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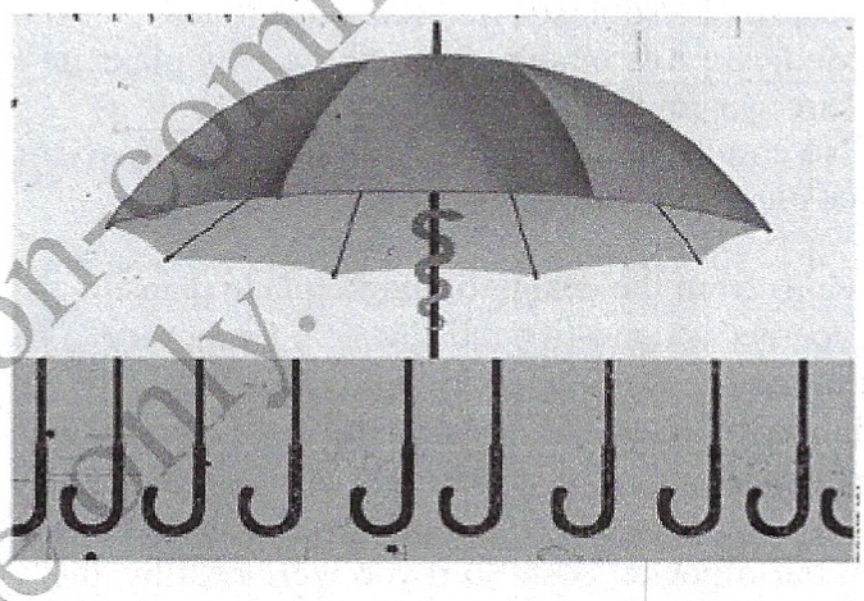
Why Do Democrats Hate Medicare Advantage?

By John C. Goodman

It's the best program in the entire U.S. healthcare system, including even employer-sponsored plans.



RICHARD MIA

A bill introduced by Rep. Lloyd Doggett (D., Texas) and co-sponsored by more than 40 House Democrats would sharply reduce government payments to Medicare Advantage plans—private policies for Medicare enrollees. The bill purports to end practices of questionable value, and the press announcement makes the bill out to be an effort at saving taxpayers money.

Mr. Doggett's floor speech introducing the bill suggested a different motive. He said it would "level the playing field" between traditional Medicare and Medicare Advantage plans.

It is no secret that many congressional Democrats dislike private health insurance even though private insurers were heavily involved in designing ObamaCare. Politicians on the left often speak about the desirability of a "public option." But Medicare has already had a competing public option for more than two decades. It's called traditional Medicare, and it has been losing the competition. More than half of all Medicare enrollees are in private plans.

For all its faults, Medicare Advantage is arguably the best healthcare program we have. It's much better than the ObamaCare exchange plans and most employer plans. Mr. Doggett is attacking this overall well-functioning program while ignoring our nation's worst program: Medicaid.

One of the great ironies in U.S. healthcare is that the private insurance industry is largely responsible for administering both the best and worst health insurance programs we have. What Mr. Doggett calls the "giant private insurance companies that profiteer off Medicare" are mostly the same companies that are administering Medicaid.

Medicaid is heavily privatized. Nationwide, 78% of enrollees are in private managed care plans, or MCOs. If you exclude the elderly and the disabled, the figure reaches 90% or more in most states. Medicaid fee-forservice (the public option) usually doesn't even compete for business. Instead, enrollees are normally required to join an MCO. Yet it's rare to hear a congressional Democrat advocate less spending on "giant" MCOs "profiteering" off care for the poor.

But for sick people in marketplace plans, the out-of-pocket exposure is the highest found anywhere. This year an individual with serious medical problems can pay $10,600, and double that for a family. Next year it will be $12,000 for an individual and double that for a family.

Although employer plans aren't as bad, they are also tilted to attract the healthy and avoid the sick.

Mr. Doggett insists that Medicare Advantage plans seek to enroll only the healthy, but the reverse is true. Significantly more low-income beneficiaries were enrolled in Medicare Advantage plans (68% vs. 32%) in 2023. In 2021, such plans were also the preferred choice of black (59%) and Hispanic (67%) enrollees relative to whites (43%). These minorities are known to have above-average medical needs.

Third, Medicare Advantage is the only program in our healthcare system in which health plans can specialize in the treatment of specific conditions such as diabetes, congestive heart failure or HIV. This allows them to create focused factories that are increasingly skilled at providing care. By contrast, in the ObamaCare marketplace, health plans are forced to be all things to all people.

Finally, Medicare Advantage plans make money by keeping people healthy. Long before the price of insulin became a political issue, some plans were discounting the out-of-pocket cost to diabetics. While the political focus today is on $35 insulin, some Medicare Advantage plans

If private companies run both programs, why is one so much better? The answer lies in how the program is structured. Medicare Advantage gets four things right: First, it is the only program in our entire healthcare system in which a doctor who discovers a patient's previously unknown health problem can send that information to the insurer (in this case Medicare). This results in a higher premium payment for the health plan to cover the higher expected cost of care.

Second, because of a sophisticated risk-adjustment program, Medicare Advantage plans are the only plans in our healthcare system that actually want sick people as enrollees. No employer, commercial insurer or ObamaCare marketplace plan wants a sick enrollee.

This is obvious from the design of marketplace plans. When Democrats' second-tier subsidies—a temporary Covid-era measure—were in place, almost half the enrollees in marketplace exchange plans paid no premium, and 80% paid $10 a month or less. Plus, the only medical care a healthy person needs is preventive care, and that is also free of out-ofpocket cost. So if you were healthy, the entire package was free, or almost free.

make insulin available free in special-needs plans for diabetics. Keeping diabetics out of emergency rooms is cost-effective medicine. Most employer plans and exchange plans haven't done the same because free or cheap insulin would attract diabetic enrollees (on whom those insurers would lose money overall). The incentives in traditional Medicare are even worse. The more traffic there is to the emergency room, the more the doctors earn. Former Kaiser CEO George Halvorson has written that if a diabetic in a Medicare Advantage plan requires a foot amputation, that will likely cost the plan $100,000. If an amputation occurs in traditional Medicare, the full cost is borne by taxpayers.

In traditional Medicare, Mr. Halvorson wrote, "20% percent of diabetes patients routinely get ulcers and 20% of those ulcers turn into amputations." In Medicare Advantage, the number of amputations is a tiny fraction of that. "Far too many low income people who are not on Medicare Advantage plans go blind and then they stay blind for life," he added. The key to preventing blindness in diabetics is controlling blood sugar levels. Medicare Advantage plans have strong incentives to do that. Traditional Medicare doctors don't.

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