

Critics who say the private insurance industry got too big a role in the Medicare prescription drug program may not know the half of

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A Benefit for Insurers

By [MILT FREUDENHEIM](#)

Critics who say the private insurance industry got too big a role in the new Medicare prescription drug program may not know the half of it.

For patients, the program's rollout has had mixed reviews, with many happy customers but more than a few tales of woe. But for many big insurers, the new Medicare program is shaping up as a great opportunity. And prescription drugs may be only a starting point.

So far, about 18 million Americans are participating in the new drug program, known as Medicare Part D. If things play out the way some big insurers hope, the drug program could prove to be a feeder system into a much greater private presence in Medicare — a longstanding goal of the Bush administration.

Insurers like [Humana](#), which says it has signed up 1.7 million Medicare drug plan members, know that the real money is not in providing drug insurance. The rewards are much richer in other types of Medicare policies, including complete managed care plans called Medicare Advantage, which are operated by the private insurers but subsidized by Medicare. Michael B. McCallister, Humana's chief executive, refers to the new Medicare Part D drug program as part of a broader "Medicare opportunity" for his company.

"There's going to be a lot of people that are going to have Part D cards that are going to become interested in a Medicare Advantage plan," said Mr. McCallister, who has been unusually candid about the springboard strategy.

In January and February, which were the first months of the Part D drug program, Humana was also able to add more than 140,000 new Medicare Advantage customers to its rolls.

One of them was Frank Stallings, 78, a retired college professor in Highland Heights, Ky., who recently switched from a Part D plan to a Humana Medicare Advantage plan.

"So far, Part D has worked O.K.," he said. "I felt like I needed something else to help me out with other things not covered by Medicare."

Unlike his Part D drug plan, which carried a monthly premium of \$26, there is no premium for his full-coverage Medicare Advantage plan — although his drug co-payments are a bit higher, and there will be co-payments for some other medical services.

Other big insurers like Wellpoint and the UnitedHealth Group — the Part D leader so far, with 4.5 million enrollees — are also recruiting members for Medicare Advantage, as well as customers for Medigap, another type of Medicare-related policy. Medigap is a supplemental policy that helps with the remainder of medical expenses not fully covered by conventional Medicare.

While the stand-alone Part D drug plans are expected to give insurers a small profit, the margins are likely to be thin — 1 percent to 3 percent before taxes, Humana estimates. That is partly because Humana is offering low premiums and co-payments to attract customers. And the federal subsidy for each customer in a stand-alone Medicare drug plan is only about \$75 a month.

But for providing a full Medicare Advantage health policy to a patient, the government pays the insurer \$900 to \$2,000 a month beyond whatever premium, if any, the patient pays. With that revenue, come bigger profit margins — 3 percent to 5 percent, according to James H. Bloem, Humana's chief financial officer.

For UnitedHealth, the Part D drug business by itself would not be particularly lucrative, adding only 5 to 7 cents to earnings a share, according to Jason Nogueira, an analyst who tracks health care companies for the investment firm T. Rowe Price. That would be no more than 2 cents on the sales dollar for UnitedHealth, which had \$45 billion in 2005 revenue and expects profit of \$2.90 a share this year.

So the real financial opportunities lie in upgrading Part D enrollees to other Medicare-linked policies. In essence, the high federal subsidies for Medicare Advantage policies are the government's reward to insurers for taking people out of traditional, federally supervised Medicare and into the commercial world of managed care. In fact, Medicare now pays private insurers 15 percent more, on average, to take a patient than it spends in a traditional government program for each patient.

Critics of Medicare's approach, including a number of senior Democrats in Congress, have asked the Congressional Budget Office to examine the issue. The budget office estimated that Medicare could save more than \$40 billion over the next 10 years if subsidies to insurers were scaled back to the levels the program now pays directly to doctors and hospitals.

Representative Pete Stark of California, the senior Democrat on the Ways and Means Committee, said in an interview that insurance agents "are out trying to promote seniors into Medicare Advantage plans, and switch them out of plans they are in."

The Medicare law that created the Part D program, Mr. Stark said, "was written by insurance company lobbyists with the help of pharmaceutical company lobbyists."

In a telephone interview, [Michael O. Leavitt](#), the secretary of health and human services, defended the administration's market-based approach to Medicare, saying that market forces were pushing prices lower and that any kinks in Part D would be worked out.

"The market will become simplified because consumers want that," Mr. Leavitt said.

As long as the incentive of federal subsidies stays at current levels, insurers have every reason to pursue them, especially as the industry struggles with slowing growth in its traditional core business of managing employer-sponsored health benefits.

Charles Boorady, a health care securities analyst at [Citigroup](#), said that by expanding Medicare-subsidized offerings, the insurance industry had a potential revenue opportunity of more than \$450 billion a year "or enough to almost double the revenue of the managed care industry."

Even before the new drug plan went into effect in January, some insurers had significant numbers of Medicare Advantage customers. Humana, for example, had 558,000. UnitedHealth had 1.1 million in Medicare Advantage; it also had an additional 2.5 million AARP customers with Medigap cards, and most of them have added the Part D coverage that UnitedHealth is offering through AARP.

By the end of February, Humana had already raised its total of Medicare Advantage members to 700,000 and had set a goal of 900,000 to 1.1 million by Dec. 31. The company expects to add more in 2007. New figures released by Medicare last week indicate that 6.3 million of the 18 million people enrolled in Plan D voluntarily signed up for the drug program; in all, 43 million people are eligible for it. An additional 5.7 million in the program are people who were subscribers to Medicare Advantage health plans that did not cover prescription drugs but they added the coverage.

The government's real gift to the insurers was 6.4 million low-income people on Medicaid or other public-assistance programs who were automatically assigned to Part D or Medicare Advantage plans. They were allocated among insurers ready to meet Part D rules, with most going to those that had Medicare Advantage plans throughout the United States.

Under this allocation, the government gave UnitedHealth 1.2 million Medicaid assignees; the next biggest were Humana and Wellpoint, which each got about 600,000.

Those insurers can be sure of collecting 100 percent of the premium from the government for the lowest-income enrollees, and they are paid on a sliding scale if the enrollees are eligible for other state assistance.

Not everyone, though, sees a huge opportunity in the industry using the Medicare drug program as a springboard into fuller lines of coverage.

Ed Kroll, an analyst at the investment research firm SG Cowen, notes that in the past, prescription drug coverage was a major reason people signed up for a Medicare Advantage managed care plan. Now, with Part D, people can have their drugs paid for without joining a broader plan, he said, and can simply let plain old Medicare benefits cover their other health needs.

[Aetna](#), the third-largest insurer, after Wellpoint and United, has not made a big push into Part D. The company has only 375,000 Part D drug plan enrollees so far. Aetna — like [Cigna](#), the No. 4 insurer — is more concerned with commercial customers and is "not strategically focused on Medicare or Medicaid," Mr. Boorady of Citigroup said.

Even for companies like Humana, which do have that focus, the big challenge will be overcoming the bad publicity the Part D program has tended to receive in the early going. And for those who do agree to trade up, insurers will not be able to take their loyalty for granted.

Florence Bryan 65, a retired grocery worker in Winchester, Va., met a Humana saleswoman in a [Wal-Mart](#) store late last year; she was promoting Part D and Medicare Advantage. "I went on her recommendations," said Ms. Bryan, who joined a Humana Medicare Advantage plan in January. Now, she has her "first glitch." Her Humana plan covers only half her monthly requirement of 60 Prevacid pills, which she for stomach problems. "The Humana representative said the doctor should call an 800 number to get an authorization," she said. "But the doctor's office said the insurance company needs to fill out a form and send it to the doctor." When contacted, a Humana spokesman said the company intended "to resolve this issue for Mrs. Bryan as soon as possible."