Medicare currently makes payments based on specific services, but policy discussion is swirling about changing the program to a premium support system that operates on capitation payments, or payments per person. The Kaiser Family Foundation (KFF) offered some answers to common questions that are now swirling after Representative Paul Ryan (R-Wis) released a Republican health reform proposal that includes partially privatizing Medicare (see Ryan proposes 'A Better Way' to repeal Obamacare, June 29, 2016). The KFF warned that out-of-pocket costs for beneficiaries could either rise or fall under the proposed plan, depending on various factors.

**How would it work?** The new system would involve a federal payment made for each beneficiary toward a health plan purchase, either a private plan (like under Medicare Advantage), or traditional Medicare. Beneficiaries would be able to choose their plans. The KFF emphasized that that various premium support proposals provided over the last few years have key differences in how policies would work, including benefit specificity, health insurer rules, and payment setting.

**The price tag.** A premium payment system’s particular design will determine the amount of premiums and out-of-pocket payments. Premiums for covered services would vary by geography and plan. The Congressional Budget Office (CBO) found that total cost to beneficiaries would decrease if the federal payments were tied to the average plan bid but would increase if tied to the second lowest plan bid. A general decrease, however, does not mean that every beneficiary’s payments will go down. Most beneficiaries who remain in traditional Medicare would pay more.

One of the primary aims of such a system is to reduce federal spending. If plan competition increases and results in decreased premiums, and beneficiaries are incentivized to choose the most cost-effective health plan, long-term federal spending on the program could decrease. Like beneficiary costs, federal government costs depend on plan structure.

**Effects on beneficiaries and providers.** The preservation of particular benefits is currently unknown, as some proposals differ. Currently, Medicare Advantage plans must offer at least the amount of benefits a beneficiary would receive under traditional Medicare, but premium support proposals have not clearly established this requirement. Some proposals offer subsidies for low-income beneficiaries, but these may be insufficient to allow such individuals to select the plan they want. They may also need to switch plans frequently to avoid premium hikes. KFF believes that a premium support plan may erode traditional Medicare enrollment so much that providers may have fewer incentives to enroll in accountable care organizations and other payment reform efforts, and subsidized providers like teaching hospitals may not receive the financial support to which they are accustomed.

Companies: Kaiser Family Foundation