



Advising the Congress on Medicare issues

Employer group plans in the Medicare Advantage program

Scott Harrison

April 9, 2008

Features of MA group plans attractive to employer groups

- MA plans may be less expensive for groups than traditional retiree coverage
- Group plans more flexible than individual MA plans
 - Retiree benefits may be customized to match active-employee coverage
 - Service areas may be more extensive

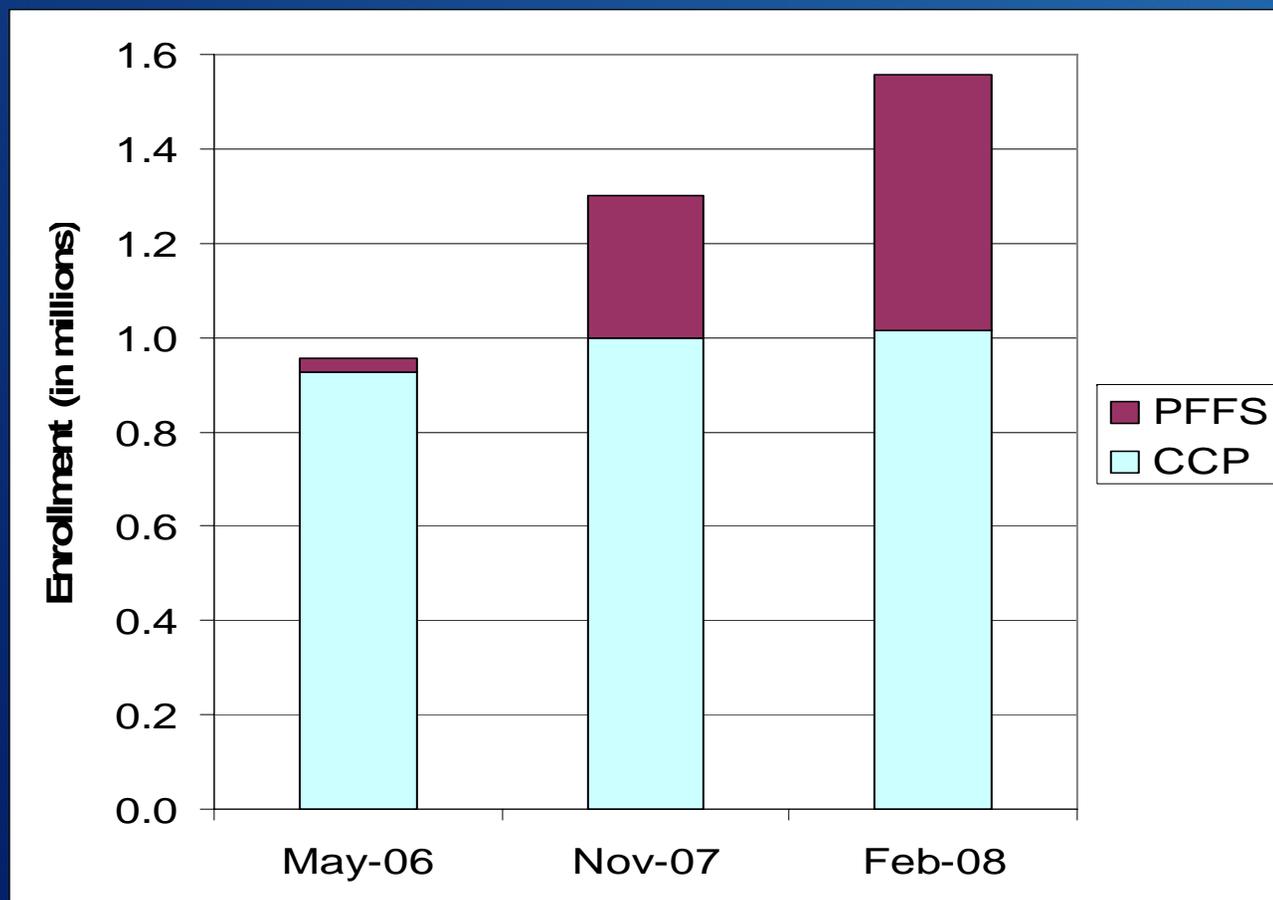
Concerns with employer group plans

- High benchmarks create high payments relative to FFS Medicare spending
- Employer group plans appear to be relatively inefficient and submit higher bids than individual MA plans
- Bidding process does not create strong incentives for group plans to submit competitive bids
- May result in Medicare spending displacing private sector spending

Features of PFFS attractive to employer-groups

- Lack of network requirement allows broad geographic service area, unlike HMOs and PPOs
- Retirees throughout the country (e.g., who moved from their place of employment) can use any Medicare provider willing to agree to plan terms

Enrollment growth in employer group MA plans largely in PFFS



Note: PFFS: private fee-for-service. CCP: coordinated care plan
Source: CMS enrollment files

Employer group MA plans bid higher relative to FFS than individual MA plans

	Employer group MA plans	Individual MA plans
Bid/FFS		
All	109%	99%
HMO	108%	97%
PFFS	112%	108%
Payment/FFS		
All	116%	113%
HMO	116%	112%
PFFS	116%	118%

Bid process for employer group MA plans differs from individual MA plans

- Employer group bids usually placeholders
 - Actual benefit packages negotiated separately with each employer group
- Bids are high relative to benchmark
 - Median bid 95% of benchmark for group plans (85% for individual market plans)
 - 14% of enrollees in group plans bidding at or over benchmark (only 1% for individual plans)
- CMS review of bids may create some incentive to bid lower

Conclusions

- CMS review of bids may be important in promoting lower bids from group plans
- High benchmarks result in Medicare subsidizing extra benefits for enrollees
- Benchmarks and incentives in group plan bidding process may result in Medicare funding crowding out employer/union spending

Employer group plan sponsors have incentives to bid closer to the benchmark

Payment benchmark

