

Using Medicare for All Is Likely to Reduce Some Costs, but Also Some Benefits

By AUSTIN FRAKTI

Calls for a Medicare for All system are growing louder. Many Democrats have embraced it, while President Trump said last week that it would raise health care costs drastically.

Democrats say that giving people the option to partake in Medicare — no matter their age — will actually cut costs.

American administrative costs for health care are the highest in the world, and they argue that one advantage of Medicare for All is that it would save money because Medicare's administrative costs are below those of private insurers.

Does that argument hold up?

Don't forget about Medicare's private plans

Medicare's administrative costs were \$8.1 billion last year, or 1.1 percent of total spending, close to the proportion it has been in recent years.

But some have argued that the

actual cost is higher because of services performed for Medicare by other parts of the government that aren't accounted for: The Social Security Administration collects premiums, the Internal Revenue Service collects taxes for the program, the F.B.I. provides fraud prevention services, and at least seven other federal agencies and departments also do work that benefits Medicare.

The claim that these administrative costs are overlooked is false. As annual reporting of Medicare's finances plays out in states, they are accounted for.

But there is something missing from the \$8.1 billion Medicare administrative cost figure, as Kip Sullivan explains in a 2013 paper published in the *Journal of Health Politics, Policy and Law*. Although it accurately accounts for the federal government's administrative costs, it does not include those borne by private plans that also offer Medicare benefits.

In addition to the traditional (public) Medicare plan, Medicare is also available from private plans through the Medicare Advantage program. Today, one-third of people using Medicare are in such plans, up from about one-fifth a decade ago. Moreover, all Medicare drug benefits are administered through private plans.

National Health Expenditure data shows both the government's administrative costs for Medicare and those of Medicare's private plans. Putting them together for the most recent year available (2016), they reach \$47 billion, or 7 percent of total Medicare spending — well above the administrative costs borne directly by the Medicare program.

Medicare's private drug benefit plans incur administrative costs that are about 11 percent of their spending. All of this additional, private administrative cost is paid for by taxpayers and,

through their premiums, people who use Medicare.

Medicare's direct administrative costs are not only low, but they also have been falling over the years, as a percent of total program spending. Yet the program's total administrative costs — including those of the private plans — have been rising.

"This reflects a shift toward more enrollment in private plans," Mr. Sullivan said. "The growth of those plans has raised, not lowered, overall Medicare administrative costs."

The high administrative costs of private insurer plans

Making an accurate estimate of the administrative costs of Medicare for All would depend, in part, on whether it would be more like an expansion of traditional Medicare (with its 1.1 percent administrative cost rate) or of all Medicare, including its private plans (with a combined 7 percent administrative cost rate).

Yet both figures are well below private insurers' administrative costs, which run about 13 percent of spending (this also includes profit), according to America's Health Insurance Plans, an advocacy organization for the industry.

Some critics have argued that Medicare's administrative cost rate appears artificially low because Medicare enrollees' health spending is so high. Average Medicare spending per beneficiary is just over \$12,000 per year; for an average worker in a private plan, it's about \$6,000. If you simply divide administrative costs by total spending, you will get a lower number for Medicare for this reason alone.

This is true, but the government's administrative costs for Medicare are still below those of private plans. The government's administrative costs are about

\$132 per person compared with over \$700 for private plans. One reason Medicare's are so much lower is that it reaps economies of scale. It also benefits from not needing to do much marketing, and it doesn't earn profits.

A final critique of Medicare's administrative costs is that they're inefficiently low because the program doesn't spend enough on anti-fraud efforts.

This is hard to prove or disprove. The government engages in a number of Medicare anti-fraud activities that more than pay for themselves. Perhaps another dollar spent tracking fraud would yield more than a dollar in return.

Still, even if Medicare did every bit as much in this area as the private sector, it would not raise its administrative costs by much.

"While private health plans

• The Upshot

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have active anti-fraud, waste and abuse efforts, their total spending on this is very low," said Andrew Naugle, a health care consultant with Milliman who studies health plan administrative costs. "For most plans, it's not even in the top 10 categories of administrative spending."

Plan features that may be worth the extra cost

Although Medicare for All might add some administrative costs, it could also shed some other features, including some that many people appreciate.

"We should keep in mind that

traditional Medicare and private plans are completely different products, and thus their associated administrative cost loads are very different," Mr. Naugle said.

Traditional Medicare is primarily focused on processing payments to providers, while private plans — including those offered by Medicare Advantage, employers and Affordable Care Act marketplace plans — engage in care management, which could help coordinate care for people with chronic conditions.

Private plans also establish networks of physicians, which could help steer enrollees to higher-quality providers.

These activities cost money and are things traditional Medicare doesn't do, at least not directly. It has, however, put in new programs to give health care providers incentives to better coordinate care.

Another point in favor of private plans is that they're more responsive to consumer demand. For this reason, private plans have provided some benefits that Medicare hasn't — or provided them long before Medicare did.

For example, drug coverage was commonplace in private plans well before Medicare put in a universal prescription drug benefit in 2006. Another is that traditional Medicare still doesn't have an out-of-pocket limit, whereas that's standard for private plans.

But let's get back to the main question we posed at the top: Are Democrats right that Medicare's administrative costs are below those of private insurers? The answer is yes. But that's in part because private plans do things that Medicare doesn't. Whether those things are worth higher administrative costs is a value judgment on which reasonable people can disagree.

IN THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE

In re: Chapter 11, Case No. 18-11795 (MFW) **RM HOLDINGS LLC, et al.** Debtor(s).

NOTICE OF ESTABLISHMENT OF BAR DATES FOR FILING PROOFS OF CLAIM AND REQUESTS FOR PAYMENT OF ADMINISTRATIVE CLAIMS

On August 5, 2018 (the "Petition Date"), RM Holdings LLC and its affiliated debtors and debtors-in-possession (collectively, the "Debtors") filed petitions commencing Chapter 11 cases under the United States Bankruptcy Code (11 U.S.C. §§ 101-1332 (the "Bankruptcy Code")) in the United States Bankruptcy Court for the District of Delaware (the "Court"). On October 12, 2018, the Court entered an order establishing bar dates for various categories of claims (the "Bar Dates").

As set forth in this notice, the Bar Dates are:

Administrative Claims Bar Date: 5:00 p.m. Eastern Time on November 15, 2018. This Bar Date shall apply to all claims for administrative expenses arising from the Chapter 11 Case, including but not limited to professional fees, attorneys' fees, and other administrative expenses, as defined in section 503(b) of the Bankruptcy Code. This Bar Date shall apply to all claims for administrative expenses arising from the Chapter 11 Case, including but not limited to professional fees, attorneys' fees, and other administrative expenses, as defined in section 503(b) of the Bankruptcy Code.

Governmental Bar Date: 5:00 p.m. Eastern Time on February 1, 2019. This Bar Date shall apply to all claims for administrative expenses arising from the Chapter 11 Case, including but not limited to professional fees, attorneys' fees, and other administrative expenses, as defined in section 503(b) of the Bankruptcy Code.

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Nurses rallying for Medicare for All in 2015, on the 50th anniversary of the founding of Medicare.