



America's Public Medicare Program Costs Less and is More Efficient than Private Health Insurance

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Americans get health insurance coverage through both public programs like Medicare and private plans from insurance companies. Although political debates rage over which kind of insurance does a better job of holding costs down and reducing administrative red tape, non-partisan data from the Congressional Budget Office and the Centers for Medicare and Medicaid Services demonstrate definitively that private health insurance continues to be less economically efficient than Medicare. Available findings suggest that Congress should take a hard look at ways in which private insurance drives up rather than reduces health care costs.

Medicare Has Controlled Costs Better than Private Insurance

Trends in spending for health coverage tell a clear story:

- Medicare's per person spending has been substantially slower than commercial health insurance between 2010 and 2015, rising by 1.4 percent, less than half the growth of commercial Medicare Advantage insurance, 3 percent.
- According to the Centers for Medicare and Medicaid Services, Medicare spending for commonly used kinds of health care rose by an average of 4.3 percent each year between 1997 and 2009, while private insurance premiums grew much more sharply, at a rate of 6.5 percent per year. Between 2010 and 2015, Medicare spending rose 4.4 percent annually.
- As calculated by the National Academy for Social Insurance, if spending on Medicare had gone up at the same rate as spending for private insurance premiums from 1997 to 2009, Medicare would have cost American taxpayers and consumers an additional \$114 billion, or almost 32% more than they actually spent.
- The Congressional Budget Office has predicted that the rising cost of private insurance will continue to outstrip Medicare for the next 30 years. Private insurance coverage equal to that provided by Medicare would cost almost 40 percent more in 2022 for a typical 65-year old American.

Some analysts mistakenly point to a relatively low growth rate for all health care expenditures other than those for Medicare and Medicaid, the biggest public programs, arguing that this means private costs are rising more slowly. But as the Congressional Budget Office rightly explains, the growth rate of all health care expenditures other than Medicare and Medicaid includes not just spending by private insurers, but also spending by additional government programs and out-of-pocket costs paid by the uninsured. When the correct definitions of public and private costs are used, it is clear that Medicare is the most cost-effective.

Medicare Has Lower Administrative Costs

Differences in administrative costs account for much of the greater efficiency in Medicare.

- According to the Medicare Trustees in 2015, administrative costs in Medicare are very low, equal to only about 1.66 percent of total expenditures. The Congressional Budget Office finds administrative expenses of private insurers to be 13 percent of total expenditures.
- Calculations of Medicare administrative costs are all encompassing -- including the costs of collecting Medicare payroll taxes, funds spent on control of fraud and abuse in the program, and costs for buildings housing Medicare administrative staff.

“Competition” in the Private Health Care Market Has Failed to Reduce Costs

Those who believe the private sector can reduce health care costs often place their faith in market competition. But market mechanisms have not worked as hoped.

- In most local markets, medical-care providers such as hospitals have monopoly power. Consequently, private insurers do not have enough bargaining power to contain prices.
- In most areas, two or three insurers dominate the regional market, limit competition and make it extremely difficult if not impossible for new insurers to enter the marketplace and stimulate additional price competition.
- Medicare Advantage, which enrolls older adults and people with disabilities in private health plans, has failed to deliver care more efficiently than traditional fee-for-service Medicare. Both the Congressional Budget Office and the Medicare Payment Advisory Commission (which advises Congress on Medicare's finances) have calculated that Medicare Advantage plans cost 12 percent more than traditional Medicare to cover the same kinds of health care services.

Karen Ignagni, who heads America's Health Insurance Plans, the insurance industry's trade association, has admitted that private plans have not been able to bargain down the prices charged by providers.

Medicare is Publicly Accountable, Private Plans are Not

More data is needed to understand better how much it costs private plans to deliver good care – and also to evaluate innovations. Most innovations studied so far have been attempted by doctors and clinics, not insurers, who tend to treat their data as trade secrets. Even government-funded private-market plans under Medicare Advantage can refuse to release data on coverage and payments to providers. In contrast, traditional Medicare is publicly accountable, so data from that program allow researchers to study what works and what does not work to improve care and reduce costs. Such research is essential to promote steady improvements in America's health care and health insurance systems.

To date, the data we have support a clear conclusion: Medicare's public accountability and bargaining power give it the ability to drive system change and control skyrocketing health care costs, while private insurers operating in imperfect markets have fallen short.

Read more in Diane Archer, “Medicare is More Efficient Than Private Insurance,” *Health Affairs Blog*, September 20, 2011.