

Competition Cuts Costs for Medicare

By Ronald E. Bachman

Debate raged last year across the nation over the cost of the new Part D Medicare prescription drug benefit. Now that dueling economic models have been replaced by actual experience, actual results are in – and those results are promising.

The average beneficiary premium is \$25 per month, down from an estimate of \$37 in 2005, a drop of nearly one-third.

Some on Capitol Hill, doubting the power of the market, had called for government price controls and mandated plan designs. In the beginning, especially, opponents of the market-based approach argued that the private insurance industry would not participate in offering these programs. The use of competition and market forces to get better products, lower prices and greater choices may be revolutionary for some in the ivory tower of leadership. It is, however, what works in everyday life for consumers and companies across America.

The Center for Medicare and Medicaid Services (CMS) took the lead in a new market-based approach by requiring insurance carriers to bid aggressively in order to participate in the Medicare Prescription Drug program. The CMS administrator, Dr. Mark McClellan, held fast to his belief that traditional “Washington-Think” was wrong, maintaining instead that beneficiaries would drive change by selecting programs that were competitively priced and matched their needs

Today, Medicare beneficiaries have more choices at lower premiums than anyone expected when the program implementation process began. And nothing has been compromised in achieving these savings: All plans must meet strict CMS design and access standards.

With lower beneficiary costs, the federal subsidy behind the program is also lower. The original estimate of the government’s per-beneficiary subsidy had been projected at \$109 per month, but actual results show a subsidy of \$87 per beneficiary. The competitive forces of a free market have resulted in a 2006 government subsidy that is 20 percent less than predicted just one year ago.

In total dollars, the actual 2006 subsidy from the federal treasury will be \$30.5 billion, down from the 2005 estimate of \$38.1 billion. Washington prefers to project ahead for 10 years. With lower actual costs for 2006 and a competitive program firmly in place, the 2006-2015 costs are now \$130 billion less than originally estimated. This, in turn, directly lowers the budget deficit, and that puts the nation on a corrected course toward a balanced budget.

Will you hear about this on the evening news? Not likely. Good news is no news. Projected, expected bad news gets far more attention than actual, tangible, good results. Consequently, while the increased estimated costs get headlines, the dramatic efficiencies rarely do.

Skeptics continue to doubt the results. Some opine that the carriers are simply using a low first-year premium to increase enrollment. Again, research into the facts dispels the myth. CMS actuaries have reviewed the insurance carrier premiums and concluded the lower costs and savings will be sustainable into future years.

This experience should send a strong message for new thinking about how to lower budget deficits and create a balanced budget. The now proven approach is to support the creation of a 21st Century Intelligent Health System, where market forces are able to create better products and offer greater consumer choices at lower costs.

There are other areas for this new approach. For example, if the increasingly popular Health Savings Accounts (HSAs) were given even greater legislative flexibility, some analysts have estimated that a reduction in health care cost trends of 2-4 percent or more would be possible. Additionally, it could generate anywhere from \$20 billion to \$80 billion in additional federal revenue and dramatically reduce the uninsured population.

Already, more than 40 percent of HSAs sold are to individuals who were previously uninsured. Another bill before Congress would create a more competitive individual health insurance market. The Congressional Budget Office estimates the Health Care Choice Act would raise federal revenues by \$12.6 billion over the period 2007-2015.

Creative thinking and smart market-based actions can generate even more promising changes. To achieve better quality and cost-effectiveness requires congressional actions and state reforms that support the overhaul of the health care market. And it needs forward-thinking government servants like Mark McClellan, who has not only an insight shaped by both his medical background and doctorate in economics, but who has the courage of his convictions.