



Highlights of [GAO-04-960](#), a report to the Ranking Minority Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Preferred provider organizations (PPO) are more prevalent than other types of health plans in the private market, but, in 2003, only six PPOs contracted to serve Medicare beneficiaries in Medicare+Choice (M+C), Medicare's private health plan option. In recent years, the Centers for Medicare & Medicaid Services (CMS), the agency that administers Medicare, initiated two demonstrations that include a total of 34 PPOs. GAO (1) described how CMS used its statutory authority to conduct the two demonstrations, (2) assessed the extent to which demonstration PPOs expanded access to Medicare health plans and attracted enrollees in 2003, (3) compared CMS's estimates of out-of-pocket costs beneficiaries incurred in demonstration PPOs with those of other types of coverage, including fee-for-service (FFS) Medicare, M+C plans, and Medigap policies in 2003, and (4) determined the effects of demonstration PPOs on Medicare spending.

What GAO Recommends

GAO recommends that the Administrator of CMS promptly instruct plans in the Medicare PPO Demonstration to provide coverage for all plan services furnished by any provider authorized to provide Medicare services who accepts the plans' terms and conditions of payment. CMS agreed to implement the recommendation, and stated that it believes the demonstrations are worthwhile.

www.gao.gov/cgi-bin/getrpt?GAO-04-960.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119.

MEDICARE DEMONSTRATION PPOs

Financial and Other Advantages for Plans, Few Advantages for Beneficiaries

What GAO Found

CMS used its statutory authority to offer health-care organizations financial incentives to participate in the two demonstrations. CMS, however, exceeded its authority when it allowed 29 of the 33 plans in the second demonstration, the Medicare PPO Demonstration, to cover certain services, such as skilled nursing, home health, and routine physical examinations, only if beneficiaries obtained them from the plans' network providers. In general, beneficiaries in Medicare PPO Demonstration plans who received care from non-network providers for these services were liable for the full cost of their care.

The demonstration PPOs attracted relatively few enrollees and did little to expand Medicare beneficiaries' access to private health plans. About 98,000, or less than 1 percent, of the 10.1 million eligible Medicare beneficiaries living in counties where demonstration PPOs operated had enrolled in the demonstration PPOs by October 2003. Further, although one of the goals of the Medicare PPO Demonstration was to attract beneficiaries from traditional FFS Medicare and Medigap plans, only 26 percent of enrollees in its plans came from FFS Medicare, with all others coming from M+C plans. About 9.9 million, or 98 percent, of the 10.1 million eligible Medicare beneficiaries also had M+C plans available in their counties. Virtually no enrollment occurred in counties where only demonstration PPOs operated.

According to CMS's 2003 estimates, on average demonstration PPO enrollees could have expected to incur total out-of-pocket costs—expenses for premiums, cost sharing and noncovered items and services—that were the same or higher than those they would have incurred with nearly all other types of Medicare coverage. However, relative costs by type of coverage varied somewhat depending on beneficiary health status. For certain services and items, such as prescription drugs and inpatient hospitalization, demonstration plans provided better benefits relative to some other types of Medicare coverage.

Although it is too early to determine the actual program costs of the two demonstrations, CMS originally projected that the first demonstration would increase Medicare spending by \$750 per enrollee per year and the second demonstration would increase Medicare spending by \$652 per enrollee per year. Based on the agency's original enrollment projections, which exceed 2003 actual enrollment, CMS estimated the demonstration PPOs would increase program spending by \$100 million for 2002 and 2003 combined.