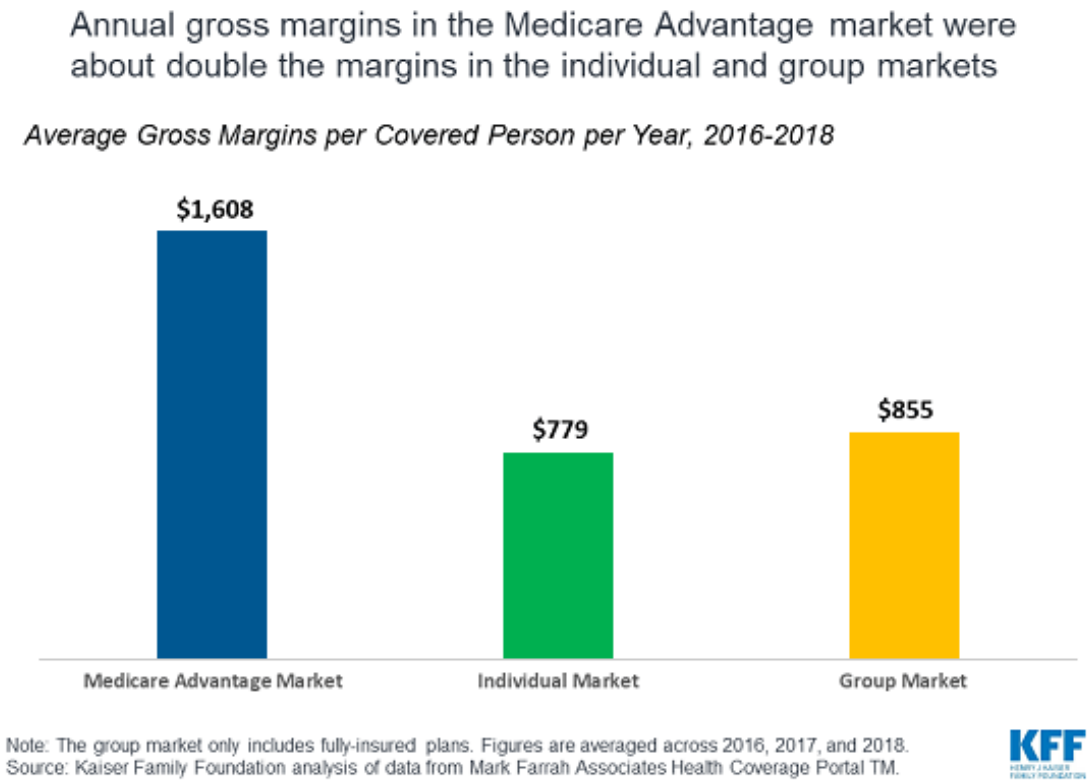
Medicare Advantage: Understanding the Risks

I've talked about this before, but it bears repeating: people who go into a Medicare Advantage plan when they first enroll in Medicare could regret that choice later. If their health worsens and their plan (or any other Medicare Advantage plan) makes it difficult or impossible to get the care they need, they could find themselves lacking adequate coverage once they are outside their six-month Medigap guaranteed-issue period.

I worry that in the interest of profitability, the private health insurance companies that offer Medicare Advantage plans will start pulling some of the same stunts that led to the clampdowns instituted by the Affordable Care Act.

Right now, the Medicare Advantage program is working well. It allows the government to limit its risk by paying private insurers a set rate for each enrollee, a rate that is generous enough to allow some insurers to charge low (or no) premiums and offer extra benefits like vision care and gym membership and still have money left over. In 2018, annual gross margins in the Medicare Advantage marketplace were double the margins in the individual and group markets.

The risk lies in the fact that Medicare Advantage plans are free to change their terms from year to year. Once an insurer knows the rate it will receive from the government, it sets its benefits and premiums based on what it can profitably and competitively offer in the coming calendar year. As long as there is little variation in the rate or in the age or health status of the population served, there may be little variation in the plan. Under stable conditions, a person who goes into a good, well-run Medicare Advantage plan can expect to have the same health benefits from year to year.



Source: KFF.org

But in looking toward the future, I see two big factors that could disrupt this equilibrium. One is the aging of the baby boom generation. The other is the mounting federal budget deficit. The first will raise insurers' costs, as enrollees' health worsens with age. The second could cut insurers' revenues as lawmakers call for reduced Medicare spending. I mean really, if I were in charge of the federal budget and saw how much insurance companies were making off these annual rates paid by Medicare, that's one of the first places I would look to cut government spending.

A New York Times article, *Private Option Is Gaining Popularity, and Critics*, tells the story of a once-healthy 72-year-old who enrolled in a Medicare Advantage plan at age 65, drawn to the low premiums and extra benefits. Seven years later, he was diagnosed with bladder cancer. Finding that he could get better care outside his plan's network, he decided to drop his Medicare Advantage plan and switch to Original Medicare. But he didn't realize that Part B would pay only 80% of his now-expensive medical treatments and Part A carries high deductibles before hospital costs are covered. He didn't know that he would need a Medigap policy to cover these gaps. And he didn't know that wouldn't be able to get one.

The Medigap guarantee-issue period is the six-month period following enrollment in Part B. After that, you'll be subject to underwriting and if your health doesn't measure up, you can be denied a policy. Because this gentleman went into a Medicare Advantage plan after enrolling in Part B, he was well outside his Medigap guaranteed-issue period when he got the cancer diagnosis. And now no Medigap insurer will cover him.

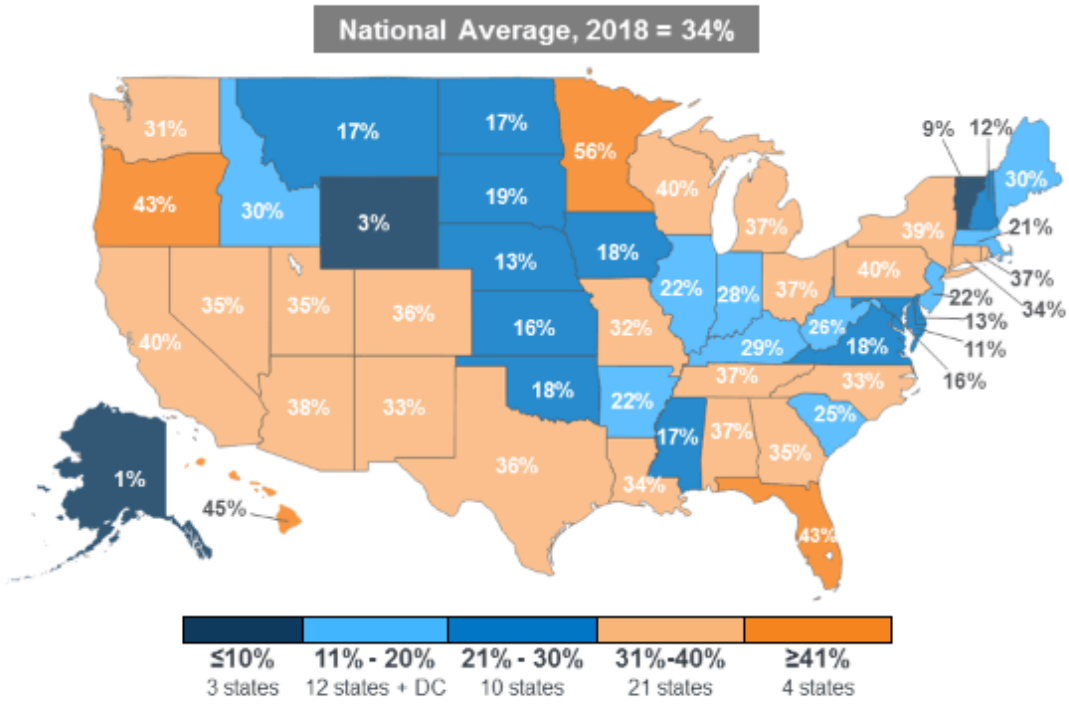
He was eventually able to find another Medicare Advantage plan whose network included his doctors, but not without a lot of scrambling. (Part of the deal Medicare Advantage insurers make with the government is that they will take everyone regardless of health status. But this cuts both ways: if they end up with a lot of

older, sicker people, they will be forced to cut benefits, narrow their provider networks, or charge higher premiums.)

This is why the choice you initially make when you enroll in Medicare at 65 or upon leaving employment is so crucial. If you opt for Medicare Advantage over Original Medicare with a Medigap policy, you may forever be relegated to the Medicare Advantage marketplace. (Exceptions are residents of New York, Connecticut, Maine, and Massachusetts, whose state laws require Medigap insurers to take everyone regardless of health status.) In some areas this will be no problem. If there are many thriving Medicare Advantage plans operating in the area, people should be able to find a plan that suits them (subject to the future worries stated above, that plans may change in their search of sustained profits). But if there aren't many plans available where they live now (or may live in the future), Original Medicare with a Medigap policy may be the safer choice.

Figure 3

Medicare Advantage Penetration, by State, 2018



NOTE: Includes cost plans, which comprise the majority of enrollment in MN, ND, and SD, as well as other Medicare Advantage plans. Excludes beneficiaries with unknown county addresses.
SOURCE: Kaiser Family Foundation analysis of CMS State/County Market Penetration Files, 2018.

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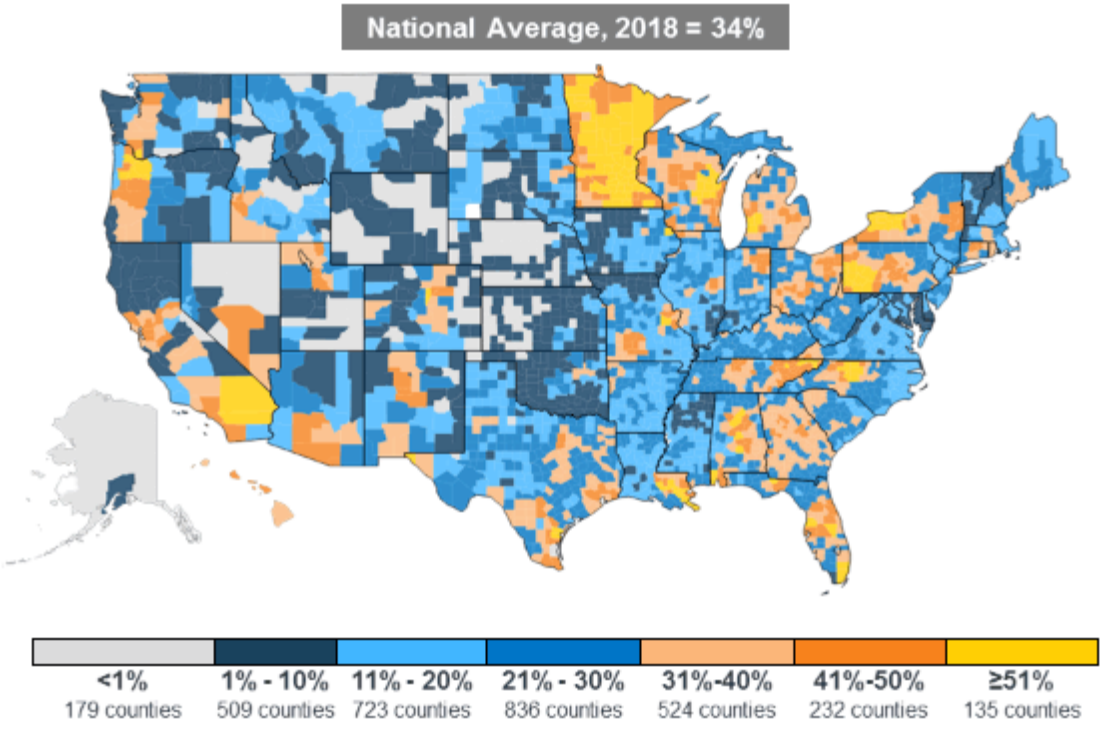
Figure 4

Medicare Advantage Penetration, by County, 2018



NOTE: Includes cost plans, which comprise the majority of enrollment in MN, ND, and SD, as well as Medicare Advantage plans. Excludes all territories.
SOURCE: Kaiser Family Foundation analysis of CMS State/County Market Penetration Files, 2018.

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