

What's the difference between Medicare Advantage (MA) and Traditional Medicare (TM)?

When the legislation setting up Medicare was passed by Congress and signed by President Lyndon B. Johnson in 1965, all qualified beneficiaries were put into a single system run with a uniform set of benefits (traditional Medicare). Originally, Medicare was set up to cover persons aged 65 and older, who had high medical needs and often had little or no insurance once they left the workforce. In 1972, Medicare eligibility was expanded to cover younger persons with qualifying disabilities and those whose kidneys had failed.

To participate in Traditional Medicare, beneficiaries are required to pay monthly premiums, with the amount tied to their income level. Traditional Medicare allows patients to see almost any physician and go to almost any hospital in the country. The costs of care are primarily paid for by Medicare, but patients are responsible for a fraction of the costs. As a result, many beneficiaries pay additional premiums to buy a "Medigap" policy to help pay for some of the out-of-pocket costs for care they receive. Originally, Traditional Medicare did not cover prescription drugs from pharmacies, but since 2006, beneficiaries have had the option to buy prescription drug coverage, called Part D, from a private insurer. Premiums for Part D are subsidized by Medicare so that beneficiaries pay only a fraction of the full cost of the coverage, and the benefits provided by these plans became more generous (less out-of-pocket costs) as a result of provisions in the Affordable Care Act ("Obamacare").

Starting in the late 1990s, private insurers were allowed to enroll Medicare beneficiaries as an alternative to Traditional Medicare. That system is now called Medicare Advantage. Medicare Advantage plans are primarily a form of managed care. One of the key features of most managed care plans is narrow provider networks. Rather than being able to select any physician or hospital and receive the same coverage, managed care plans may only cover providers in their contracted network, or may offer less coverage (higher patient out-of-pocket costs) for providers outside their main network. These plans may also place other restrictions on what care beneficiaries can receive (for example, requiring pre-authorization for tests or procedures and denying coverage for requests that don't meet their criteria). To get beneficiaries to accept restrictions on provider networks of coverage they wouldn't face in Traditional Medicare, Medicare Advantage plans are allowed to offer benefits that can include lower premiums or lower out-of-pocket costs than Traditional Medicare, and some benefits not covered by Traditional Medicare like dental, vision or hearing care, wellness programs or fitness club memberships, and transportation to doctors' offices.

Medicare Advantage plans have been growing rapidly. In 2007, only 19% of Medicare beneficiaries were enrolled in a private plan rather than in Traditional Medicare. By 2022, 48% of beneficiaries selected a Medicare Advantage plan. Kentucky's Medicare Advantage enrollment in 2022 was 50%, slightly above the national average.

[Medicare Advantage in 2022: Enrollment Update and Key Trends | KFF](#)

Humana, headquartered in Louisville, Kentucky, is one of the largest insurers offering Medicare Advantage plans, with enrollment second only to UnitedHealthcare. Humana recently announced that they were dropping out of the employer-sponsored insurance market to focus on Medicare Advantage, a strong indication of the profitability of operating Medicare Advantage plans. Although part of the motivation for creating the Medicare Advantage program was to reduce costs to taxpayers, the rates paid to Medicare Advantage plans have been profitable, and several reforms to how doctors and

hospitals are paid in Traditional Medicare have limited the cost increases in that part of the Medicare program. Beneficiaries enrolling in Medicare Advantage also tend to be healthier than those remaining in Traditional Medicare, further contributing to the profitability of Medicare Advantage plans. The potential for high profits has ensured that Medicare Advantage plans are heavily marketed to seniors, contributing to their rapid enrollment growth. By contrast, Traditional Medicare is not meaningfully marketed to consumers.

Which is the better choice for Medicare beneficiaries and society?

Traditional Medicare allows greater choice of providers, has uniform benefits, and is accepted across the country. These are significant advantages, but many beneficiaries are attracted by the extra benefits offered by Medicare Advantage, such as vision and dental coverage. Notably, those extra benefits are offered because they are enabled by the high payments received by Medicare Advantage plans. When some policy-makers proposed reductions in these payments to reduce insurers' profits from the Medicare Advantage program, the insurers' trade association developed advertising targeted to seniors about how their benefits would be cut if those reforms were passed. However, a recent research study addressed this issue and concluded that reductions in the benchmarks used to set payments to insurers in the Medicare Advantage program would reduce the generosity of benefits only modestly, with most of the impact falling on insurers' profits. (Chernew et al., Health Affairs, 2023) Improving the benefits in Traditional Medicare may be better alternative than continuing to pay highly profitable rates to insurers offering Medicare Advantage plans.