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## The next healthcare battle: cutting Medicare Advantage

**The program gives private insurers a federal subsidy to handle seniors' care. Some swear by it, but others say it's wasteful.**

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Reporting from Washington

President Obama, struggling to discredit bogus charges that his healthcare overhaul would create "death panels," soon could face another emotionally charged obstacle -- a plan to trim the federal subsidy for a program used by nearly a quarter of Medicare beneficiaries.

The program, known as Medicare Advantage, pays insurance companies a hefty premium to enroll senior citizens and provide their medical services through managed-care networks.

But whether the higher payments are worth it is a matter of dispute.

Obama and many congressional Democrats see Advantage as a wasteful bonanza averaging about \$17 billion a year for the companies, which critics say provide few benefits beyond regular Medicare.

The companies and their supporters say they earn the extra payments by providing seniors -- who pay nothing extra -- with significant benefits, including freedom from government red tape.

What lifts the disagreement above other points of contention on healthcare is its potential for spreading fear and outrage among Medicare recipients as a whole, much like the public outcry after Republicans accused Democrats of trying to create death panels to cut off care for severely ill seniors and the disabled.

The allegation, although untrue, fueled outrage among critics of the healthcare overhaul at town hall meetings across the country.

Although scaling back payments would have no effect on a sizable majority of Medicare users, it would create an opening for opponents to make the blanket allegation that the president wants to cut back on Medicare benefits -- as some Republicans are already starting to say.

Obama and his supporters acknowledge the risk.

"This will not be painless," said Robert Berenson, a physician and healthcare policy analyst at the liberal-leaning Urban Institute.

The White House is counting on convincing seniors, with their powerful lobbying presence in Washington, that in order to fix the overall healthcare system, they have to cut the fat out.

For the last few years, Medicare Advantage has been a sheltered corner of the national health plan.

When congressional Republicans first began expanding private insurance options for Medicare in 1997, advocates argued that the plans would actually deliver services more efficiently and hence less expensively.

But the spending on Advantage plans grew over time.

The plans now cost the government about 14% more per person than does regular Medicare, according to a recent analysis by the Medicare Payment Advisory Commission, which recommends reimbursement rates to Congress.

"Payment increases have been so large that plans no longer need to be efficient to attract enrollees," the commission's executive director, Mark E. Miller, told Congress in June 2008.

Today, the sheer size of the program, which serves about 10.2 million seniors out of more than 45 million Medicare users, offers an opportunity for savings that the Office of Management and Budget puts at \$177 billion over 10 years.

Obama joined the Advantage critics in 2007 while campaigning in Iowa, when he cited the arrangement as an example of Medicare waste.

Now his plan is to reduce payments to Advantage so that they are equal or comparable to the payments for regular Medicare.

As part of their healthcare talks, lawmakers have suggested reducing the rates through competitive bidding or by fiat -- perhaps setting payments at levels not to exceed traditional Medicare.

"We should not be subsidizing insurance companies to provide Medicare benefits that cost 14% more," said Kenneth Baer of the president's Office of Management and Budget.

Some members of the senior citizens lobby agree.

"We think having choices and competition within Medicare is important, but they should not add to the cost of the program," said Jordan McNerney, a spokesman for AARP.

Though the organization isn't backing any particular healthcare bill at the moment, McNerney said: "We are in support of cutting back the subsidies to private insurers over time so they compete on a level playing field with traditional Medicare."

But the insurers who provide the Advantage plans see it differently -- and so do many seniors who have enrolled.

**In late July, for example, Maurice Engleman, 82, of Palm Springs made the rounds on Capitol Hill, presenting himself as proof of the program's benefits.**

**Last year, Engleman was diagnosed with tongue cancer shortly after his wife died.**

**Desert Oasis Healthcare, the firm handling his Medicare Advantage account, assigned a nurse to guide him through a thicket of doctor visits and hospitalizations, including what turned out to be 30 radiation treatments. Engleman said that she met him at every appointment.**

**"Physically and emotionally, I felt completely supported," he said. "I really don't think I would have made it without this continuum of care."**

**Engleman, who said he now is free of cancer, acknowledged the additional expense of Medicare Advantage for taxpayers, but argued that it was cost-effective.**

**"It might cost \$1,000 more, but if I didn't have to go to the hospital, that might save Medicare \$5,000," he said.**

Despite the rising controversy, the Advantage plans seem headed for significant change.

The trick will be to structure a reimbursement plan for private insurers that preserves potential for a fair profit, said Len Nichols, a healthcare economist at the centrist New America Foundation.

"There's a legitimate discussion to be had about the smartest way to pay them," said Nichols, who advocates forcing providers to bid for seniors' business and paying them bonuses for achieving quality-of-care goals.

"Make them more competitive," he said. "Make them earn the money instead of just handing it to them."