

GAO Highlights

Highlights of [GAO-18-100](#), a report to congressional requesters

Why GAO Did This Study

To address concerns with the current Medicare FFS cost-sharing design, various groups have proposed modernizing the design to make it simpler and include features found in private plans. These proposals have generally included a single deductible, modified cost-sharing requirements (e.g., a uniform coinsurance), and the addition of a cap on beneficiaries' annual cost-sharing responsibilities.

GAO was asked to review how modernized cost-sharing designs would affect beneficiaries' costs over multiple years. This report describes implications of the current cost-sharing design; options for modernizing; and how modernized cost-sharing designs could directly and indirectly affect beneficiaries' costs.

GAO reviewed studies related to modernizing Medicare's cost-sharing design and interviewed authors of those studies and other experts. GAO also used summarized Medicare claims data from 2007 to 2014 (the most recent data available) to develop four illustrative modernized designs, each including a single deductible, uniform coinsurance, and an annual cap while maintaining Medicare program spending similar to the current design. For each design, GAO calculated how beneficiaries' annual cost-sharing responsibilities compared with the current design over a 1-, 4-, and 8-year time horizon.

The Department of Health and Human Services provided technical comments on a draft of this report, which GAO incorporated as appropriate.

View [GAO-18-100](#). For more information, contact James Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.

MEDICARE FEE-FOR-SERVICE

Modernizing Cost-sharing Design Would Involve Trade-offs, the Results of Which Would Depend on Time Horizon

What GAO Found

GAO and others have raised concerns about the design of Medicare fee-for-service (FFS) cost-sharing—the portion of costs beneficiaries are responsible for when they receive care. The current cost-sharing design has been largely unchanged since Medicare's enactment in 1965, can be confusing for beneficiaries, and can contribute to overuse of services. Additionally, the design leaves some beneficiaries exposed to catastrophic costs that can exceed tens of thousands of dollars annually. The complexity of the design and lack of an annual cap on cost-sharing responsibilities also increases demand for supplemental insurance, which can cost beneficiaries thousands annually and further contribute to overuse of services.

Modernizing Medicare FFS's cost-sharing design to include features found in private plans could help address these concerns, but would involve design trade-offs. For example, adding an annual cap on cost-sharing responsibilities while maintaining Medicare's aggregate share of costs similar to the current design would involve a trade-off between the level of the cap and other cost-sharing requirements.

In analyzing four illustrative FFS cost-sharing designs, GAO found that the direct effect of modernizing the design on beneficiaries' cost-sharing responsibilities—that is, the effect when holding utilization and enrollment constant—would depend on the specific revisions and the time horizon examined. For example, GAO found that

- During year 1, cost-sharing designs that feature relatively low deductibles (costs a beneficiary is responsible for before Medicare starts to pay) and relatively high caps would result in a median annual beneficiary cost-sharing responsibility close to or below that of the current design. In contrast, designs with relatively low caps—and therefore greater beneficiary protection from catastrophic costs—would result in a median annual cost-sharing responsibility above that of the current design.
- By the end of 8 years, there would still be differences in the median annual beneficiary cost-sharing responsibility across different designs, but they would become less pronounced.

Modernizing the Medicare FFS cost-sharing design would also affect beneficiaries' costs indirectly through altered incentives. The studies GAO reviewed and experts GAO interviewed identified several types of behavioral responses that would influence the net effect of a modernized design on beneficiaries' out-of-pocket costs, including changes in beneficiaries' demand for and insurers' supply of supplemental insurance; changes in beneficiaries' use of services; changes in Medicare beneficiaries' enrollment in FFS versus Medicare's private plan alternative; and interactions among these and other behavioral responses, including effects on the price of supplemental insurance.