects of Benefit Restrictions on Medicare Spending and Beneficiary Costs." (November 2011)
[ii] Office of Management and Budget. "The President's Budget for FY2014." (April 2013)
[iii] Kaiser Family Foundation. "Medigap: Spotlight on Enrollment, Premiums and Trends." (April 2013); Medicare.gov. "Medicare Costs at a Glance." (2013); U.S. Department of Health and Human Services. "Medicare prescription drug premiums to remain steady for third straight year." (August 2012)
[iv] National Association of Insurance Commissioners, Senior Issues Task Force, Medigap PPCA Subgroup. "Medicare Supplement Insurance First Dollar Coverage and Cost Shares Discussion Paper." (October 2011)
[v] National Association of Insurance Commissioners, Senior Issues Task Force, Medigap PPCA Subgroup. "Medicare Supplement Insurance First Dollar Coverage and Cost Shares Discussion Paper." (October 2011)
[vi] Kaiser Family Foundation. "Medigap Reforms: Potential Effects of Benefit Restrictions on Medicare Spending and Beneficiary Costs." (November 2011)
[vii] Kaiser Family Foundation. "Medigap Reforms: Potential Effects of Benefit Restrictions on Medicare Spending and Beneficiary Costs." (November 2011); FamiliesUSA. "Annual Federal Poverty Guidelines." (2013)