

Understanding Medicare

Many are confused when choosing between Original Medicare with a Supplement and a Medicare Advantage plan.

Here is a simple explanation. Medicare regulates both plans. However, the plans operate under different management rules.

Original Medicare underpins the entire system

Original Medicare sometimes referred to as Traditional Medicare, has done research to establish how much most procedures, tests and medical equipment cost. Then they have determined an approved rate that (with reasonable profit) providers can charge. This is called the “Medicare Approved/Eligible Amount”, a form of cost containment.

Second, Original Medicare has established a national program which includes doctors that accept the Medicare assigned prices. This is called accepting “assignment”. The vast majority of hospitals and doctor’s practices throughout the country accept Medicare assignment. Public University Hospital systems that take public funds are also *required* to accept Medicare. (We are fortunate in Connecticut to have so many excellent choices for care: Hartford Healthcare, the UConn Health system, Yale/New Haven, St Francis/Trinity Health and others.)

Third, Original Medicare sets the requirements for comprehensive coverage. Most common **preventive** services, tests and procedures are covered. These services are required by the Original Medicare system to be covered by all Medicare-based plans, including Advantage plans.

Finally, Medicare payroll tax and government allocations establish and maintain the Medicare Trust Fund that pays most of the bills. The Fund pays 80% in Original Medicare, while administration costs are less than 3%. Because this is a government program, there is no profit.

The Medicare Trust Fund also provides the monthly money (approximately \$12,000 per enrollee per year) to the Advantage insurance companies to cover their enrollee’s claims. Advantage insurance companies are required by Medicare to spend at least 85% on care coverage, while about 15% goes to administration and profit.

The Advantage Hybrid

A Medicare Advantage plan is administered by a private (usually for-profit) insurance company. The insurance company assumes the risk for paying enrollee claims. They receive a set amount from 1) the federal government (about \$12,000/yr.), 2) the plan sponsor, and 3) a premium paid by the enrollee. From that amount, they must pay the “Medicare Eligible Cost” of the enrollee’s claim. Money remaining beyond what is paid out for claims goes to the insurance company for administration and profit.

You will hear it stated that Advantage plans must follow Medicare rules, but it is important to understand that Advantage plans (privatized Medicare) have more discretion to set their own pre-certification rules surrounding what care is approved and what doctors “accept their plan”. This allows Advantage plans to have more “say” in how a doctor can manage your care. Your provider must seek approvals in advance of treatment, while some “denials” occur after the service. This has led to a rising number of providers and hospital systems that do not accept Advantage plans, even while they accept Original Medicare.

Many experts conclude that your care is more restricted by the **insurance** company within the Advantage plan system compared to Original Medicare, where your care is determined more by your doctor and you, without being subject to insurance company restrictions.

Original Medicare Supplement

A Medicare Supplement plan “supplements” amounts paid by Original Medicare. The federal Medicare program directly pays the majority of provider claims (usually 80%) of the Medicare Eligible Amount. Then the Supplement plan picks up the remaining 20%. Medicare pays your provider first, thus, the majority of risk for large claims is on the federal government, while the Supplement insurance company bears the lower percentage of risk.

Under the Supplement plan, decisions about care are agreed upon through the traditional Medicare system. Medicare usually has fewer pre-certification rules than most Advantage plans and allows you and your doctor more flexibility to manage your care. You can see any provider who accepts Medicare, nationwide.

Original Medicare is the system that has established the basic comprehensive coverage that we depend on medically and financially. Original Medicare’s direct payment structure and cost containment help to preserve the Medicare Trust Fund for future patient care.

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“ NEA Member Benefits believes that the more traditional coverage offered by Medicare combined with a Medicare supplement insurance plan is still the choice that gives you the most freedom. It lets you choose your doctors and hospitals and helps you control your out-of-pocket costs. It lets you remain in control of the management of your care. While some of the other options may appear a little cheaper up front, they can limit your medical care choices and could hit your pocketbook hard if you get seriously ill.”

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