



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

February 21, 2014

The Honorable John A. Boehner
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Thank you for your letter to the President on the Medicare Advantage program and the impact that the Affordable Care Act is having on our nation's seniors. He has asked that I respond on his behalf.

The facts demonstrate that the Affordable Care Act has contributed to lower health care cost growth, stronger Medicare Advantage plans, and lower costs for beneficiaries. For example, from 2000 through 2007, the average annual growth rate in real Medicare spending per beneficiary was nearly 4 percent. Since 2010, on the other hand, growth in real Medicare spending per beneficiary has been virtually zero. This is good news for the Medicare Trust Fund and for every senior benefitting from Medicare, since lower Medicare costs means lower premiums and out-of-pocket spending for seniors. In fact, since the Affordable Care Act passed in 2010, average Medicare Advantage premiums have fallen by 9.8 percent and enrollment has increased by more than 30 percent to an all-time high of more than 15 million beneficiaries. The Medicare Advantage program is stronger than ever and provides higher quality options to seniors as a result of the law and our efforts.

The Affordable Care Act strengthens Medicare by reducing excessive payments to insurance companies. As you know, nearly every Republican in the House of Representatives voted for or supported the very same savings you are protesting in your letter. In fact, these savings were part of the Republican budgets written by House Budget Chair Paul Ryan in 2011, 2012 and 2013. The same policies put in place by the Affordable Care Act were continued in these budgets, and a majority of House Republicans voted for them each of those years.

Before passage of the Affordable Care Act, Medicare paid \$800 per year more for every person in Medicare Advantage as compared to the traditional Medicare fee-for-service (FFS) program. These excessive payments wasted billions of taxpayer dollars each year and drove up Medicare premiums for all beneficiaries. The Affordable Care Act ended these excessive payments in a common-sense fashion by tying Medicare Advantage payments to FFS spending, phasing out the overpayments, and instituting a requirement that Medicare Advantage organizations use 85 percent of their Medicare payments for patient care and quality improvement, a requirement similar to one the Affordable Care Act imposed on all commercial insurers.

Far from undermining the program, Medicare Advantage has grown under the Affordable Care Act. Enrollment in the program increased by a third since passage of the law—reaching almost

New York Times

Fear Mongering With Medicare

By THE EDITORIAL BOARD

MARCH 1, 2014

The Obama administration's proposed cuts to Medicare Advantage plans — the private insurance plans that cover almost 30 percent of all Medicare beneficiaries — are fair and reasonable. As it happens, they are also mandated by law. Yet Republicans, sensing a campaign issue, are telling older and disabled Americans that the administration is “raiding Medicare Advantage to pay for Obamacare.” The health insurance industry, for its part, is warning that enrollees will suffer higher premiums, lower benefits and fewer choices among doctors if the cuts go into force.

Some of this could in fact happen, although the industry has cried wolf before and continues to thrive. But the key point is this: Over the past decade, enrollees in Medicare Advantage have received lots of extra benefits, thanks to unjustified federal subsidies to the insurance companies. Now they will have to do with somewhat less, unless the insurers are willing to absorb the cuts while maintaining benefits. Enrollment in these private plans, offered by companies like UnitedHealth and Humana, has more than doubled since 2006, in part because of lower premiums and extra benefits, like gym memberships, that are not included in traditional fee-for-service Medicare.

What made these perks possible was, in effect, a subsidy from taxpayers and other Medicare beneficiaries. The federal government paid the private plans, on average, 14 percent more in 2009 than it would cost to treat the same people in traditional Medicare. The insurers used this extra money to reduce enrollees' costs and add benefits.

The 2010 Affordable Care Act rightly required that these subsidies be reduced, although it stopped short of completely eliminating them. The reductions began to take effect in 2012, and have not, so far, visibly harmed beneficiaries or the plans. Since enactment of the law, Medicare Advantage premiums have fallen by 10 percent, the opposite of what some expected, and enrollment has increased by nearly 33 percent, according to the administration. But as the law intended, federal payments to the private plans dropped — from 7 percent more than services under traditional Medicare in 2012 to 4 percent more last year. The administration now proposes to further reduce the payments to Medicare Advantage plans in 2015. The loudest criticism has come from Republicans, but plenty of Democrats have chimed in.

In the Senate, a group of 19 Democrats and 21 Republicans urged that payments be kept at current levels, echoing the view of a trade group campaign called “Seniors Are Watching” that is clearly intended to intimidate politicians in an election year.

March 7, 2014

Marilyn Tavenner, Administrator
Centers for Medicare and Medicaid Services (CMS)
200 Independence Avenue SW
Washington, DC 20201

Dear Ms. Tavenner:

The undersigned organizations are writing to express our support for policies enacted through the Affordable Care Act (ACA) that will gradually align Medicare Advantage (MA) reimbursements with traditional Medicare. We share a commitment to advancing the health and economic security of older adults and people with disabilities, while also promoting the long-term sustainability of the Medicare program.

CMS acknowledges that proposed MA payment rates are calculated in accordance with the law. Prior to the ACA, MA plans were significantly overpaid relative to the traditional Medicare program. In 2009, Medicare paid MA plans \$14 billion more than if the same care had been provided under traditional Medicare, about \$1,000 more per beneficiary. On average, MA plans were paid 114% of costs under traditional Medicare, with some plans paid as much as 118%.¹

We believe the above mentioned policies are critical to stabilizing the fiscal health of the Medicare program, and to ensuring efficient spending of taxpayer dollars. CMS' proposed payment rates are reflective of these policies, and we support their implementation as such.

At the same time, the law requires that MA payment rates be revisited on an annual basis to account for estimated per beneficiary spending by traditional Medicare. Both Medicare cost growth and national health expenditures have grown at historically small rates over the last several years. These slower rates translate into an improved financial outlook for the Medicare program as well as lower costs and stable premiums for beneficiaries. The 2015 MA payment rates proposed by CMS appropriately reflect this slower growth. We do not believe that MA plans should be insulated from these encouraging trends.

We urge CMS to continue to monitor the MA plan landscape to ensure that plans are optimally serving people with Medicare under the revised payment system. MA plans continue to be a popular option for Medicare beneficiaries. MA enrollment is on the rise, increasing 30% from 2010 to 2013 to 15 million enrollees.² According to Congressional Budget Office projections, enrollment in MA plans will continue

¹ MedPAC, Report to the Congress: Medicare Payment Policy," (March 2009), available at: http://www.medpac.gov/documents/mar09_entirereport.pdf

² Jacobson, G., "Projecting Medicare Advantage Enrollment: Expect the Unexpected?" (Kaiser Family Foundation: July 2013), available at: <http://kff.org/medicare/perspective/projecting-medicare-advantage-enrollment-expect-the-unexpected/>