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DATAWATCH

Expected Out-Of-Pocket Costs: Comparing Medicare Advantage With Fee-For-Service Medicare

We compared the generosity of Medicare plans in terms of out-of-pocket costs attributable to cost sharing and premiums, including both basic and supplemental services. From 2014 through 2019, projected out-of-pocket costs for a typical enrollee were 18–24 percent lower in Medicare Advantage than traditional fee-for-service Medicare.

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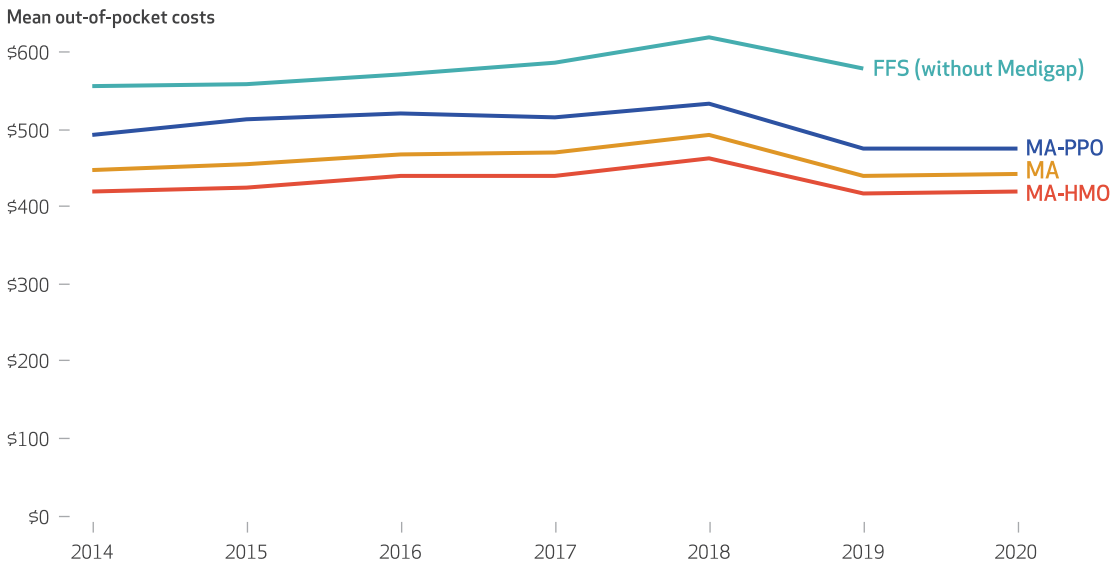
Medicare Advantage (MA) enrollment has grown over time. Much of this growth likely stems from MA plans' ability to offer more generous benefits than fee-for-service Medicare. Despite policy interest in MA payment reforms, little is known about how benefit design differences affect beneficiary-paid expenses across MA and fee-for-service Medicare. This comparison is challenging because MA plans may cover supplemental services that are not covered under fee-for-service Medicare or may reduce premiums and cost-sharing requirements relative to those of fee-for-service Medicare.

We used Centers for Medicare and Medicaid Services (CMS) data on projected out-of-pocket costs for the period 2014–20; these data estimate total spending on premiums and cost sharing for a representative Medicare beneficiary. Exhibit 1 shows that mean monthly out-of-pocket costs were approximately 18–24 percent lower for beneficiaries in MA relative to fee-for-service Medicare. For example, in 2019, mean monthly out-

EXHIBIT 1

Mean monthly out-of-pocket costs in traditional fee-for-service (FFS) Medicare without Medigap and in Medicare Advantage (MA), by plan type, for a "typical" beneficiary, 2014–20



SOURCES Centers for Medicare and Medicaid Services Out-of-Pocket Cost model, 2014–20, and 422.272 MA bid pricing data, 2014–19. **NOTES** Estimates (in 2023 dollars) for a "typical" beneficiary were constructed by calculating enrollment-weighted mean costs across all health statuses. Because Medigap plans are not subsidized by the federal government, mean out-of-pocket costs in FFS Medicare are similar with and without the inclusion of Medigap. Dollar values were inflated to December 2023 values using the Consumer Price Index for All Urban Consumers. PPO is preferred provider organization. HMO is health maintenance organization.

of-pocket costs were estimated to be $440 in MA compared with $579 in fee-for-service Medicare. These estimates reflect variation in plan generosity, rather than selection, and include out-of-pocket costs for drugs under Medicare Part D as well as for common supplemental services.

Research suggests that there are a couple of key drivers behind these lower out-of-pocket costs in MA. First, MA plans use tools such as prior authorization and provider networks to reduce costs, enabling the plans to allocate part of the savings toward cost-sharing or premium reductions and supplemental benefits. Operationally, plans can do so by submitting a bid that is below the benchmark and being granted a "rebate" that is a share of the difference between the bid and benchmark that ranges from 50 percent to 70 percent, depending on the star rating of the contract. The rebate must then be channeled toward cost-sharing or premium reductions or supplemental benefits.

Second, MA plans receive payments from the government that exceed how much their enrollees would have cost the government if they had been enrolled in fee-for-service Medicare. These higher payment levels reflect advantageous selection into MA, more aggressive coding practices by these plans, quality bonuses, and base payment (benchmark) rates being statutorily set to be higher than fee-for-service Medicare spending through quartile adjustments. Although plans may capture some of this surplus as profit, our findings are consistent with prior research that finds that increases in MA payment rates also lead to increased generosity of coverage.[1,2] Quantifying this difference in out-of-pocket costs, including how it varies over time and across different types of beneficiaries, is important to enable better assessment of the implications of potential MA reforms and their impact on beneficiaries.

Study Data And Methods

We examined beneficiaries' out-of-pocket costs using Medicare Plan Finder out-of-pocket cost data for the period 2014–20, which incorporate outputs from CMS's Medicare Out-of-Pocket Cost model. CMS calculates projected out-of-pocket costs by applying the benefit structure of each plan to a fixed basket of health care use, based on actual use among fee-for-service Medicare enrollees in the Medicare Current Beneficiary Survey from two prior survey years (typically four or five years before the current year). This process is repeated for representative enrollees across five categories of self-reported health status, ranging from "excellent" to "poor." By applying the same fixed utilization basket to each plan design, this "simulated generosity" approach abstracts away from selection and the impact of plan design on utilization (similar measures have been used in prior research).[3,4] These out-of-pocket cost estimates were shown to beneficiaries across different Medicare coverage options on the CMS website through 2021, including for different MA plans as well as fee-for-service Medicare.[5]

We added a new category to CMS's existing ones, representing someone of "typical" health, by calculating the enrollment-weighted mean costs across all health statuses (see Data Construction in the online appendix).[6]

Expected medical out-of-pocket costs are reported separately by plan type, including fee-for-service Medicare with and without supplemental Medigap coverage. Enrollees eligible for both Medicare and Medicaid were excluded from our analysis.

The CMS out-of-pocket cost estimates encompass all basic Medicare service categories that are required to be at least partially covered under both fee-for-service Medicare and MA plans. They also include some supplemental service categories that are covered by some MA plans but not by fee-for-service Medicare. For example, the Medicare Current Beneficiary Survey does not collect detailed information on the use of key supplemental services such as vision or hearing (which are thus omitted from CMS's out-of-pocket cost estimates). To address this gap, we used 422.272 MA bid pricing data from 2014 through 2019 (the most recent year available) to create estimated out-of-pocket costs for these omitted services (see Data Construction in the appendix).[6] Because of this, we could only illustrate out-of-pocket costs for fee-for-service Medicare through 2019. We examined out-of-pocket costs by service category, as well as aggregated across all services. When presenting out-of-pocket cost variation by health status, we were unable to include supplemental services spending because the bid data do not break out expected spending by beneficiary health status.

Expected prescription drug out-of-pocket costs (including premiums) are reported for MA Prescription Drug plans that include drug coverage, as well as stand-alone prescription drug plans, which are typically purchased in combination with fee-for-service Medicare. We assumed that those who enrolled in either fee-for-service Medicare or a stand-alone MA plan (without Part D coverage) picked a typical prescription drug plan and had prescription drug out-of-pocket costs equal to the enrollment-weighted average across all stand-alone prescription drug plans (see Data Construction in the appendix).[6]

We linked these out-of-pocket cost data to CMS Medicare monthly enrollment data to compute enrollment-weighted averages (with May enrollment used as a proxy for annual enrollment).[7] We excluded all Special Needs Plans and Employer Group Waiver Plans. All dollars were inflation-adjusted to December 2023 values using the Consumer Price Index for All Urban Consumers.

Our analysis had some limitations and caveats. Our analysis captured only the impact of plan design generosity on out-of-pocket costs. However, out-of-pocket costs actually incurred by enrollees are shaped by factors other than just plan design generosity, such as selection or beneficiaries' behavioral responses to plan design. Research suggests that MA enrollees have 12 percent lower health costs than similar fee-for-service Medicare enrollees, suggesting that our measure may have overstated realized out-of-pocket costs for MA enrollees.[8] However, reduced spending also reflects the impact of tools such as prior authorization.

Because CMS stopped releasing its out-of-pocket cost data after 2020, we were unable to document how out-of-pocket costs have changed since then. In addition, MA bid pricing data did not allow us to break out results for some supplemental benefits by health status. Although this was a limitation, the financial value of the supplemental categories is modest.

Finally, our analysis did not examine whether the lower out-of-pocket costs in MA plans are worth the associated costs to the federal government or whether beneficiaries' out-of-pocket cost savings are worth trade-offs associated with greater use of prior authorization and restricted provider networks.

Study Results

During 2014–19, overall out-of-pocket costs covering basic and supplemental services for a typical beneficiary, in terms of health status, were higher for fee-for-service Medicare than for MA in all years; the difference increased from $108 per month (or 19 percent of fee-for-service Medicare baseline) in 2014 to $139 (or 24 percent) in 2019 (exhibit 1). Because Medigap premiums are not subsidized by the federal government, they closely track the value of the benefit provided to consumers (plus any margin earned by insurers). Although exhibit 1 reflects fee-for-service Medicare out-of-pocket costs without Medigap, including Medigap coverage would have little effect on expected out-of-pocket costs because increased out-of-pocket costs for premiums largely offset reduced out-of-pocket costs for cost sharing, on average. Within MA plans, projected out-of-pocket costs were lower for health maintenance organizations (MA-HMOs) than preferred provider organizations (MA-PPOs). For example, mean out-of-pocket costs for MA-HMOs were $60 (13 percent) lower than for MA-PPOs in 2019.

These results illustrate a key margin along which MA may be more attractive to beneficiaries than fee-for-service Medicare.

In 2019, Parts A and B out-of-pocket costs accounted for 41 percent (or $57 per month) of the difference observed, whereas Part D premiums and cost sharing collectively accounted for 44 percent ($62) (exhibit 2). The value of supplemental benefits offered by MA plans increased during this period, but as of 2019 they still only accounted for 15 percent of the out-of-pocket cost difference between MA and fee-for-service Medicare. Appendix figure A1 breaks out service-level differences in more granularity.[6]

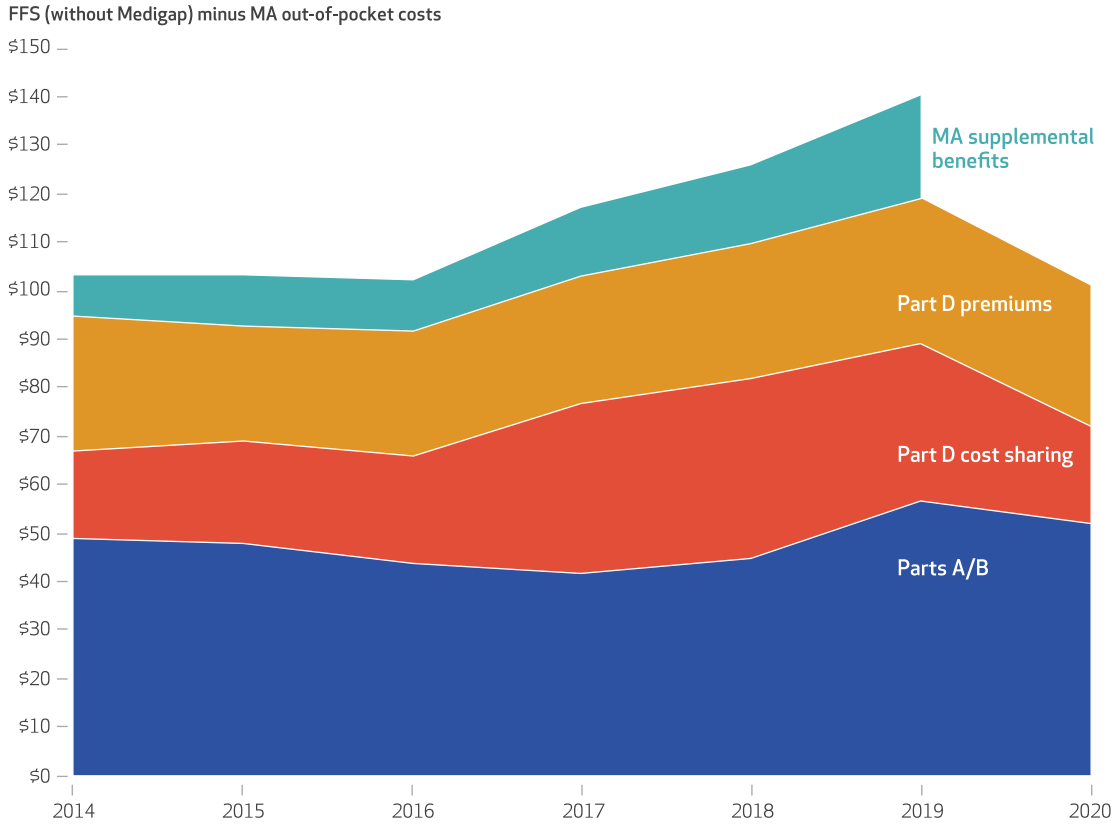
Unsurprisingly, out-of-pocket costs were higher for beneficiaries in worse health, who had higher baseline health care use. For example, expected out-of-pocket costs in fee-for-service Medicare without Medigap were $522 higher per month in 2019 for those in poor health ($943) compared with those in excellent health ($421) (appendix table A1).[6]

Exhibit 3 presents out-of-pocket costs by coverage type for each health status, relative to out-of-pocket costs under fee-for-service Medicare without Medigap, in 2019. Out-of-pocket costs were lower in MA compared with fee-for-service Medicare without Medigap (as well as fee-for-service Medicare with Medigap) across all health statuses. This difference was larger for MA-HMOs than MA-PPOs, particularly for those in worse health. Out-of-pocket costs for those in poor health were roughly $202 higher per month in fee-for-service Medicare without Medigap than for those enrolled in MA-PPOs, and $286 higher than for those in MA-HMOs.

Finally, for those in poor or fair health, out-of-pocket costs were lower in fee-for-service Medicare with Medigap coverage than without (exhibit 3). The opposite was true for those in better health.

EXHIBIT 2

Difference in out-of-pocket costs in traditional fee-for-service (FFS) Medicare without Medigap versus Medicare Advantage (MA) for a "typical" beneficiary, by service category, 2014–20



SOURCES Centers for Medicare and Medicaid Services Out-of-Pocket Cost model, 2014–20, and 422.272 MA bid pricing data, 2014–19. **NOTES** Estimates (in 2023 dollars) for a "typical" beneficiary were constructed by calculating enrollment-weighted mean costs across all health statuses. Positive values indicate higher out-of-pocket costs under FFS Medicare. Dollar values were inflated to December 2023 values using the Consumer Price Index for All Urban Consumers.

Discussion

This analysis complements prior work that documented how MA plans reduce health care use,[9] generate additional revenues,[10] and apply the resulting surplus to offer additional benefits.[11] Our results help demonstrate how this translates to out-of-pocket cost savings for representative enrollees—something of substantial practical consequence for beneficiaries and a key driver of MA enrollment.

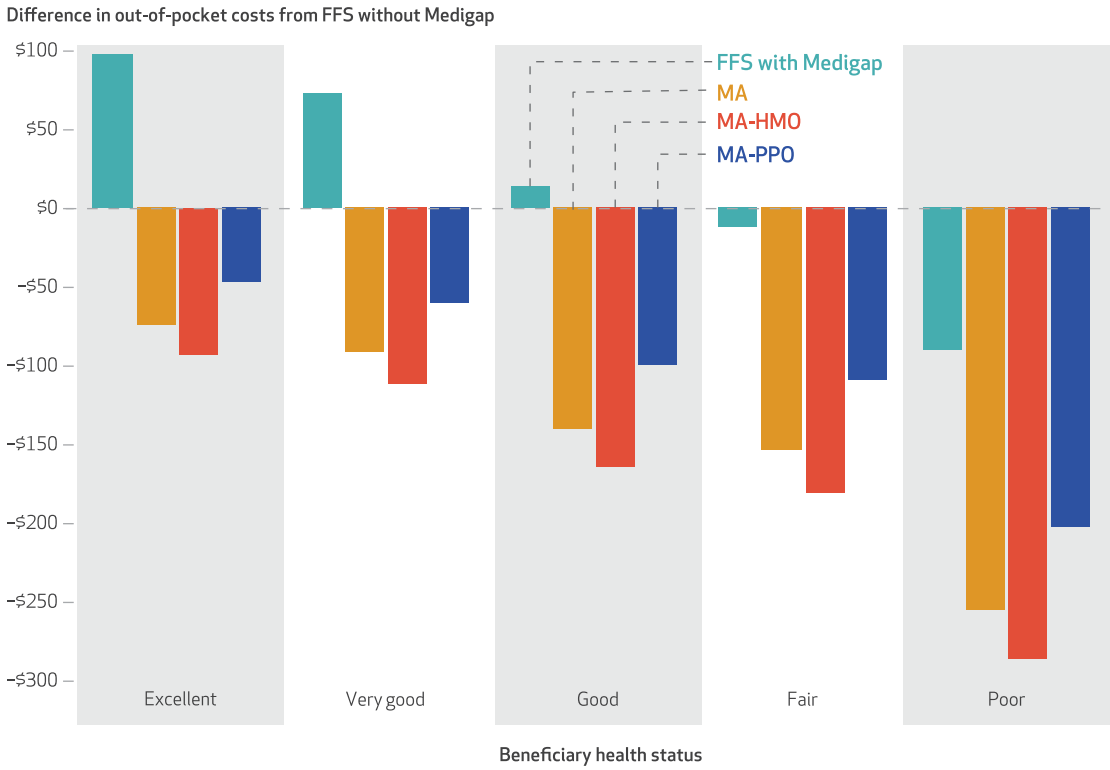
Our results show that out-of-pocket costs for a typical enrollee, in terms of health status, would be considerably lower under MA coverage than under fee-for-service Medicare. This difference in out-of-pocket costs is economically meaningful. In 2019, average out-of-pocket costs for a typical enrollee were roughly 24 percent lower in MA than in fee-for-service Medicare without Medigap. MA out-of-pocket costs remained roughly 24 percent lower than under fee-for-service Medicare in 2019, even with the inclusion of Medigap coverage, given that the reductions from cost sharing under Medigap were offset by higher premium levels. The difference in out-of-pocket costs was even larger in a comparison of fee-for-service Medicare with MA-HMOs, as MA-HMOs had even lower out-of-pocket costs than PPOs. The out-of-pocket cost advantage of MA over fee-for-service Medicare was also greater for enrollees in worse health.

These results illustrate a key margin along which MA may be more attractive to beneficiaries than fee-for-service Medicare (financial generosity), and they help quantify one reason behind MA's growth. Indeed, these out-of-pocket cost estimates may have directly affected enrollment because they were shown to beneficiaries using the Plan Finder tool.

Our results also provide additional context to the policy debate around the fiscal costs of MA, which the Medicare Payment Advisory Commission has estimated to be around 17 percent higher than for an equivalent fee-for-service Medicare beneficiary in 2019.[12] The 2019 out-

EXHIBIT 3

Difference between monthly Medicare out-of-pocket costs for traditional fee-for-service (FFS) Medicare without Medigap compared to FFS Medicare with Medigap and Medicare Advantage (MA), by plan type and beneficiary health status, 2019



SOURCES Centers for Medicare and Medicaid Services Out-of-Pocket Cost model, 2019, and Medigap enrollment data, 2020. **NOTES** This exhibit illustrates the difference between mean out-of-pocket costs for FFS Medicare without Medigap and FFS Medicare with Medigap and MA, by plan type and beneficiary health status. Negative values indicate that out-of-pocket costs were lower in the specified plan type than in FFS without Medigap, and vice versa. Dollar values were inflated to December 2023 values using the Consumer Price Index for All Urban Consumers. HMO is health maintenance organization. PPO is preferred provider organization.

of-pocket cost reductions that we quantified under MA, relative to fee-for-service Medicare, accounted for roughly 75 percent of these excess dollars.[13] Although our results do not represent an endorsement of higher MA spending levels, they do suggest that beneficiaries benefit from them and that out-of-pocket costs for MA enrollees may rise if MA payments were set at parity to fee-for-service Medicare payment levels. ■

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NOTES

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Details tab of the article online.
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