

# FAST Facts

## Shifting Medicare Choices, 1999-2003

by Marsha Gold and Lori Achman

Substantially fewer Medicare beneficiaries are in private plans today than were in the late 1990s. Those still in private plans are primarily in health maintenance organizations (HMOs) and similar plans that tie coverage to using a network of providers, even though the range of choices available to beneficiaries is broader than ever. This Fast Facts summarizes how private plan enrollment and choices have changed over time and the implications of these changes for Medicare beneficiaries in urban and rural areas. As changes in the role of private plans in Medicare continue to be debated, it is critical to understand better what choices are currently available to Medicare beneficiaries.

### Private Plan Enrollment, 1999-2003

In 1999, 17.3 percent of Medicare beneficiaries were enrolled in private plans; by late

2003, only 12.2 percent were so enrolled (see Table 1). Historically, Medicare beneficiaries were given the choice of private plans so they had a range of emerging managed care options. Through 1997, the Medicare risk-contracting program offered beneficiaries an HMO-like entity. Medicare+Choice absorbed the risk-contracting program and expanded choices to include coordinated care plans such as HMOs, preferred provider organizations (PPOs), and provider-sponsored managed care plans. Enrollment in these plans has declined from 6.3 million in 1999 to 4.6 million in 2003, or from 15.9 percent of all Medicare beneficiaries to 10.8 percent—a decrease of more than one third.

HMO-like entities still account for virtually all the enrollment in Medicare coordinated care; only about 2,000 enrollees are in coordinated care contracts that involve

PPOs, and another 75,000 are in a PPO demonstration. Private fee-for-service (FFS) plans account for only about 0.1 percent of all Medicare beneficiaries, but they are growing in prevalence

### Trends in Premiums and Benefits

Higher premiums for fewer benefits have become the norm in coordinated care plans (see Table 2). Between 1999 and 2003, the share of enrollees in such plans with a zero premium option declined from 80 percent to 38 percent, and the average monthly premium increased sixfold—from \$6 to \$37.

At the same time, even though coordinated care plans typically had some form of prescription drug coverage, the share of enrollees without such coverage increased from 16 percent to 31 percent. Additionally, the nature of the coverage changed, with tighter dollar limits and lower coverage for

Table 1

### Medicare Beneficiaries in Private Plans, 1999 and 2003

	1999		2003	
	N	%	N	%
Any private plan	6,893,765	17.3%	5,208,289	12.2%
Coordinated care plan*	6,347,434	15.9	4,622,664	10.8
Cost plan	341,022	0.9	355,231	0.8
PPO demonstration**	—	—	75,431	0.2
Other demonstration	205,309	0.5	150,563	0.4
Private FFS***	—	—	24,400	0.1

Sources: MPR analysis of Centers for Medicare and Medicaid Services data; Medicare Managed Care Reports, December 1999 and October 2003

\*Includes HMOs, PPOs, and provider-sponsored plans.

\*\* Began January 2003.

\*\*\* First plan was offered in July 2000.

Table 2

### Trends in Premiums and Benefits in Coordinated Care Plans, 1999-2003\*

	1999	2000	2001	2002	2003
Percent in a zero-premium plan**	80%	59%	46%	41%	38%
Average monthly premium	\$6	\$14	\$23	\$32	\$37
Percent of enrollees with any drug coverage	84%	78%	70%	72%	69%
Percent of enrollees with drug coverage, including brand-name drugs	NA	NA	62%	43%	41%
Estimated annual average out-of-pocket spending	\$976	\$1,185	\$1,438	\$1,786	\$1,964

Source: MPR analysis for The Commonwealth Fund

NA=not available

\*Basic plans only.

\*\*Includes a few plans that also include rebates that apply to the Part B premium.

brand-name drugs. By 2003, nearly a third of Medicare+Choice enrollees were in a coordinated care plan without any type of drug coverage. Another 28 percent were in plans that only covered generic drugs, and an additional 8 percent were in plans that limited brand-name coverage to \$500 a year or less.

### Concentration of Offerings

Coordinated care enrollment has largely been in areas of the country where market conditions support such arrangements. Only 10 states have 15 percent or more of their beneficiaries enrolled in these plans (see Table 3). Penetration in the remaining states combined is only 4 percent, down from 8 percent in 1999.

A few national firms dominate the Medicare coordinated care market. Kaiser-Permanente and Blue Cross-affiliated (but independently owned) plans each account for about 17 percent of the market, and PacifiCare accounts for another 15 percent. About two-thirds of enrollment in 2003 is in plans owned or affiliated with seven national firms that include these three plus Humana, UnitedHealthcare, HealthNet, and Aetna.

### Changes in Choice

Most Medicare beneficiaries in urban areas have some form of private plan choice (see Figure 1). This share has stayed relatively constant—around 86 percent. But fewer urban beneficiaries have any form of coordinated care plan choice (86 percent in 1999 versus 76 percent projected for 2004), and the share with three or more choices is down by about half, from 69 percent in 1999 to 35 percent projected for 2004. The PPO demonstration offered choice to few additional beneficiaries in urban areas without a choice of coordinated care plan. Eleven percent had choice through the private FFS plan option

Table 3

### Medicare Beneficiaries Enrolled in Coordinated Care Plans in the 10 Most Highly Penetrated States, June 2003

State	Coordinated Care Enrollees	Penetration (percent)
Rhode Island	57,203	32%
California	1,266,466	30
Arizona	200,682	27
Oregon	121,779	23
Pennsylvania	491,068	23
Colorado	109,945	22
Florida	524,545	18
Massachusetts	164,229	17
Washington	125,537	16
New York	424,700	15
All other states	1,053,655	4

Source: MPR analysis of Centers for Medicare and Medicaid Services data

only in 2003. The availability of such offerings in some counties where coordinated care became less available explains why the share of beneficiaries with choice of a private plan remained relatively constant in urban areas over the period.

Coordinated care plans are not widely available in rural areas. In 1999, 25 percent of rural beneficiaries had such a choice, but only 15 percent are projected to have one in 2004. As in urban areas, the PPO demonstration did little to increase availability of choice in rural areas.

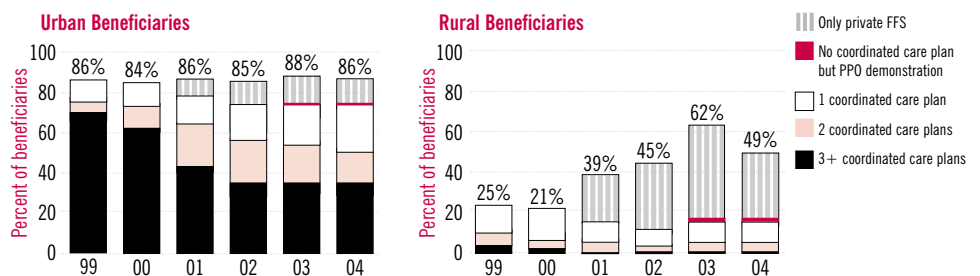
Private FFS plans, however, are available in many rural areas. Because these plans do

not require a network or local presence, they are easier to start up and operate in rural areas. The private FFS plan option has raised the share of rural beneficiaries with a choice of any private plan from a low of 21 percent in 2000 to a high of 62 percent in 2003.

However, Sterling has announced that it will exit 502 counties in 13 states as of January 1, 2004, leaving most of its 2,543 enrollees in these counties with no other private plan option. Unless other private FFS plans enter, the withdrawals in aggregate will mean that the share of rural beneficiaries with a choice of private plan will decline from 62 percent in 2003 to 49 percent in 2004.

Figure 1

### Trends in Availability of Medicare Private Plans, Urban vs. Rural, 1999-2004



Source: MPR analysis of Centers for Medicare and Medicaid Services geographical service area file and contract withdrawal reports  
\*Projected based on 2004 withdrawal reports and 2003 plan offerings.

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