

Taking A Fresh Look At Medigap's Impact On Medicare Costs

New Health Affairs Study Shows That Medigap Coverage May Have A Much Smaller Impact on Medicare Spending Than Previously Estimated.

Background

Previous Research Found That Beneficiaries with Medigap Spend 25 Percent More Than Those with Fee-for-Service (FFS) Medicare Only.

Previous studies, including those conducted by the Congressional Budget Office (CBO), have reported that Medigap policyholders incur as much as 25 percent more Medicare expenditures than beneficiaries with FFS-only coverage.¹ Thus CBO periodically estimates that restrictions on Medigap's first-dollar coverage would significantly reduce Medicare outlays.

AHIP's Study Broke New Ground with Additional Analyses.

A recent report from America's Health Insurance Plans (AHIP) presents new information that explains why past conclusions on this topic should be reconsidered. AHIP researchers analyzed comprehensive claims data for 445,000 policyholders with Medigap plans from AHIP member companies in three states. Researchers compared these members' claims to those of a control group of Medicare beneficiaries based on publicly available data.

Besides controlling for age, gender, and geography as done in prior analyses, the AHIP study broke new ground by analyzing two new factors that turned out to be critical: 1) use of services provided through the Veterans Administration (VA) or at military facilities, and 2) Medicare beneficiaries' diagnoses (in lieu of self-reported health status or health conditions).

Key Findings

Nearly half of the increase in Medicare spending that prior studies have reported among beneficiaries with Medigap disappeared when AHIP controlled for use of services received through the VA or at military facilities.

Controlling for use of health services received through the VA and military facilities explains 40–45 percent of the apparent (25 percent) gap between Medicare expenditures of FFS-only beneficiaries and Medigap policyholders. Beneficiaries with FFS-only Medicare were much more likely than beneficiaries with Medigap to use VA or military facilities as their primary

¹The Congressional Budget Office's (CBO) official estimates of public program expenditures reports "...[M]edigap policyholders use at least 25 percent more services than Medicare enrollees who have no supplemental coverage and about 10 percent more services than enrollees who have supplemental coverage from a former employer ..." CBO, *Mandatory: Restrict Medigap Coverage of Medicare's Cost Sharing*, Budget Options, (Washington, D.C.: CBO, February 2007).

source of care: thirteen (13) percent of FFS-only beneficiaries relied on the VA or military facilities for care, compared to just one percent of Medigap purchasers.

Because services received through the VA and military facilities are not billed to Medicare, Medicare costs for beneficiaries who rely on VA and military health care appear artificially low. And because FFS-only beneficiaries are much more likely than those with Medigap to use these facilities, a comparison of Medicare spending that fails to control for use of VA and military facilities would suggest an artificially high difference in spending between the two beneficiary groups.

By controlling for use of services at VA and military facilities, AHIP's study provides a more accurate and complete analysis than previous studies of health spending among beneficiaries with Medigap and Medicare FFS.

Detailed analyses of beneficiaries' health status based on actual diagnosis rather than on the self-reported data used in previous studies found that beneficiaries with Medigap are more likely than those with FFS-only coverage to have high-cost chronic conditions. Therefore, much of the difference in health costs between the two groups may stem from differences in health status rather than differences in insurance coverage.

Previous studies used beneficiaries' self-reported health status as a proxy for underlying health care needs or risks. These studies concluded that the self-reported health status of Medigap policyholders was substantially better than that of FFS-only beneficiaries, and somewhat better than that of the average Medicare beneficiary.²

By contrast, AHIP performed a detailed analysis of Medicare beneficiaries' diagnoses for each of 70 conditions found in Medicare's Hierarchical Condition Categories (HCC) risk assignment system. We found that for the most common and expensive conditions, and across age groups, the

incidence of illness was higher among Medigap policyholders than among all Medicare beneficiaries. Thus, previous studies most likely have attributed too much of the difference in Medicare spending for Medigap policyholders to their insurance coverage and too little of the difference to their illnesses.

In short, these results call into question past assumptions about the impact of Medigap coverage on Medicare claims costs. Before taking any action that would affect the Medigap program, policymakers should demand a thorough re-examination of previous research on the health status, service use, and health spending among Medigap policyholders.

For more information please contact Jeff Lemieux, Senior Vice President for AHIP's Center for Policy and Research, at (202) 778-3200 or visit www.ahipresearch.org.

The full report, *Medigap Coverage and Medicare Spending: A Second Look*, is published in *Health Affairs*, Volume 27, Number 2 (March/April 2008).

Medigap Facts

More than 11 million seniors — about one quarter of all Medicare beneficiaries — were covered by Medigap plans between 2004 and 2006. Medicare beneficiaries purchase Medigap policies for two reasons: to protect themselves from potentially high out-of-pocket costs, and to eliminate the confusion and hassle of handling complex bills from health care providers. Under most Medigap policies, beneficiaries can assign their benefits directly to providers and thereby be spared the task of deciphering bills and filing claims.

A 2007 AHIP study showed that Medigap is particularly important to low- and moderate-income beneficiaries, especially those living in rural areas.³ Key findings from the 2007 AHIP report are as follows:

- Thirty (30) percent of Medigap policyholders resided in rural areas in 2004; by comparison, only 23 percent of all Medicare beneficiaries resided in rural areas.
- Half (50 percent) of rural Medigap policyholders had incomes under \$20,000 in 2004, and 43 percent of all Medigap policyholders (living in rural or metropolitan areas) had incomes under \$20,000. Nearly three-quarters (74 percent) of rural Medigap policyholders, and nearly two-thirds (65 percent) of all Medigap policyholders had incomes below \$30,000.
- Overall, 32 percent of Medigap policyholders had incomes ranging from \$10,000 to \$20,000 in 2004. This income bracket accounted for the highest proportion of Medigap purchasers. In rural areas, 37 percent of Medigap policyholders had incomes in this range.
- Medicare beneficiaries with some form of private coverage — including Medigap, Medicare Advantage, and employer-based plans — reported greater use of preventive care than those with Medicare alone.

For more information on trends of Medigap policies, see the AHIP study *Trends in Medigap Policies, December 2004 to December 2006*. It can be found at: <http://www.ahipresearch.org>.