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Medicare Advantage:

Are You Ready for Open Season?

Summer is winding down. The days are becoming a little shorter, and autumn is approaching. While some may look forward to Pumpkin-Spice-everything season, others know that the cooler temperatures mean only one thing: Medicare Open Enrollment time. Along with this comes the endless barrage of mailings, TV commercials, Facebook ads, and so on. But this constant bombardment instructing you to “call now” doesn’t help you make the appropriate Medicare coverage decision. If anything, it creates confusion, stress, and uncertainty. This is one reason why people turn to insurance brokers to help sort out their options.

As financial advisors, we have also worked with insurance brokers to gain a better understanding of the current two broad options. We have also noticed a trend in advertising and communication with insurance brokers toward one option called Medicare Advantage plans. According to the Kaiser Family Foundation's research on Medicare advertising, over 85% of all Medicare-related advertising is for Medicare Advantage plans. These advertisements often show a government-issued Medicare card and urge viewers to call "Medicare hotlines" so they "don't miss out on benefits to which you are entitled."[1]

This option was created in 1997 under the Balanced Budget Act and was renamed in 2003 from Medicare Choice to Medicare Advantage plans (also known as Medicare Part C). Up to this point, there was no coverage for prescription medication and in 2003 Medicare Part D was created. Original Medicare (Part A-Hospital & Part B- Medical) are administered by the Centers for Medicare and Medicaid Services (CMS). Medicare Advantage plans are administered by private insurance companies. They cover the same benefits of Original Medicare and may have additional coverage in out-of-pocket maximums, minimal dental, hearing, and some include prescription drug coverage. The other option available is Original Medicare plus a Medicare Supplement Insurance plan or Medigap. The Medigap plan is offered through private insurance companies and helps to pay costs not covered by Original Medicare. The government requires companies to offer standardized policies identified by letters. Part D (prescription) is a separate policy.

So, why does it seem that the constant bombardment is increasing, bringing so much pressure to sign up for a Medicare Advantage plan? The fact is that Medicare Advantage enrollment has grown tremendously over the past two decades. According to the Commonwealth Fund, in 2003 Medicare Advantage enrollment was around 5 million. In 2024 they are projecting 33 million. This is close to half of all Medicare enrollees.[2] The number of available plans has also grown just as quickly. The average number of Medicare Advantage plans available in any given county is 30. United Healthcare and Humana have the market share, covering almost half of all Medicare Advantage plans.[3] While Medicare Advantage enrollees will pay the same Medicare Part B premium as enrollees in the other option, Original Medicare plus a Medigap plan, there is typically little to no additional premium due. Medicare Advantage plans are simpler and easier to understand because they bundle many of the Parts under Medicare (Part A, Part B, possibly Part D) together and are less complex to administer. The premiums also seem to be very low relative to the other option, which initially has higher premiums that will increase over time.

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[1] KFF https://www.kff.org/medicare/report/how-health-insurers-and-brokers-are-marketing-medicare/ Accessed 8/28/2024

[2] The Commonwealth Fund https://www.commonwealthfund.org/publications/explainer/2024/jan/medicare-advantage-policy-primer Accessed 8/27/2024

[3] KFF https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2024-enrollment-update-and-key-trends/#:~:text=UnitedHealthcare%2C%20alone%2C%20accounts%20for%2029,the%20same%20as%20in%202023. Accessed 8/28/2024

Undoubtedly, many have thoroughly examined their Medicare options and have concluded that a Medicare Advantage plan provides the best value and coverage. It may seem like a no-brainer as to which option to choose, but you need to look at the level of coverage each option will provide as you age. This is not being addressed in all the glitchy marketing of Medicare Advantage plans. Additionally, if you initially sign up for a Medicare Advantage plan and find out your coverage is not what you thought it was or it is not fully covering a health issue, you only have six months from the time you sign up for Medicare to switch back to Original Medicare plus Medigap. Otherwise, you need to go through an underwriting/approval process and there is no guarantee you will be approved after the initial six-month period.

All Medicare Advantage plans and Medigap plans under the Original Medicare option are sold by insurance companies. We have recently learned that in 2023 Medicare Advantage plans had significantly higher gross margins (premiums minus claims) per enrollee than other types of healthcare plans.[4] Additionally, the commission paid to brokers for selling a Medicare Advantage plan has increased from an average of $429 in 2016 to $510 in 2020. At the same time, the commission paid for Medigap (Supplement), and Medicare Part D plans combined decreased from $420 in 2016 to $400 in 2020.[5] Insurance companies and Insurance brokers seem to have an incentive to provide and recommend Medicare Advantage policies.

Which option is in your best interest? As financial planners, this is also a question we have been asking on behalf of our clients. Whether you are new to Medicare and signing up for the first time or heading into Medicare Open Enrollment season, be mindful as you consider your options. Try to steer clear of the advertising and focus your attention on impartial sources such as medicare.gov or if you live in Ohio, Ohio Senior Health Insurance Information Program (OSHIIP). There are similar programs in other states that may provide more unbiased information like OSHIIP. If working with an insurance broker be sure that they are reviewing both Medicare Advantage and Original Medicare with a Medigap plan. Choosing the best Medicare plan for your healthcare needs is an important part of accomplishing your retirement goals and dreams.

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[4] KFF https://www.kff.org/medicare/issue-brief/health-insurer-financial-performance/ Accessed 8/28/2024

[5] The Commonwealth Fund https://www.commonwealthfund.org/blog/2021/agent-commissions-medicare-and-impact-beneficiary-choice Accessed 8/28/2024