

WHAT'S AT STAKE

Medicare Premium Support

MEDICARE RIGHTS CENTER
Getting Medicare right

Over time, policy ideas gain and lose popularity, including several that threaten the effectiveness of major health care programs like Medicare, Medicaid, and the Affordable Care Act (ACA). In this series—What's at Stake—we explore some of these reform ideas and how they could affect coverage, care, and outcomes for older adults and people with disabilities.

Some policymakers support turning Medicare into a premium support system, also called a defined contribution system or a voucher program.¹ These programs would give people with Medicare a voucher or coupon to purchase health coverage. If the voucher did not cover the full cost—a certainty, given the aim of such programs is to save Medicare dollars—the person would presumably have to pay the rest or go without coverage. Though touted as a cost saver, a hallmark of these policies is to instead shift significant expenses onto consumers.

The Current System

Today, people with Medicare are entitled to the same set of standard benefits, whether they choose original Medicare or Medicare Advantage.

For most beneficiaries, Part A coverage is premium free.² Part B does have a monthly premium. It is calculated annually to account for the projected costs of covering an average Medicare enrollee aged 65 and older.³ Typically, people with Medicare pay 25% of that projected amount, while Medicare pays the other 75%; some individuals with higher incomes must cover

¹ See, e.g., “Guaranteed Choices to Strengthen Medicare and Health Security for All: Bipartisan Options for the Future” (December 15, 2011), <https://www.wyden.senate.gov/imo/media/doc/wyden-ryan.pdf>; KFF, “Policy Options to Sustain Medicare for the Future” (January 29, 2013), <https://www.kff.org/report-section/section-4-medicare-program-structure/#Premium>.

² Medicare Interactive, “Eligibility for premium-free Part A if you are over 65 and Medicare-eligible” (last visited January 31, 2024), <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/eligibility-for-premium-free-part-a-if-you-are-over-65-and-medicare-eligible>.

³ Jim Hahn, “Medicare Part B: Enrollment and Premiums,” Congressional Research Service (May 19, 2022), <https://crsreports.congress.gov/product/pdf/R/R40082>

a greater percentage.⁴ Once the Part B premium calculation is complete, Medicare announces its premiums for the coming year.⁵

For both Part A and Part B, beneficiaries also pay deductibles and other cost sharing.⁶

The Proposals

Under a voucher system, instead of the current premium and cost-sharing structure, each person would receive a set amount to purchase health coverage. The specifics of that calculation vary from proposal to proposal. Conceivably, the voucher could be set at an amount that would allow each person to find coverage that is equal to or better than Medicare. But the proposals generally do not guarantee or attempt this.

Instead, the voucher amounts are usually set according to a formula that may not account for the cost of coverage, especially in some geographic areas, and beneficiaries would bear the brunt of offsetting those additional costs.⁷ Because it is essentially a coupon toward the price of insurance and not an insurance program, the vouchers would neither guarantee coverage nor access to a universal set of essential, standard benefits. They would also generally fail to keep pace with rising health care costs—so even if they were adequate at the outset, they would soon fall short.

Under some proposals, Medicare as we know it would cease to exist.⁸ Other proposals would leave some form of Medicare in place as an option, allowing beneficiaries to choose other, pared-down coverage that would be appropriate only for the healthiest enrollees. Such favorable selection would magnify overpayment issues that are already apparent in Medicare Advantage.⁹

⁴ Medicare Interactive, “Part B costs for those with higher incomes” (last visited January 31, 2024), <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/part-b-costs-for-those-with-higher-incomes>.

⁵ See, e.g., Centers for Medicare & Medicaid Services, “2024 Medicare Parts A & B Premiums and Deductibles” (October 12, 2023), <https://www.cms.gov/newsroom/fact-sheets/2024-medicare-parts-a-b-premiums-and-deductibles>.

⁶ Medicare Interactive, “Part A costs” (last visited January 31, 2024), <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/part-a-costs>; Medicare Interactive, “Part B costs” (last visited January 31, 2024), <https://www.medicareinteractive.org/get-answers/medicare-health-coverage-options/original-medicare-costs/part-b-costs>.

⁷ Gretchen Jacobson, et al., “Transforming Medicare into a Premium Support System: Implications for Beneficiary Premiums” (October 2012), <https://www.kff.org/wp-content/uploads/2013/01/8373.pdf>.

⁸ Paul N Van de Water, “House Republican Health Plan Would Radically Restructure Medicare” (July 26, 2016), <https://www.cbpp.org/blog/house-republican-health-plan-would-radically-restructure-medicare>.

⁹ Steven M Lieberman, et al., “Favorable Selection Ups The Ante On Medicare Advantage Payment Reform” (June 13, 2023), <https://www.healthaffairs.org/content/forefront/favorable-selection-ups-ante-medicare-advantage-payment-reform>.

Cost Impacts

According to one estimate, almost six in ten people with Medicare could face higher premiums for the same coverage under a voucher system.¹⁰ The cost shifting to beneficiaries would likely increase each year, due to the voucher's growing inadequacy. For example, the nonpartisan Congressional Budget Office (CBO) found that if such a structure were implemented, Medicare enrollees "would bear a much larger share of their health care costs than they would under the current program" and that those costs would rise over time, even if the vouchers were adjusted for inflation.¹¹ At the same time, "payments to physicians under Medicare would be reduced well below current rates," potentially adding to anticipated access and quality of care problems.¹²

¹⁰ Gretchen Jacobson, et al., "Transforming Medicare into a Premium Support System: Implications for Beneficiary Premiums" (October 2012), <https://www.kff.org/wp-content/uploads/2013/01/8373.pdf>.

¹¹ Congressional Budget Office, "Letter to the Honorable Paul Ryan" (April 5, 2011), https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/04-05-ryan_letter.pdf.

¹² Congressional Budget Office, "Letter to the Honorable Paul Ryan" (April 5, 2011), https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/04-05-ryan_letter.pdf.