Fact Sheet

Premium Support and the Impact on Medicare Beneficiaries

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What Is a Premium Support System?

Under a premium support system, the federal government would replace Medicare beneficiaries’ guaranteed benefit package with a fixed dollar amount or “defined contribution” that beneficiaries would apply toward their health care coverage. In most premium support models, Medicare beneficiaries would choose between competing private health plans and traditional Medicare fee-for-service coverage. A beneficiary’s premium would be the difference between the government’s defined contribution or “voucher” value and the cost of the insurance plan he or she chooses. This approach raises a number of beneficiary-related concerns.

Concerns Raised by Premium Support Proposals

• Premium support could end the promise of a guaranteed set of Medicare benefits. Under the current system, all Medicare beneficiaries are entitled to the same set of benefits regardless of whether they choose traditional Medicare or a private Medicare Advantage plan. Some premium support proposals require that benefits be actuarially equivalent (that is, of comparable value) to traditional Medicare benefits but do not necessarily guarantee the same benefits, services, and levels of cost sharing. In theory, this approach could allow beneficiaries to choose a plan that meets their individual needs and preferences. However, differences in plan benefits and cost sharing could make it difficult for beneficiaries to make “apples-to-apples” comparisons among plans. Further, a system without clearly defined benefits could allow plans to design benefit packages that attract healthier, lower-cost enrollees, leaving fewer healthy beneficiaries in traditional Medicare and thus driving up its costs.

• Beneficiaries in traditional Medicare could pay more. The effect of premium support on beneficiary premiums and out-of-pocket costs will depend on the details of the particular premium support program. However, analyses from the Congressional Budget Office (CBO) and the Medicare Payment Advisory Commission suggest that
a premium support system would lead to higher
premiums and cost sharing for most beneficiaries
in traditional Medicare.

For example, in 2013, CBO analyzed two
illustrative approaches to setting federal payments
for a plan in a premium support system. In one
approach, the federal payment was tied to the
average plan bid; in the other, it was tied to the
second-lowest plan bid. In both approaches,
CBO estimated that most individuals who chose
traditional Medicare would pay higher premiums
than they would under current law.

Also, in contrast to the current system, under
which most beneficiaries pay the same standard
premium, premiums for traditional Medicare
and private plans would vary by location under
a premium support model. People in areas with
higher medical care costs would pay higher
premiums for traditional Medicare than those
living in lower-cost locations.

- **Premium support could shift more costs to beneficiaries over time.** In some premium support plans, the growth in premium support payments would be indexed to the gross domestic product or to the Consumer Price Index. Neither of these growth factors keeps pace with the growth in health care costs. Over time, therefore, such proposals would shift more health care costs to beneficiaries.

- **Most Medicare beneficiaries cannot afford to pay more for their health care.** Many Medicare beneficiaries already face health care expenses that take up a large part of their income. Half the people with traditional Medicare spend at least 18 percent of their income on premiums and medical bills combined. Half of the 57 million people with Medicare have incomes of less than $24,150 per year and a quarter have incomes below $14,350. One in four has less than $11,900 in savings. Thus, many Medicare beneficiaries lack the financial resources to absorb the higher health care costs that would likely accompany a premium support system.

- **Premium support could lead to reduced access and higher risk of catastrophic out-of-pocket medical expenses for Medicare beneficiaries with lower incomes.** In a premium support system, wealthier individuals could simply supplement the government contribution with their own out-of-pocket funds. In contrast, premium support could force people with fewer financial resources to leave traditional Medicare and enroll in less-expensive plans, with more limited benefits and restrictive provider networks. These lower-priced plans could also have high deductibles and other cost-sharing requirements that would put individuals at risk for not receiving needed care due to costs or incurring medical expenses they could not afford.

- **Premium support assumes that beneficiaries are willing and able to make complex health care coverage decisions.** A large amount of evidence indicates that Medicare Part D enrollees do not choose the least-expensive prescription drug plan that meets their medication needs. Some beneficiaries also report difficulties accessing and using information that could help them evaluate and compare plans. Further, relatively few Part D enrollees take advantage of the opportunity to switch plans from year to year, which has led to reduced price competition among plans. This pattern suggests that beneficiaries may not be willing or able to choose the best plan for their health needs under a premium support system, undermining the competition that is intended.

- **“Grandfathered” beneficiaries could still pay higher Medicare premiums.** Most premium support proposals would "grandfather" current, or soon to be, Medicare beneficiaries so they would not have to enroll in the new premium support system. They could continue to enroll in Traditional Medicare. However, “grandfathered” beneficiaries may see their Part B premiums (i.e., premiums for doctor office visits) increase over time, more so than under current law, as younger, healthier, and less expensive people are enrolled in a separate premium support system.


7 HHS OIG, Medicare Part D: CMS Has Implemented Processes to Oversee Plan Finder Pricing Accuracy and Improve Website Usability, January 2014.


10 Part B premiums are calculated based on the total amount Medicare spends on their “grandfathered” group of beneficiaries. Total spending for this group will increase if the younger, healthier, and less expensive people are enrolled in a separate premium support system.