

Medicare Must Provide Additional Cost and Access Information to Enhance Decision Making Around Trade Offs Between Medicare Advantage and Medigap

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Abstract

Health insurance coverage options are complicated and often leave Medicare beneficiaries, families, advocates, and brokers confused. Medicare should make small changes to its existing “Compare Coverage Options” tool that would enhance the public’s understanding of the trade-offs between Medicare Advantage and supplemental Medigap with Fee-for-Service Medicare. For cost considerations, Medicare should include a projection of annual out-of-pocket (OOP) spending, whether an OOP cap applies and whether the ability to alter OOP for additional clinical benefit is offered. For access considerations, Medicare should provide access to information to educate the public on coverage and costs associated with dental, vision, and hearing benefits, network adequacy, prior authorization, and supplemental benefits. These changes will enhance transparency and decision making.

Keywords

Medicare, Medicare Advantage, Medigap, out-of-pocket costs, premiums, dental, vision, hearing, networks, prior authorization and supplemental benefits

Question and Answer

1. What do we already know about this topic?

Medicare beneficiaries have an annual opportunity to change health care coverage options, but Medicare only shares monthly premium costs to help educate beneficiaries, families, advocates, and brokers on the trade-offs that need to be considered when choosing a coverage option.

2. How does your research contribute to the field?

This policy brief highlights the lack of information Medicare beneficiaries have access to when making trade-off decisions and suggests adding: (1) annual out-of-pocket (OOP) spending; (2) whether an OOP cap applies; (3) value-based insurance design; (4) dental, vision, and hearing benefits; (5) network adequacy; (6) prior authorization; and (7) supplemental benefits.

3. What are your research’s implications towards theory, practice, or policy?

This analysis provides actionable recommendations on changes the Medicare program should make to better educate the public, including adding annual total OOP costs, OOP caps, network adequacy, prior authorization, and supplemental benefits in its *Compare Coverage Options* tool.

Introduction

Costs and access are the top influencers of decision making for health coverage.¹ To assist beneficiaries, families, advocates, and brokers in assessing coverage trade-offs, Medicare provides a *Compare Coverage Options* “tool.” To address cost, the tool provides data on premiums, without additional transparency on total OOP costs. Limited details on access

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Figure 1. Medicare compare coverage options screenshot of Medicare Advantage and original Medicare with Medigap and Part D.

are included for some services but more information is available and would enhance decision making.

Cost

For Medicare Advantage (MA) and Medigap, but not employer-sponsored or Medicaid insurance, tool users can compare monthly premiums (Figure 1).

Users receive premium costs on separate screens because there is no side-by-side comparison. If instead the tool focused on total annual OOP costs for all options (Table 1), users could more easily discern the 1.6-fold higher cost for Medigap, compared to MA.

This level of transparency quickly summarizes decades of behavioral economic research on Medigap, which charges more upfront to shield consumers from the uncertainty of expenses that could occur throughout the year.⁵ Medigap is linked to higher expenditures for the Medicare program because it perpetuates the “moral hazard” effect whereby more health insurance leads to overconsumption.⁶⁻⁹ The tool should also address the annual cap offered by MA which holds beneficiaries harmless for in-network expenses above a US \$7550 cap.¹⁰ No such protection exists in Medigap. Finally, MA plans can use value-based insurance design, which lowers OOP costs for high value services but is not permitted under Medigap.^{11,12}

Access

Eighty-four percent of voters support adding dental, vision, and hearing to Medicare.¹³ Yet 47% of Medicare beneficiaries do not have dental coverage.¹⁴ Nearly all MA plans offer these services, but Medigap does not. MA beneficiaries pay approximately US\$217 (2020) annually for these services, compared to US\$742 for beneficiaries with Medigap.⁴ Research suggests network adequacy and timeliness are important access considerations.⁵ The literature is mixed on network adequacy where as many as one third of MA beneficiaries experience narrow networks, yet narrow physician networks are linked to higher quality for MA.^{15,16} Nearly all MA beneficiaries were subject to prior authorization (PA) in 2021. While many PA denials are often overturned on appeal, PA can adversely impact timeliness of care.^{10,17} No such PA exists under Medigap. Compared to Medigap, MA offers more supplemental benefits (SB), such as meals, and gym memberships.^{18,19} Sixty percent of MA beneficiaries reported SB as a motivator to choose MA.²⁰ In 2020, MA plans offered 2.3-times more SB than Medigap.²¹⁻²³

Conclusion

Medicare should include total annual OOP costs, OOP caps, network adequacy, prior authorization, and supplemental

Table 1. Average Beneficiary Out-of-Pocket Costs for Various Medicare Coverage Options (Calendar Year 2022).

Coverage Type	Percentage of Medicare ²	Monthly Premium ^{3 b}	Annual Cost ^{4 c}
Medicare Advantage	39	\$170.10	\$3811
Medigap	21	\$229.62	\$6227
Employer-sponsored	18	Varies	Varies
Medicaid	12	Varies	Varies
None ^a	10	\$170.10	\$5596

^aNone refers to basic Fee-for-Service coverage with no additional supplemental insurance.

^bCompare Coverage Options provides a range of monthly premiums, but the majority of Medicare beneficiaries pay the minimum amount under both the MA and Medigap options. For 2022, the MA range is US\$170.10–US\$290.10 and Medigap range is US\$229.62–US\$1,657.23.

^cAverage 2021 OOP expenses from Mike et. al. were adjusted upward to reflect the increase of \$21.60 per month for 2022 premiums.

benefits in its tool. These changes would enhance transparency and decision making.

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