

Choice Continues to Erode in 2002

by Marsha Gold and John McCoy

Medicare + Choice enrollment nationwide continues to drop, with fewer choices, less geographic coverage, and less expansive benefits. More than half a million Medicare beneficiaries are in Medicare + Choice plans leaving the market this year, forcing them to find alternative coverage. Seventeen percent of these beneficiaries are in counties with no other Medicare managed care plan. The cumulative effect of withdrawals since 1999 has sharply reduced the number of choices available to beneficiaries. In plans that remain in the program, premiums are increasing and benefits declining. While Medicare + Choice is still attractive to many beneficiaries, total enrollment has been declining since 2000, with an increasing share of beneficiaries returning to traditional fee-for-service Medicare.

Plan Withdrawals

Since 1998, 2.2 million Medicare beneficiaries have been involuntarily disenrolled from Medicare + Choice by withdrawing plans and have had to find an alternative source of coverage (see Table 1). Although fewer Medicare + Choice enrollees will be directly affected in 2002 than in 2001, withdrawals will still affect nearly 10 percent of beneficiaries this year.

Withdrawals stem from a variety of causes. Key reasons include:

- payment rate increases of only 2 percent for most plans in recent years;
- fewer competitors in local markets due to plan consolidations;
- increased provider pressure for more favorable payment terms;
- prior expansion in markets where competitive conditions are not favorable to the success of Medicare + Choice; and
- growing hesitation by plans to participate in Medicare + Choice given the instability of program policies, lack of predictability of payment, and burdensome requirements.

Participation decisions are heavily influenced by local market conditions and corporate strategic considerations, which have become increasingly relevant with only eight national firms dominating the Medicare + Choice market. Most firms had fewer Medicare + Choice members in 2001 than they did in 1998. Absent massive new

enrollment, all firms except Kaiser are likely to have fewer Medicare + Choice enrollees in 2002 than 2001.

Share of Beneficiaries with Choice

The share of beneficiaries with a choice of Medicare managed care plans continues to decline. In 2002, 61 percent of beneficiaries nationwide will have a managed care plan choice, down from a high of 72 percent in 1999 and 63 percent in 2001.

Medicare + Choice has always been heavily concentrated in urban areas, and while this trend continues, the number of choices there is shrinking (see Figure 1). Only 5 percent of beneficiaries in rural areas that are not adjacent to urban areas will have a choice of managed care plan in 2002. In central urban areas, in contrast, 24 percent have five or more choices, 54 percent have two to four choices, 17 percent one choice, and 5 percent no choice.

Table 1

Medicare + Choice Enrollees Affected by Withdrawals, 1999-2002

| Year | Enrollees | | Enrollees with No Other Medicare + Choice Plan** | |
|------|-----------|----------|--|------------|
| | Number | Percent* | Number | Percent*** |
| 1999 | 407,000 | 6.7 | 47,000 | 12 |
| 2000 | 327,000 | 5.2 | 79,000 | 24 |
| 2001 | 934,000 | 14.7 | 159,000 | 17 |
| 2002 | 536,000 | 9.6 | 92,400 | 17 |

Source: Centers for Medicare and Medicaid Services reports

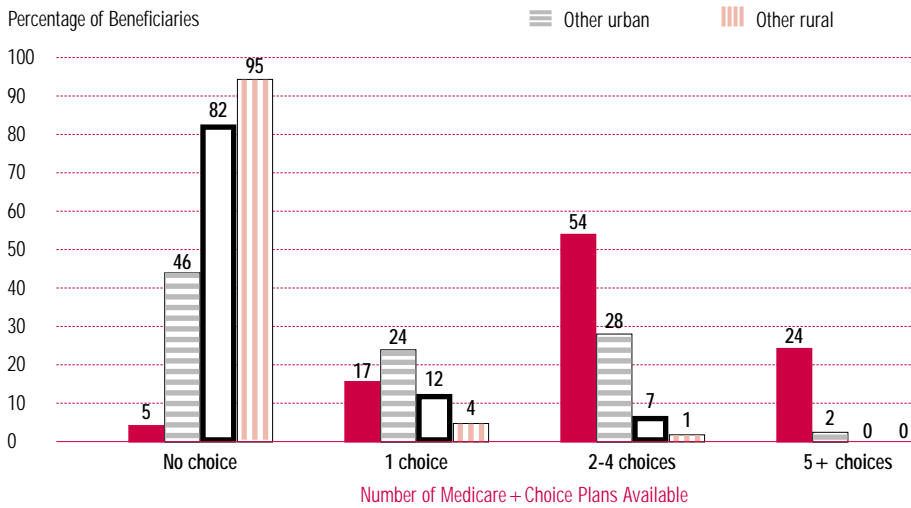
*Percent of total Medicare+Choice enrollment in December of the prior year.

**Excludes private fee-for-service option (Sterling). In 2002, 174,000 enrollees in withdrawing plans have access to this option.

***Percent of affected enrollees.

Figure 1

Percent of Beneficiaries by Choice of Medicare + Choice and Type of County of Residence, 2002



Source: Mathematica Policy Research analysis of the Health Care Financing Administration's State-County-Plan Penetration file and a data file of submitted 2002 nonrenewals and service area reductions. Excludes counties with only a choice of private fee-for-service.

Change in Benefits and Premiums

Following a pattern first seen in 2000, plans staying in the Medicare + Choice market are reducing benefits and increasing premiums (see Figure 2). In 2002, the average Medicare + Choice premium for a basic contract will be \$32 nationwide, up from \$23 in 2001. While 70 percent of plans offered a zero premium product in 1998, only 39 per-

cent will do so in 2002. While the share of plans providing pharmacy coverage did not decline in 2002, many plans are reducing benefits substantially.

Effect on Enrollment

Enrollment in Medicare + Choice had risen steadily from 441,000 in 1985 to 1,815,000 in 1993 and 6,347,000 in 1999. Since then,

it has been falling. Enrollment was 12 percent lower in November 2001 than in the same month the previous year—a loss of more than 700,000 enrollees.

There is turnover in enrollment even when plans remain. Voluntary disenrollment rates are rising, and when people disenroll they are more likely to return to traditional Medicare (see Table 2). With benefit reductions continuing and potentially intensifying in 2002, continuation of these trends is anticipated.

Table 2

Voluntary Disenrollment from Medicare + Choice Plans, 1998-2001* (across 69 markets)

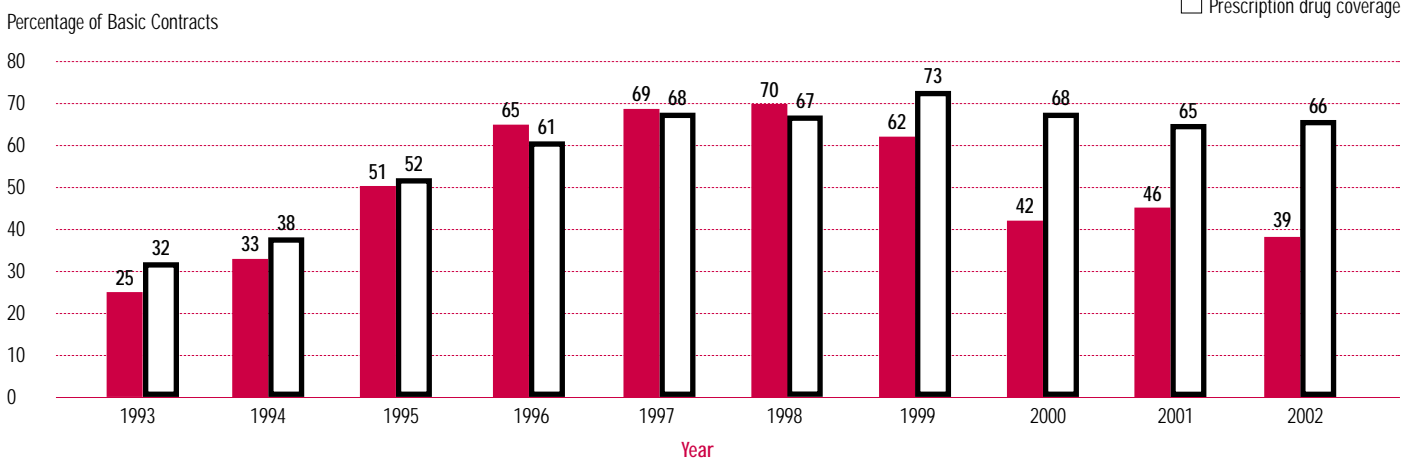
| Year | Disenrollment Rate | Percent of Disenrollees Returning to Traditional Medicare |
|------|--------------------|---|
| 1998 | 2.5 | 30 |
| 1999 | 2.7 | 28 |
| 2000 | 4.2 | 31 |
| 2001 | 4.1 | 45 |

Source: Cook, Anna, and John McCoy. *Early Experience under Medicare+Choice: Trends in MCO Participation and Enrollment*. Submitted to the Centers for Medicare and Medicaid Services, December 2001.

*Excludes beneficiaries who died or whose plans exited the program. Statistics reflect rates in the first quarter of the year.

Figure 2

Medicare + Choice Benefit Trends, 1993-2002



Source: Mathematica Policy Research compilation of Health Care Financing Administration Monthly Report data (1990-1998) and Medicare Compare (1999-2002)

Fast Facts is published by the Washington office of Mathematica Policy Research, Inc.

Visit our Web site at www.mathematica-mpr.com

Princeton Office
P.O. Box 2393
Princeton, NJ 08543-2393
Phone: (609) 799-3535
Fax: (609) 799-0005

Washington Office
600 Maryland Ave., S.W., Suite 550
Washington, DC 20024-2512
Phone: (202) 484-9220
Fax: (202) 863-1763

Cambridge Office
50 Church St., 4th Floor
Cambridge, MA 02138-3726
Phone: (617) 491-7900
Fax: (617) 491-8044

Marsha Gold: Project Director,
Monitoring Medicare + Choice
The Stein Group: Editor
designMind: Design