

Protect and Strengthen Medicare

Medicare Coverage Gaps: The Need to Curb Beneficiary Out-of-Pocket Spending



The Problem

Unlike most modern health insurance coverage, Original Medicare has no out-of-pocket maximum, exposing beneficiaries to limitless financial risk. While Medicare Advantage (MA) plans do include an out-of-pocket maximum in their benefit packages, the threshold is too high. This means people with high health care needs can be forced to make impossible choices between paying for rent, food, or their essential health care or medicines. Policies that cap out-of-pocket costs are already in place for the employer and individual markets, including Marketplace plans under the Affordable Care Act (ACA). People with Medicare must not be left behind.

Background

There is no cap on out-of-pocket spending for Medicare coverage through Part A (hospital coverage) and Part B (medical coverage). Due to the newly passed [Inflation Reduction Act \(IRA\) of 2022](#), Part D (prescription drug coverage) will have a \$2000 yearly cap starting in 2025. While Part C, usually called Medicare Advantage (MA), does have a cap on hospital and medical costs, the default limit is far beyond the reach of many Medicare beneficiaries at \$8,300 for in-network services and \$12,450 for in-network and out-of-network services combined. In addition, MA is not the best coverage for every beneficiary's circumstances.

Medicare beneficiaries who are also eligible for Medicaid will generally have much lower out-of-pocket expenses, [but the income and asset thresholds are very low](#), often well below the federal poverty limit. [Medicare Savings Programs \(MSPs\)](#) have higher income and asset limits than full Medicaid, but are still [extremely limited in most states](#), are widely [underused](#), and only one, the Qualified Medicare Beneficiary Program, helps with cost sharing.

Medigap supplemental insurance can be an option for some beneficiaries, but it may not be affordable for many and there are limited times when beneficiaries are assured of being able to obtain Medigap coverage. The Low-Income Subsidy, or [Extra Help](#), reduces Part D costs, but again has strict limits for income and assets.

Most people with Medicare cannot afford high and rising costs. Half of all beneficiaries—nearly 30 million people—live on \$29,650 or less per year, and one quarter live on \$17,000 or less. They also have limited savings; this is particularly true for enrollees of color: Hispanic Medicare enrollees have median savings of \$9,650, and 27% have no savings at all. The median savings for Black Medicare enrollees is \$14,500, and 1 in 4 have no savings. Even one year with significant costs may exhaust the savings of most beneficiaries.

We are encouraged by the IRA's redesign of the Part D benefit and the imminent start of Medicare drug negotiation, but more must be done to ensure people with Medicare can access the care they need.

Possible Solutions

- **Create OOP caps in Parts A and B.** Congress should establish a standardized, affordable, out-of-pocket maximum for Parts A and B, including traditional Medicare and MA.
- **Reduce Medicare Advantage Overpayments.** In 2020, MA plans [were paid 104%](#) of the amount traditional Medicare spent on the care of comparable beneficiaries. This drives up premiums for beneficiaries and costs for taxpayers.
- **Restore Medicare Prescription Drug Rebates.** Prior to the creation of Medicare Part D, the government benefited from discounts on prescription medicines for people covered by both Medicare and Medicaid because Medicaid payment rates are lower than list prices. When Part D began paying for prescriptions for these individuals, it did so at a higher cost and, at least in some cases, provides a more limited benefit. Restoring rebates for Medicaid enrollees' medications unwinds a massive overpayment to drug companies.

- **Increase access to Medigap coverage.** Though Medigaps help some people with Original Medicare afford needed care, not everyone is eligible to buy the plans, and most are only guaranteed the right to do so during very limited time frames. Congress must ensure that all beneficiaries have access to affordable, high-quality Medigap policies as well as the opportunity to re-evaluate their coverage choices as their needs change. This includes extending the same federal Medigap protections to beneficiaries under 65 as those provided to beneficiaries over 65 and providing for open enrollment, guaranteed issue, and community rating of Medigap for all people with Medicare.
- **Expand Assistance for Medicare Costs.** Low-income Medicare beneficiaries, **many of whom are enrollees of color**, often struggle to afford needed care and prescription drugs. While help paying these costs is available, those assistance programs—including the Medicare Savings Programs and the Part D Low-Income Subsidy—have overly strict, outdated eligibility rules that leave far too many people unable to afford care and unable to qualify for help. These policies must be modernized to reflect financial realities and to align with reforms made elsewhere in the health care system. Accordingly, Congress should ease or eliminate the asset tests for Medicare low-income assistance programs; lower and align eligibility thresholds; and integrate the programs' application processes, qualifying criteria, and administration. While the Inflation Reduction Act expands full Extra Help coverage to an additional 400,000 beneficiaries per year, more should be done. The Administration may soon finalize proposals that would help beneficiaries gain access to MSPs through streamlining some application and financial reporting processes.
- **Improve funding for the State Health Insurance Assistance Program (SHIP).** SHIPs provide one-on-one counseling to help people with Medicare choose the coverage option that best fits their circumstances. This reduces unnecessary expenses from coverage that is poorly suited to the beneficiary's needs. Improved funding can increase the reach and scope of the 54 SHIP programs nationally.