



BENEFIT *Advisor*

In This Issue

In this issue, we will examine Medicare Advantage plans. The Medicare Modernization Act increased the funding for these plans and expanded the plan design options available. Medicare Advantage plans offer an alternative to traditional Medicare. The plans are managed by private insurers.

In many cases, these plans may be more attractive from a cost and a benefit standpoint to many Medicare beneficiaries. These plans should be attractive to employers sponsoring retiree health care coverage as well.

We welcome your comments and suggestions regarding this issue of our technical bulletin. For more information on this Benefit Advisor, please contact your Account Manager or visit the McGrawWentworth web site at www.mcgrawwentworth.com.

“Medicare Advantage Plans”

Most of the focus of the Medicare Modernization and Improvement Act has been on Medicare Part D, the part of the law adding outpatient prescription drug coverage to the Medicare program. The addition of this coverage to Medicare is the first major benefit change to the program in the forty years since its inception; it definitely is big news.

However, the Act did not just create coverage for outpatient prescription drugs, it also created Medicare Advantage plans. These plans have not received a lot of press and should be interesting to Medicare beneficiaries and employers alike. Medicare Advantage plans are comprehensive medical plans designed to replace Medicare Part A, Part B and in many cases, Part D. Insurance companies throughout the country manage these cost competitive alternatives to traditional Medicare.

Private alternatives to Medicare have been available in certain geographic regions since 1973. However, except for a time in the early 2000s, their market share was relatively small. The new Medicare regulations expanded the plan options available and also changed the government reimbursement method. These enhancements may make these plans an attractive alternative to traditional

Medicare as well as traditional retiree health plans.

This *Advisor* examines Medicare Advantage plans in detail, including:

- Historical Review of Private Medicare Alternatives
- Overview of the New Medicare Advantage Plans
- Advantages of Medicare Advantage Plans
- Drawbacks for Implementing These Options
- Review of Plan Options Available in Michigan



Medicare Advantage plans, available for Medicare eligible individuals as well as groups, are attractive because they are reasonably priced and offer integrated health coverage. This *Advisor* describes these plans and their potential impact on your organization.

Historical Review of Private Medicare Alternatives

HMOs have been authorized as alternatives to Medicare since 1973. At that time, HMO plans were not widespread and enrollment in Medicare-approved HMOs was relatively small.

In 1997, the Balanced Budget Act expanded the HMO options for Medicare replacement. At this point, these plans were officially referred to as Medicare + Choice options, informally called Medicare Risk HMOs. The Balanced Budget Act increased subsidies to the Medicare + Choice program, creating incentive for regional HMOs to enter the Medicare marketplace. At that time, insurance carriers launching Medicare Risk HMOs invested heavily into marketing their HMO plans. The HMO concept was new to many Medicare beneficiaries. Most Medicare Risk HMOs offered more comprehensive benefits than traditional Medicare. In addition, these plans typically offered some coverage for outpatient prescription drugs. From 1997 to approximately 2000, there was a steady and substantial increase in the number of Medicare beneficiaries enrolled in Medicare Risk HMOs.

In 2000, the government began cutting subsidies to Medicare Risk HMOs because General Accounting Office studies showed that the government paid roughly 13% more for Medicare Risk HMO participants than for those enrolled in traditional Medicare. As a result, many HMO plans withdrew from the market because they were no longer able to remain profitable on their Medicare Risk HMO business. Enrollment in these plans dropped significantly between 2000 and 2004 as a result of plans leaving the market.

It is important to understand the history of Medicare Risk HMOs because the Medicare Modernization Act changes to these plans will have a significant impact on this market. The changes are going to make it more lucrative to offer private alternatives to Medicare, but will these new programs be sustainable given their historical beginnings?

Overview of the New Medicare Advantage Plans

The Medicare Modernization Act made private alternatives to Medicare more attractive. It expanded benefit plan designs by allowing carriers to offer plans other than HMOs, such as PPOs and traditional indemnity plans. In addition, the government does adjust carriers' subsidies to account for regional differences in health care cost. The government may also increase these subsidies after it analyzes plan use. If a plan has a significant amount of high claim activity, the plan may qualify for additional subsidies from the government.

It makes sense to review the basics of Medicare Advantage plans. Medicare Advantage plans completely replace Medicare Part A, inpatient hospitalization coverage, and Part B, outpatient hospital and physician services.

If the Medicare Advantage plan also offers a Medicare-approved prescription drug benefit, the plan can also replace Medicare Part D. When a beneficiary enrolls in a Medicare Advantage plan, the beneficiary is disenrolled in Part A, Part B and Part D. However, the Medicare Advantage plan must deliver the same benefits as Medicare as well as additional benefits. CMS must approve the Medicare Advantage plan benefits and rating structure.

In general, beneficiaries that elect a Medicare Advantage plan, must still pay the monthly premium for Part B coverage. This premium is transferred to the health plan and becomes part of the government subsidy to provide care. In addition, plans may charge additional premiums to provide additional benefits above the Medicare program's standard benefits.

Medicare Advantage plans will be more involved in managing care. Traditional Medicare was designed merely to reimburse providers for services rendered. Today's privately managed health plans are much more active in helping beneficiaries manage their health.

Medicare Advantage plans are required to include disease management programs, large case and care management programs and expanded wellness coverage. The private carriers will offer Medicare beneficiaries programs they have developed to help manage cost in the private sector. CMS recognizes the value of care management programs but has been unable to fully launch disease management and wellness



NOTABLE THOUGHTS

TO TAKE TIME TO THINK IS TO GAIN TIME TO LIVE.

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initiatives because of the structure of traditional Medicare. The government requires approved Medicare Advantage plans to offer these care management programs in hopes of better managing the long term health risks of Medicare beneficiaries. The government continues to believe private vendors will manage the long-term risk of the Medicare beneficiaries more effectively.

A significant amount of funding for these plans will come from the government. Centers for Medicare & Medicaid Services (CMS) receives a large portion of its funding from tax dollars. Almost one and a half percent of FICA withholding is dedicated to the Medicare Hospital fund. In addition, the government collects premiums for Part B. These funds are used to provide Medicare benefits to eligible Medicare participants. With Medicare Advantage plans, part of the funding is sent directly to the health plan. The health plan must responsibly manage the beneficiaries' health for the amount the government pays. The subsidy can be adjusted based on geographic region; in some areas of the country, health care costs are greater than in others. Additional adjustments to the "subsidy" depend on how often plan members use the plan.

The government believes these plans will get more involved in managing a beneficiary's health and thus will ultimately make these plans more successful at managing health care cost. The generous carrier subsidies are designed to make Medicare Advantage plans more attrac-

tive to Medicare beneficiaries and convince carriers to re-enter the private Medicare market.

Enrollment Rules

The enrollment rules for Medicare Advantage plans are more stringent than the enrollment rules for their predecessor, the Medicare Risk HMOs. Medicare beneficiaries will have limited opportunities to enroll in these plans:

- **Initial Coverage Election**

Period: The initial coverage election period is the period a newly eligible Medicare beneficiary can elect a Medicare Advantage plan. The initial enrollment period mirrors the initial enrollment period for Part B. The beneficiary can enroll 3 months

before and 3 months following the eligibility date for Part B. For example, if an individual is eligible for Parts A and B of Medicare on September 15, the initial election period for Medi-

care Advantage plans are the 3 months before September, the month of September and 3 months after September.

- **Annual Coordinated Election**

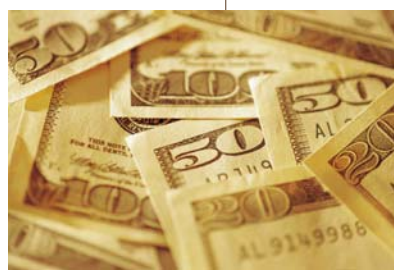
Period: The annual coordinated election period is an annual period where a Medicare beneficiary can choose either a Medicare Advantage plan or traditional Medicare. The beneficiary can change Medicare Advantage plan options during this period as well. The coordinated annual election period runs from November 15 to December 31 each year with changes effective on January 1.

- **Open Enrollment Period:** The open enrollment period is the first 3 months of every year and Medicare beneficiaries are limited to one change during this period, such as switching from a Medicare Advantage plan to traditional Medicare. The open enrollment period basically allows one switch if a beneficiary makes a mistake by electing a Medicare Advantage plan.

In some cases, the beneficiary can switch between Medicare Advantage plans; however, Medicare Advantage plans are under no obligation to allow new enrollments during this time. If a beneficiary switches coverage, the beneficiary must choose an equivalent option. For example, if a beneficiary is covered by a Medicare Advantage plan with an approved prescription plan, the beneficiary must re-enroll in Medicare and also elect a Part D plan to secure equivalent coverage.

- **Special Election Period:** A special election period is allowed when circumstances change. For example, special election is allowed when a plan withdraws from the market, a beneficiary moves out of the service area, and so on. The Medicare Advantage plans must promptly notify their members of any changes to their program. In addition, members must promptly notify the plan of any changes in their status.

The enrollment rules under Medicare Advantage are much more restrictive than they were for Medicare Risk HMOs. Under Medicare Risk HMOs, enrollees could choose to



return to traditional Medicare once each month. There has been significant discussion on the restrictive nature of these enrollment rules but the government has not acted to allow members more flexibility in enrolling or dis-enrolling from these plans.

Advantages of Medicare Advantage Plans

Medicare Advantage plans offer comprehensive, coordinated benefits to members and employers. The following benefits can be very attractive:

- These plans offer a coordinated approach to Medicare Part A, B and D. Traditional Medicare has many different components to provide comprehensive coverage. Most Medicare beneficiaries work with different carriers for their Medicare supplement and the Medicare Part D coverage. Working with CMS and various carriers can be confusing. With Medicare Advantage, one vendor is responsible for providing coverage for all different areas of Medicare. That vendor administers Part A, Part B, Part D and supplemental coverage in a comprehensive medical plan.
- In most cases Medicare Advantage plan premiums and out-of-pocket costs for care are significantly less. From a premium perspective, a Medicare Advantage plan takes advantage of the government



subsidies to deliver Medicare Advantage benefits. In addition, the coordinated coverage should be more cost effective than working several fragmented areas. These plans cost less for individuals as well as groups.

- These plans also offer care management and disease management programs to help individuals better manage their health. In addition, these plans will offer more comprehensive wellness benefits.

These plans can be very attractive from a benefits and a cost standpoint. In fact, many of the plan designs look more like employer-sponsored health coverage than Medicare. Many plans have office visit copays and annual deductibles and coinsurance with maximum out of pocket costs. This is a big departure from the structure of traditional Medicare.

The new Medicare Act has expanded the delivery systems of these plans. In many areas of the country, PPO and traditional plan options are available if a beneficiary does not want to enroll in an HMO plan.

Potential Drawbacks for Medicare Advantage Plans

While these plans offer many advantages over traditional Medicare, they do have potential drawbacks as well:

- Depending on the plan design, a beneficiary's provider choice may be limited. In an HMO, the beneficiary must typically

choose a primary care physician and that physician must render any necessary care or refer the beneficiary to another provider. Many seniors may have established relationships with their various specialists, and the HMO plan design may be too limiting in provider choice. The PPO plan design will have more freedom of choice, but seniors will need to make sure the providers they choose are in the PPO network. Traditional plans offer the greatest freedom of choice in providers, but the services will be subject to reasonable and customary fee schedules.

- Another confusing aspect of Medicare Advantage plans will be determining reasonable and customary fee schedules. Medicare sets an aggressive fee schedule for the services the program covers. A physician that accepts Medicare will accept the Medicare payment as payment in full. A provider that does not accept Medicare must limit his/her charge to no more than 115% of the Medicare-approved amount. If a provider does not participate with Medicare, the provider is required to advise the Medicare beneficiary that their charges may exceed the approved amount before providing the services.

This situation gets more confusing with Medicare Advantage. The same Medicare discounted rates apply to providers that accept Medicare, but only for services covered by Medicare. If a service is not covered by Medicare, the Medicare

Advantage plan should disclose how fees will be paid.

- The plan may require the beneficiary to enroll in a medical management or care management program.
- The opportunity to re-enroll in traditional Medicare is limited.

These drawbacks may be considered very minor by most Medicare beneficiaries when compared to the cost and benefit improvements offered by many Medicare Advantage plans.

Review of Plan Options Available in Michigan

Many Medicare Advantage plans have launched in Michigan. Several plans are available in the individual market locally:

- Blue Care Network - Several HMO options
- Humana - Traditional and PPO plan options
- HAP - Several HMO options
- Alliance Health and Life - PPO plans
- BCBSM - Traditional plan options

One of the benefits of the new Medicare Advantage plans is that some plans can be offered nationally and still meet the needs of your retirees throughout the country.

In fact, Aetna recently announced they will be offering a national Medicare Advantage plan to meet the needs of employers with retir-

ees located throughout the country.

To find the Medicare Advantage plans available in your area, log onto the Internet at www.medicare.gov. Under "Search Tools", select the option to "Compare Health Plans and Medigap policies in your area. When you enter your zip code, indicate you would like to review Medicare Advantage plan options. The search tool will provide you with individual Medicare Advantage plans available in your area.

Conclusion

The Medicare Modernization Act offered many enhancements to the Medicare program. The area that has gotten the most attention is Part D, the coverage for outpatient prescription drugs. However, Medicare Advantage plans offer a great alternative coverage options to traditional Medicare.

Medicare Advantage plans are available in a number of plan design options, including HMOs, PPOs and traditional fee-for-service options. The plans are administered by private insurance carriers and will offer more comprehensive benefits than Medicare Part A, B, D with a Medigap policy.

The pricing for these plan options are very attractive. Medicare beneficiaries should find these plans less expensive than traditional Medicare and Medicare supplement options. Medicare beneficiaries will also find the claims are administered by a central entity, the insurance carrier,

which will be far less confusing than traditional Medicare options.

If your organization sponsors retiree health coverage, you should review Medicare Advantage alternatives to your current arrangement. These plans receive significant funding from the government and they may significantly reduce your cost and liability for retiree health coverage.

If you have any questions regarding Medicare Advantage plans, please contact your McGraw Wentworth Account Director. **MW**



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