



**AARP Statement for Record
on the
Medicare Advantage Program**

**Submitted to the
Senate Finance Committee**

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On behalf of AARP's 38 million members we thank you for holding this hearing on the Medicare Advantage program. AARP supports a genuine choice of health plan options for Medicare beneficiaries. The traditional Medicare plan should remain a viable and affordable option, while a range of private plan options, such as health maintenance organizations (HMOs), preferred provider organizations (PPOs), provider-sponsored organizations, and point-of-service plans should be available.

Medicare Payments Should Not Favor MA Over Traditional Medicare

Private plans have been available in Medicare almost since its inception. Among its original objectives in authorizing private health plans in Medicare, Congress sought to limit growth in Medicare spending, improve the payment method for certain providers, and provide beneficiaries (including those residing in rural areas) with more choices and enhanced benefits.

Today, more than 80 percent of Medicare beneficiaries still receive services through the traditional Medicare program, however, nearly all beneficiaries (99 percent) have access to Medicare Advantage (MA) plan options. MA options include HMOs, local and regional PPOs, special needs plans, and private fee-for-service plans.

But the availability of multiple coverage options has not come without a cost. In its March 2007 Report to Congress, the Medicare Payment Advisory Commission (MedPAC) noted that current Medicare program payments for MA plan enrollees are 12 percent higher, on average, than payments for fee-for-service enrollees. MedPAC has recommended that Medicare should pay the same amount, regardless of which Medicare option a beneficiary chooses. AARP agrees.

AARP believes Medicare payments should be neutral with respect to coverage options. Therefore, AARP urges Congress to set the benchmarks upon which

MA plan payments are based so that MA payments do not exceed fee-for-service costs.

Right now Medicare payments clearly favor the MA program over traditional Medicare, which is unfair to the majority of beneficiaries who participate in the traditional program. All taxpayers and all Medicare beneficiaries – not just the 18 percent of Medicare beneficiaries enrolled in private MA plans – are funding these excess payments. It is important to note that while MA is often referred to as Part C, there is no separate Trust Fund to pay for Medicare's private plan options. Thus, spending for MA comes from both the Part A and Part B trust funds. Ultimately, the solvency of the Medicare Trust Fund is negatively affected by current payment policies to MA plans.

When private plans were introduced to Medicare, they were expected to provide extra benefits to beneficiaries by achieving greater efficiencies at a lower cost to the program than traditional Medicare through the use of care coordination, negotiated prices, provider networks and other strategies. Given the fact that MA plans have control over hospital and physician services as well as the opportunity to manage and coordinate care, it is reasonable for Congress to hold MA plans to payment levels that are no more than those for the fee-for-service program.

Savings Should Be Reinvested in the Medicare Program

According to the Congressional Budget Office, the federal government could save \$65 billion over five years and \$160 billion over 10 years, if MA plans were paid at the same rates as traditional Medicare providers. In order to minimize the disruption to beneficiaries who rely on MA plans for their health care, AARP believes Congress should phase out MA plan payments that exceed fee-for-service costs over a period of time.

In addition, while we know Congress has many competing priorities on which to spend any budgetary savings, AARP believes Medicare savings should be reinvested in the Medicare program. In particular, AARP strongly supports

helping more low-income Medicare beneficiaries get needed help with prescription drug costs. Eliminating the Part D asset test is one of AARP's top priorities for improving the Medicare drug benefit. The Part D drug benefit is helping tens of millions of Americans get the drugs they need. And one of its most important features is the extra help it provides to people with limited incomes. But not everyone is sharing in the benefits of Part D because the asset test that AARP and others have opposed all along is proving to be a serious barrier.

As a first step toward helping low-income Medicare beneficiaries get needed help with prescription drug costs, AARP has endorsed H.R. 1536, introduced by Rep. Lloyd Doggett, to raise the asset limits and streamline the low-income subsidy application process. AARP has been working closely on similar bipartisan legislation with Senators Bingaman and Smith and hope to endorse their bill soon as well.

Other Medicare priorities for AARP that we've expressed before the Committee include reforming the physician payment system so that it is built on a foundation that emphasizes four key elements: information technology; greater use of comparative effectiveness research; performance measurement; and enhanced care coordination.

We also recognize that Congress has other health care priorities. AARP supports the reauthorization and strengthening of the State Children's Health Insurance Program. Covering children's health care needs is a cost-effective use of taxpayer dollars, given the substantial long-term benefits that relatively low-cost children's health care coverage can provide. After all, productive working years and healthy aging both require an early start.

Conclusion

MA plans remain an important alternative for many Medicare beneficiaries. AARP strongly urges Congress and the Centers for Medicare and Medicaid Services to monitor carefully the effects of private health plan options by plan

type and health plan payment rules on beneficiary access, the stability of Medicare beneficiaries' health coverage, and their out-of-pocket spending.

The Medicare program should not pay more for services and benefits provided under the MA program. MA plans should be given an incentive to provide services more efficiently. Traditional Medicare and MA should compete on a level playing field.

AARP believes that reductions in payments to MA plans should be done gradually to prevent widespread withdrawals from markets by plans. Any savings achieved should be ideally reinvested in the Medicare program.