

# Paying More for Less: Premium Support

Medicare guarantees access to health care for older adults and people with disabilities. Together with the Affordable Care Act (ACA) and Medicaid, Medicare builds health security for Americans of all ages. Any changes to Medicare must aim for healthier people, better care, and smarter spending—**not paying more for less.**

Currently, all people with Medicare are entitled to the same set of basic benefits. Some policymakers support replacing Medicare’s defined benefit package with a fixed-dollar amount (often called a voucher) that beneficiaries would use to purchase health coverage through a private plan or Original Medicare. Converting Medicare to such a system, known as premium support, raises a number of beneficiary-related concerns.

## People with Medicare would face higher costs.

- Under a premium support system, the voucher’s value would be capped and unlikely to keep pace with inflation or rising health care costs—shifting significant costs to beneficiaries over time.
- While the voucher would help defray the cost of coverage, it would not cover the full cost of a comprehensive plan; beneficiaries would have to pay any costs or premiums above the voucher limit.
- Approximately **six in ten** people with Medicare would face higher premiums for the same coverage under a premium support system.<sup>i</sup>

## People with Medicare cannot afford to pay more for their health care.

- Half of all Medicare beneficiaries have annual incomes below \$26,200 and one quarter have incomes below \$15,250. People of color live on even less. The median income for black beneficiaries is \$17,350 per year and just \$13,650 for Hispanic beneficiaries.<sup>ii</sup>
- People with Medicare already pay a significant amount towards health care. In 2016, they paid 14% of household expenses towards health care costs, more than double that of non-Medicare households (6%).<sup>iii</sup>

## People with Medicare: Oliver

“I have always had a weak heart, but over the last year my condition got much worse. I live on \$1,400 per month, or about \$17,000 per year, from Social Security Disability benefits. When my condition deteriorated, my doctor prescribed new drugs, amounting to \$500 every month. As my health costs have gone up, it has been hard to decide whether to pay for my mortgage, my prescriptions, or air conditioning in the hot summer months.

I had a Medicare Advantage plan, but in order to pay my other bills, I stopped paying the premium. The plan dropped me, so I now have no prescription drug coverage at all. I could go to a low-cost clinic in town, but I cannot drive because of my health. So, now I just don’t go to the doctor at all.”

## People with Medicare would lose access to needed care.

- To maximize profits, insurance companies would likely design benefits to attract younger, healthier people. As a result, the pool of beneficiaries left in Original Medicare would grow older, sicker, and costlier to cover—increasing both beneficiary and program costs.<sup>iv</sup>
- If significantly more beneficiaries were to select private plans instead of Original Medicare, fewer doctors would be incentivized to participate in the program. As a result, people with Medicare could lose access to their doctor and/or face a restricted provider network.

## Premium support would end the promise of a guaranteed set of Medicare benefits.

- Today, people with Medicare are entitled to the same set of benefits, whether they choose Original Medicare or Medicare Advantage. Some premium support proposals would allow private plans to offer benefits, services, and cost-sharing arrangements that are comparable—but not identical—to Original Medicare. This would end the program’s promise of a comprehensive, clearly defined set of benefits and make it more difficult for beneficiaries to compare and select plans.
- Most Americans—70%—prefer Medicare’s defined benefits to a premium support system.<sup>v</sup>

### Medicare: Strong and Built to Last

Currently, **59 million Americans** rely on Medicare for health coverage.

More than **95%** of Americans consider Medicare an important program, and around **90%** of Americans want federal Medicare spending to stay the same or increase.

**Six in ten** Americans—and **75%** of Medicare beneficiaries—say the program is working well.

## Medicare is more efficient than private insurance.

- Medicare does a better job of controlling costs than private health plans. From 2010 to 2015, Medicare spending rose by an average of 1.4% per person per year—less than half the growth rate of private insurance.
- Medicare has lower administrative expenses than private health plans.<sup>vi</sup>

<sup>i</sup> Kaiser Family Foundation, “Transforming Medicare into a Premium Support System: Implications for Beneficiary Premiums,” (October 2012)

<sup>ii</sup> Gretchen Jacobson, Shannon Griffin, Tricia Neuman & Karen Smith, “Income and Assets of Medicare Beneficiaries, 2016-2035,” (April 21, 2017), <https://www.kff.org/medicare/issue-brief/income-and-assets-of-medicare-beneficiaries-2016-2035/>

<sup>iii</sup> *Id.*

<sup>iv</sup> Center on Budget and Policy Priorities, “House Republican Health Plan Would Radically Restructure Medicare,” (July 2016)

<sup>v</sup> Kaiser Family Foundation, “Medicare and Medicaid at 50,” (July 2015)

<sup>vi</sup> See, Berenson, R. et. al, “Why Medicare Advantage Plans Pay Hospitals Traditional Medicare Prices,” Health Affairs (December 2016); and Kaiser Family Foundation, “The Facts on Medicare Spending and Financing,” (July 2016)