

# **Privatization of Medicare:** *How It Works. Why is it Happening?* *What Can We Do About It?*

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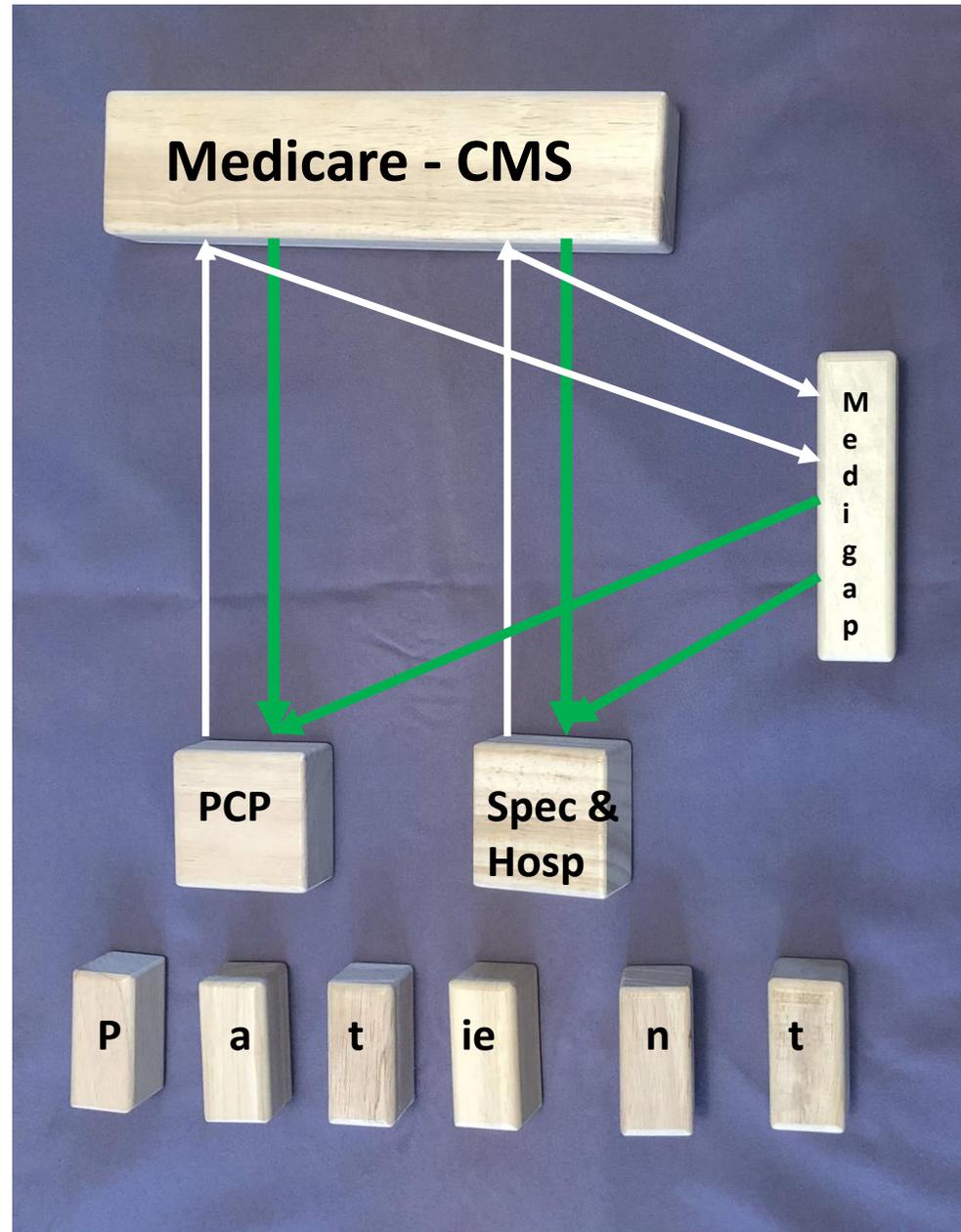
# **What do we mean by privatization?**

**Privatization in health care: When access to care in a health insurance program – like Medicare – is controlled by a private, profitmaking entity which makes money by limiting access to care.**

# Traditional Medicare

## *Fee-for-service*

1. Doctors and hospitals file a claim with Medicare.
2. Medicare pays 80% of the bill.
3. Medicare forwards the claim to supplemental carrier which pays the rest (or most of it – there may be patient copays).



# **Problems with Medicare**

- Doesn't cover dental, hearing, or vision.**
- Costly deductibles and copays.**
- No limit on out-of-pocket expenses.**
- Average Medicare recipient spends more than \$6,000 per year on health care.**

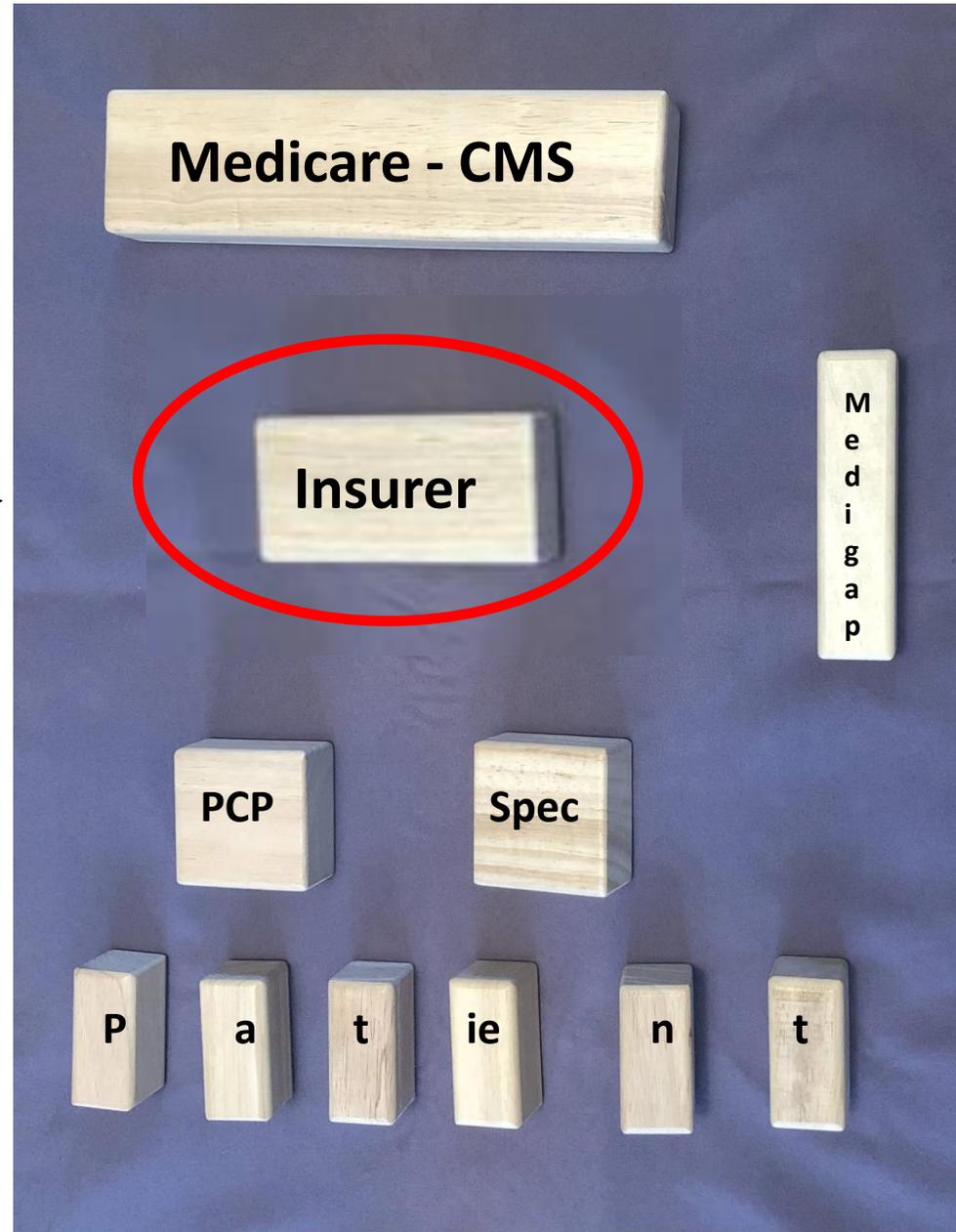
**This makes it vulnerable to attacks  
from the private sector.**

# Privatization: Phase 1

In 2003, Congress created a private insurance option which it called *Medicare Advantage*.

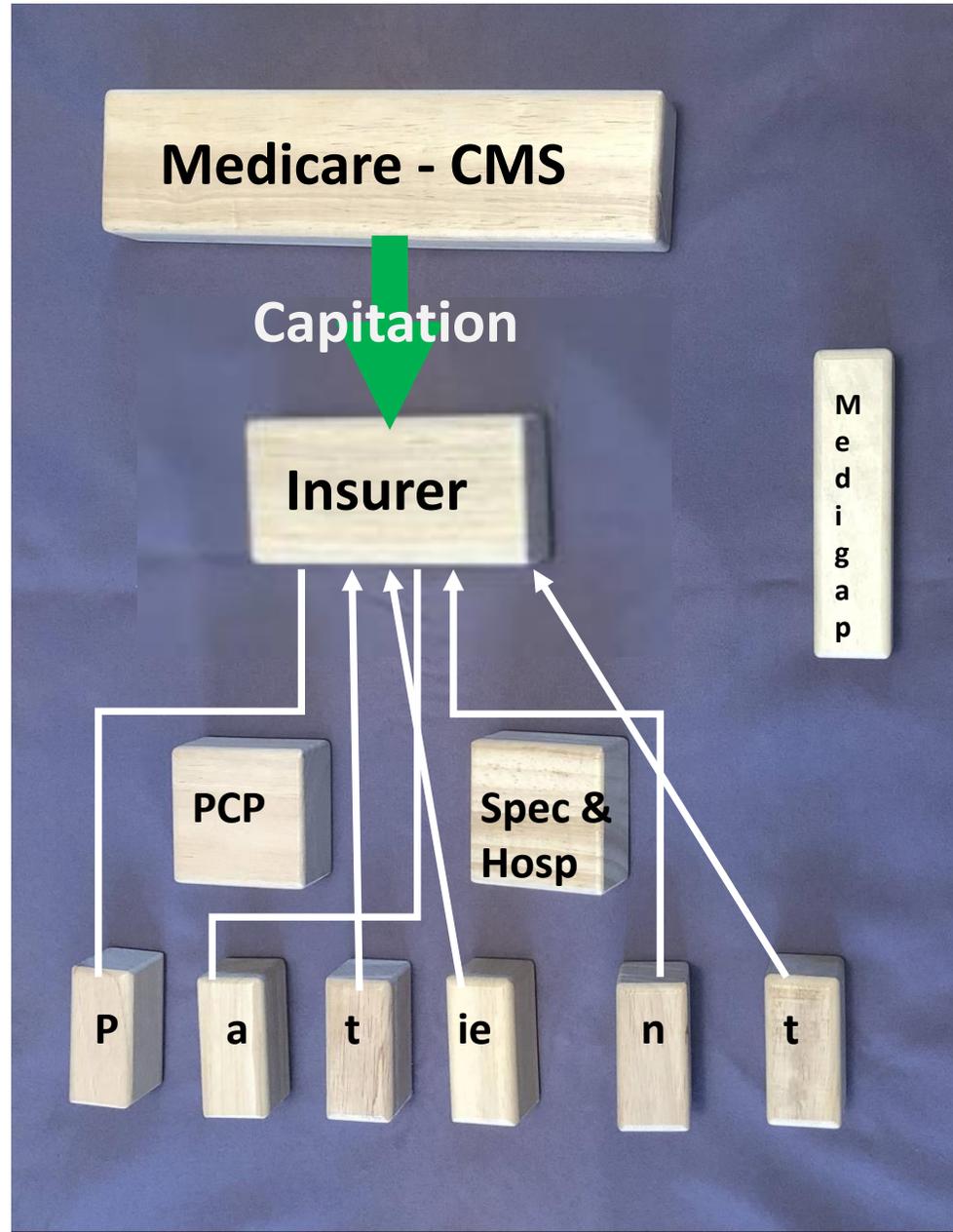
# Medicare Advantage

Private insurance  
company inserted in  
the middle, between  
Medicare and  
doctors and their  
patients →



# Medicare Advantage

1. Patients sign up with the insurer, believing it's a better deal than Traditional Medicare.
2. Medicare - CMS sends the insurer a monthly payment to cover the average member's costs, plus a subsidy to the insurance company.



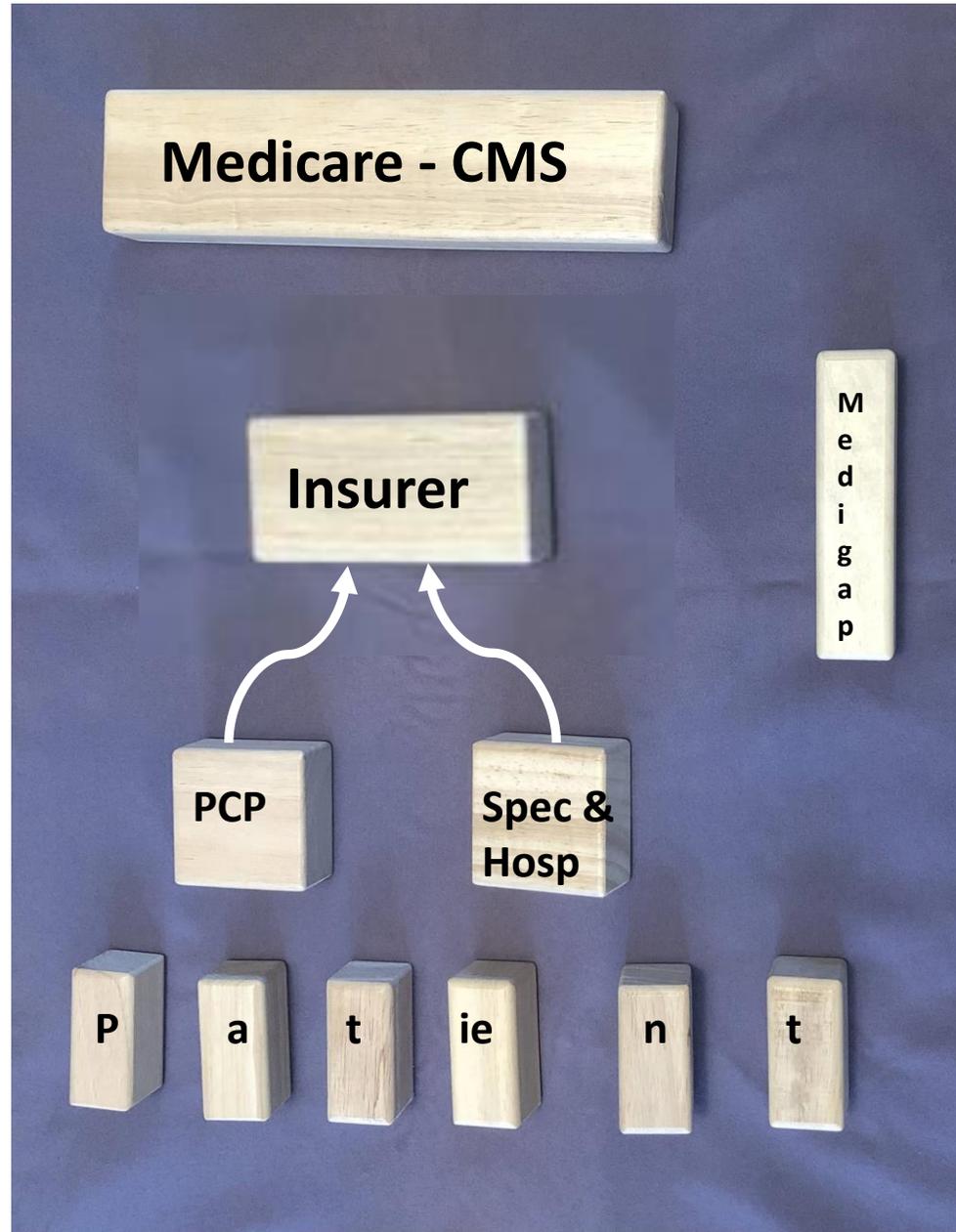
# Medicare Advantage

## *Prior Authorization*

Doctors and hospitals need approval for tests and treatments.

*This is how insurers “manage care”!*

Traditional Medicare does not require prior authorization for any medical procedure. What the doctor orders gets done!



The New York Times

Published April 28, 2022

## *Medicare Advantage Plans Often Deny Needed Care, Federal Report Finds*

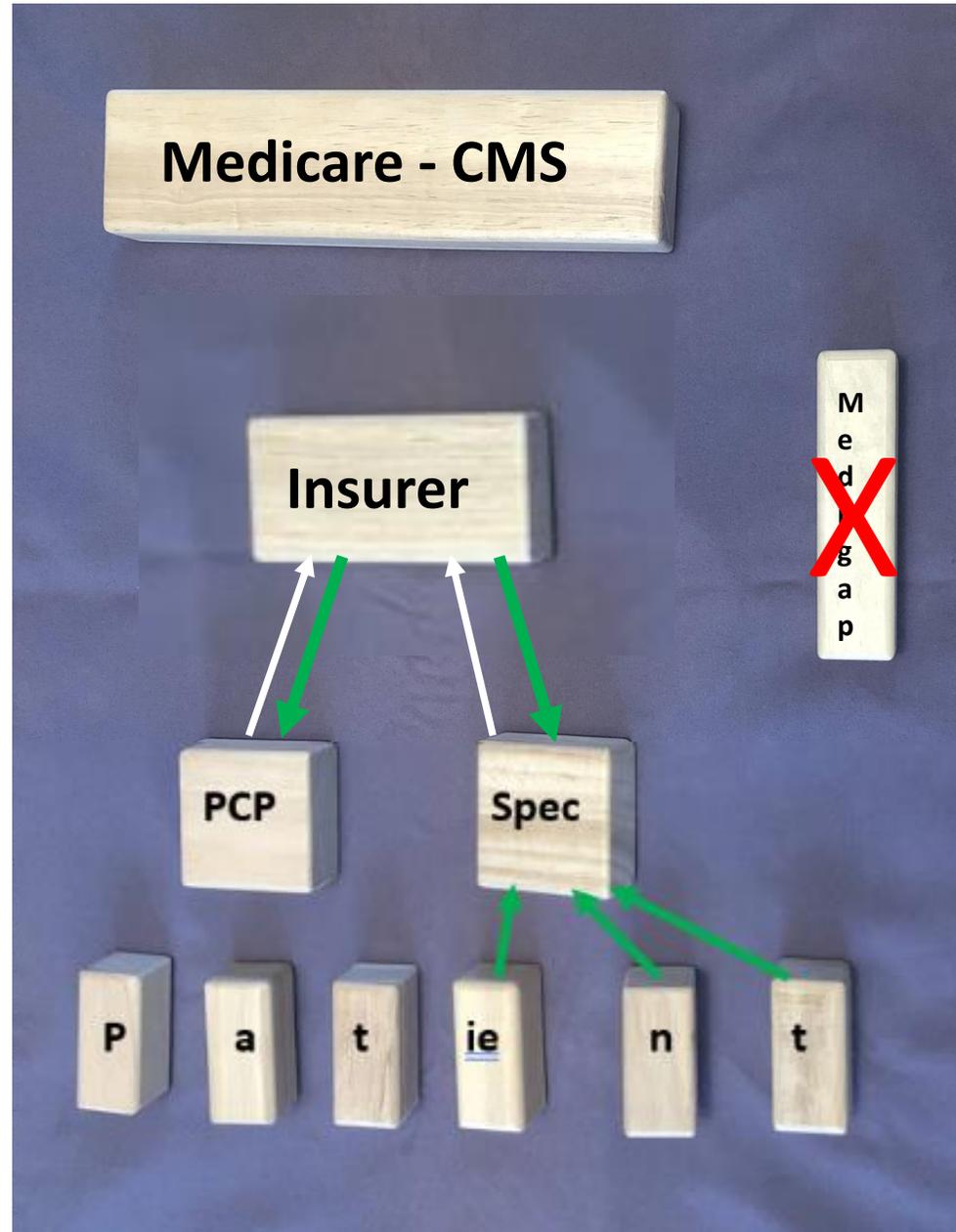
Investigators urged increased oversight of the program, saying that insurers deny tens of thousands of authorization requests annually.



Retired municipal workers at City Hall Park in Manhattan protested in February against being switched to a Medicare Advantage plan. Lev Radin/Pacific Press/ZUMA Press Wire, via Alamy

# Medicare Advantage

If the insurer approves, the doctors send their bills to the insurer, and the insurer pays them.



However, there is no supplemental Medigap insurance, so there is about 25% less money available to take care of patients.

# **The Bottom Line: Medicare Advantage...**

- Costs the government more than public Medicare**
- Gives patients less care than public Medicare.**
- Nevertheless, nearly one-half of all Medicare recipients are now in Medicare Advantage because it costs them less.**

# Privatization: Phase 2

CMS has created a new “model” for the rest of us:

*Direct Contracting, rebranded as ACO REACH.*

They have big plans for it:

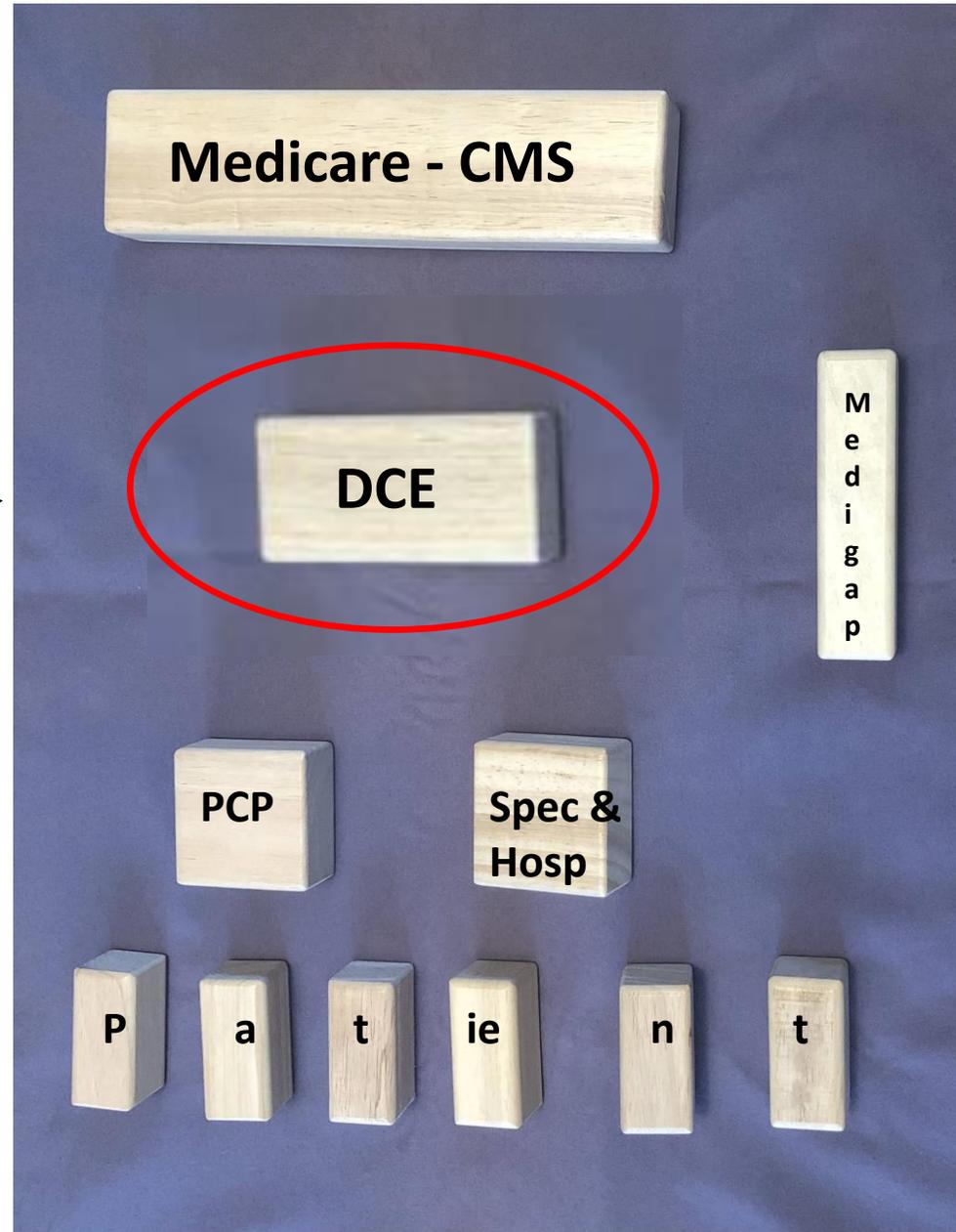
*“CMS is committed to the shared goal of moving away from fee-for-service .. our goal of moving 100% of traditional Medicare beneficiaries into [accountable care] relationships by 2030 .”*

-- Liz Fowler, Director, Center for Medicare and Medicaid Innovation, CMS.

<https://www.medpagetoday.com/practicemanagement/reimbursement/96497>

# Direct Contracting/ACO REACH

**Direct Contracting Entity (DCE) – Insurance company, venture capital firm, → multispecialty practice – inserted between Medicare and doctors and their patients.**

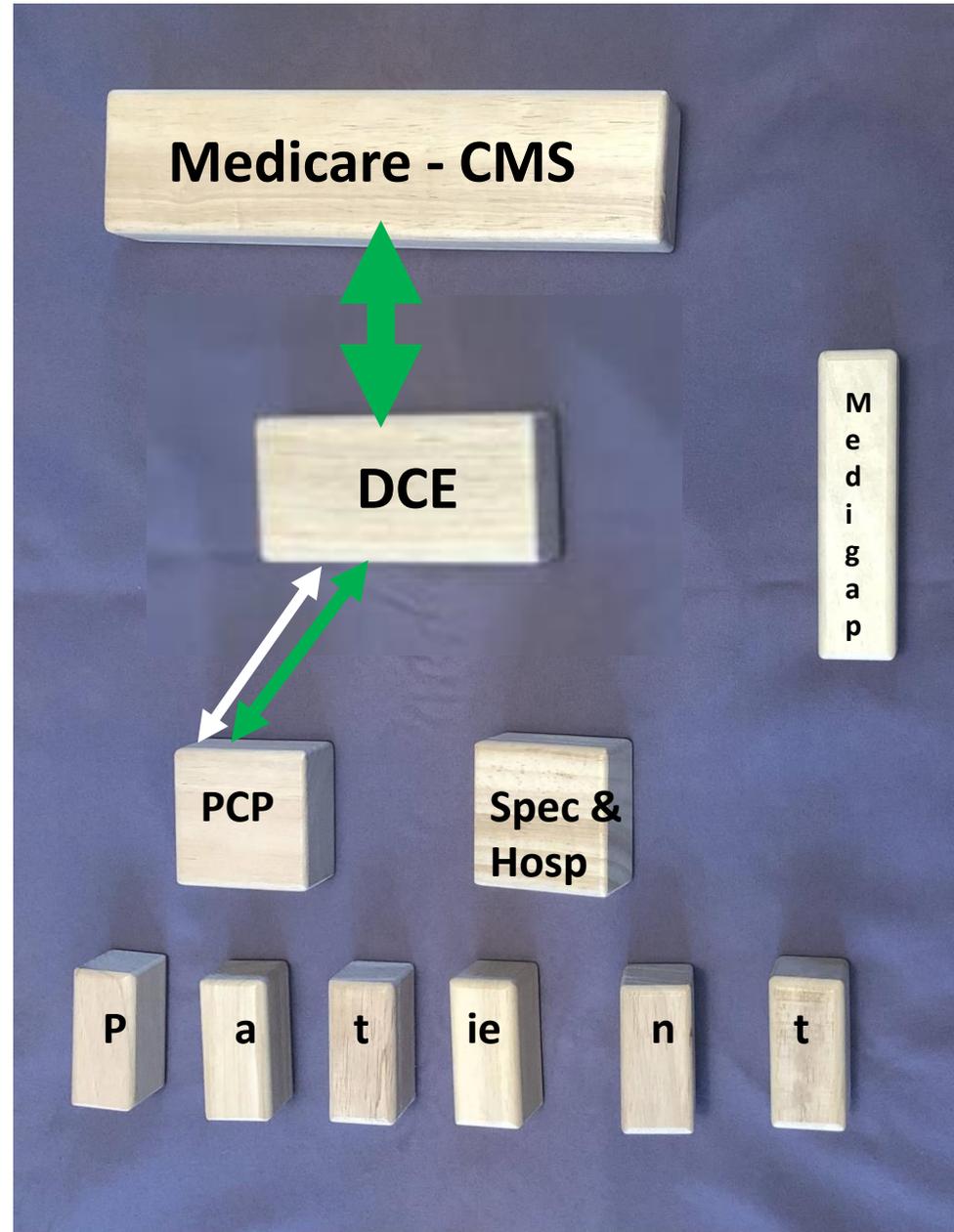


# Direct Contracting

1. Primary care practices agree to have their money come through a capitated payment from the DCE.

2. Medicare - CMS sends the DCE a monthly payment to cover the average “aligned” patient’s costs.

3. The DCE pays the PCP a monthly capitated payment.



4. Once a year, CMS computes its savings and splits these with the DCE and its PCPs. They both make money by limiting care.

# **The bottom line: Financial incentives are used to limit spending on health care.**

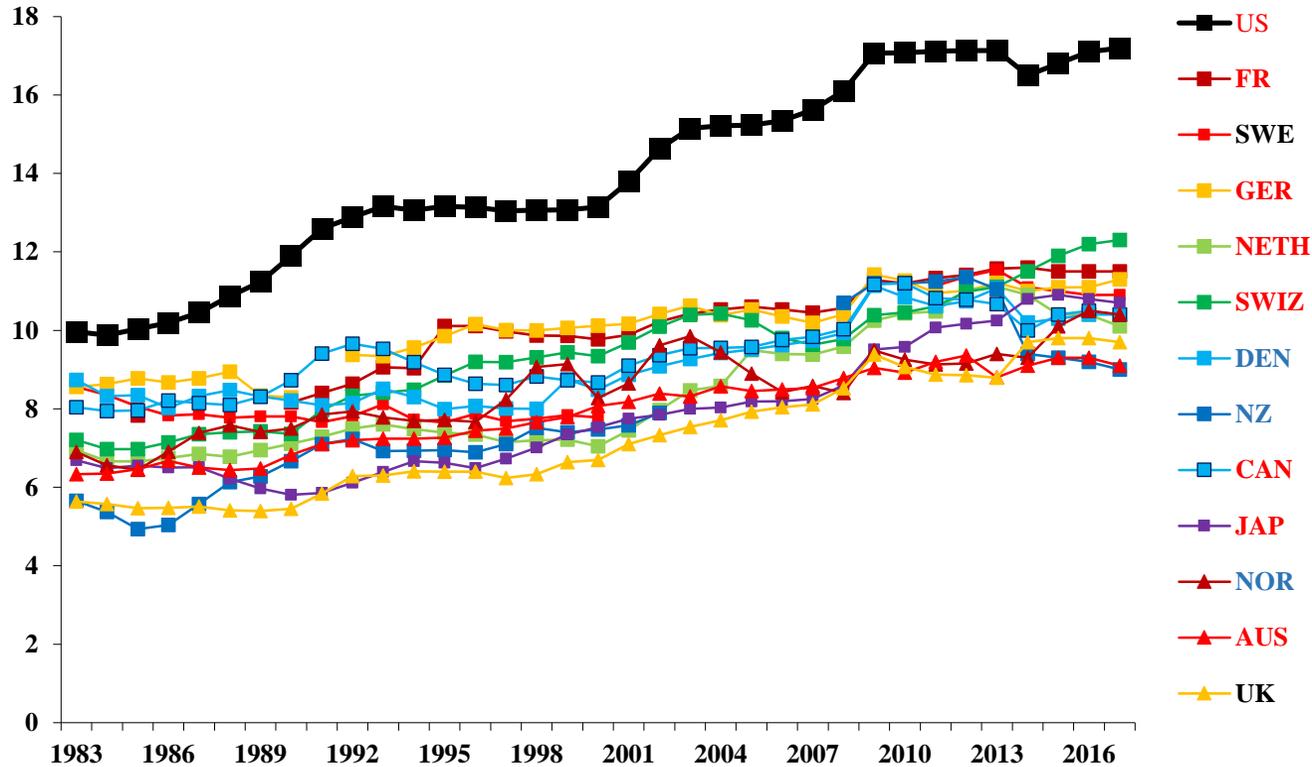
- **PCPs encouraged to act as shadow gatekeepers, hold down referrals to specialists or inpatient care by the expectation of receiving shared savings.**
- **The DCEs and PCPs make more money by delivering less care.**
- **The limitations on care will be invisible to CMS.**

# **Two myths are used to justify privatization:**

1. Paying for care by fee-for-service leads to wasteful care and high costs
2. The private sector is more efficient than government.

# The rest of the world uses fee-for-service. It spends less than we do.

Percent GDP Health Care Spending as a Percentage of GDP, 1980–2017



Source: OECD Health Data 2018.

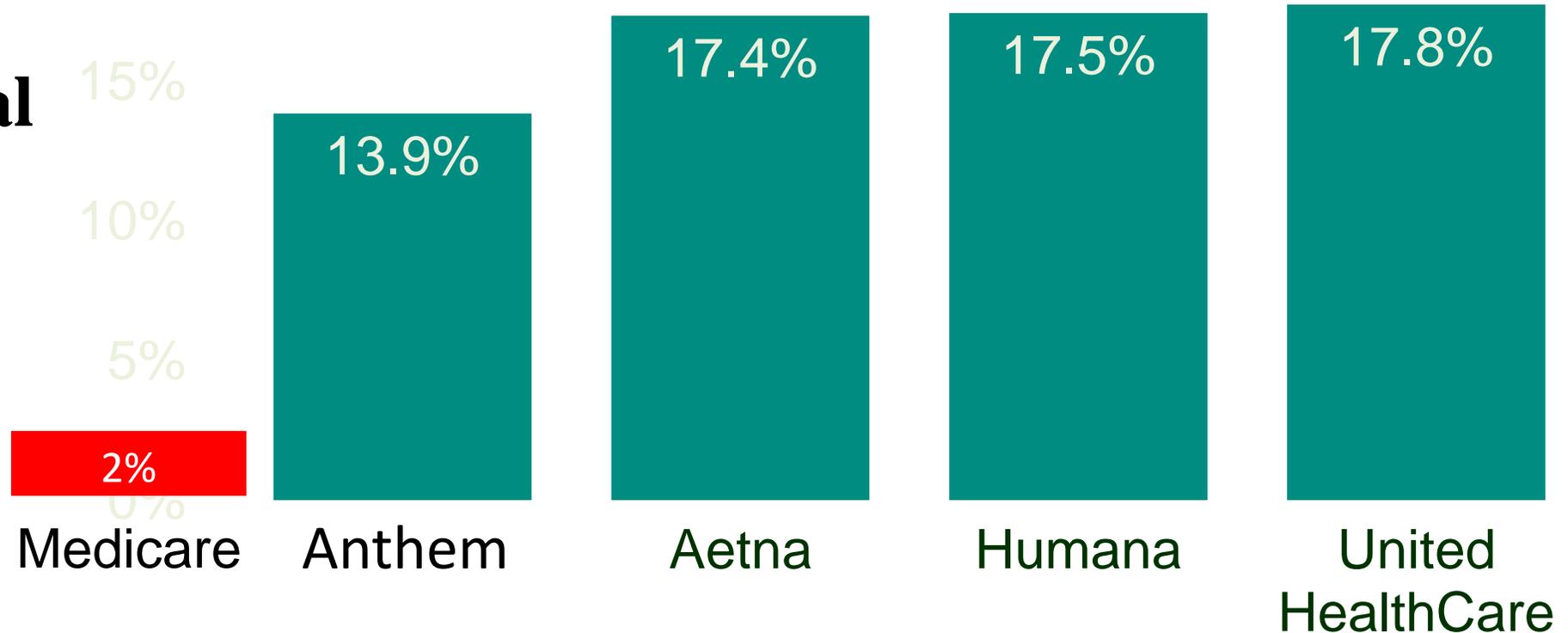
**Payment for  
Primary Care**  
**Fee for service**  
**FFS + Capitation**  
**Capitation**

## The difference: Their governments control prices. Ours does not – except in Medicare!

# Private insurance is far more wasteful than government\*

\*

- ✓ Prior approval
- ✓ Marketing
- ✓ CEO salaries
- ✓ Profits



Source: SEC Filings/Reports to Shareholders. Data for Q1 or Q2 2017

# **The Real Way to Control Costs!**

- **Keep fee-for-service**
- **Adopt single-payer Medicare for All and the New York Health Act**
- **Set prices through negotiation between government, physician, and hospital organizations, as Medicare and all other countries do.**

*Publicly-funded single payer is the answer to both controlling costs and privatization.*

# **Proposed PSC RESOLUTION IN OPPOSITION TO THE PRIVATIZATION OF MEDICARE**

WHEREAS ...

Therefor be it

RESOLVED, that the PSC opposes the continuing movement to force retired union members into private Medicare Advantage plans; and

RESOLVED, that the PSC opposes any other attempt to privatize Medicare, including through Direct Contracting Entities, ACO Reach, or similar programs; and

RESOLVED that the PSC will work to encourage our affiliates, AFT and NYSUT, to oppose all privatization of Medicare and act to reverse these private programs that drain resources away from actual health services.

# PROTECT MEDICARE.NET

## Take Action

**Members of Congress** need to hear from their constituents who rely on Traditional Medicare. They should demand answers, and an end to the REACH program, from the Biden administration.

Contact your representative

**Publishing an opinion piece** in your local newspaper will help educate seniors about REACH. We cannot allow this privatization attempt to fly under the radar.

Write an op-ed or LTE

**Local advocacy groups** that care about the future of Medicare are crucial to the fight against REACH. Please circulate our organizational sign-on letter today!

Sign up allied organizations

**Facebook, Twitter and Instagram** are powerful venues to spread the word about REACH. Please share the news about this dangerous program with *your* friends and colleagues.

Share on social media

**Ready to take action?** Sign our petition demanding an end to Medicare REACH. You may also wish to call your member of Congress at (202) 224-3121. And be sure to let your friends, colleagues, and family members know about this ongoing threat to Traditional Medicare. Questions? Email [organizer@pnhp.org](mailto:organizer@pnhp.org).

Sign our petition