Book Review

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Robert Emmet Moffit and Marie Fishpaw, eds. *Modernizing Medicare: Harnessing the Power of Consumer Choice and Market Competition*. 2023, Johns Hopkins University Press, $69.95, 978-1421446028.

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With Medicare heading for insolvency, the unpleasant options of reduced benefits and/or increased taxes seem inevitable. *Modernizing Medicare: Harnessing the Power of Consumer Choice and Market Competition*, edited by Robert Emmet Moffit and Marie Fishpaw (hereafter, *MM*), suggests that there is a third way to help keep program expenses in line with the revenue sources prescribed in current law. The entire book examines various aspects of a specific "premium support" principle promoting competition in health insurance. The competitive effect would allow the value of Medicare to beneficiaries to increase, without much of the increase in annual monetary cost (about $200 billion) required under existing law.

As chapter 3 puts it, "[u]nder a premium support approach, Medicare would provide a specified amount of funding for each individual beneficiary, irrespective of whether the individual enrolls in traditional Medicare [Fee For Service] FFS or a private plan." Otherwise described as a "defined contribution" approach, the recommendation is to "put Medicare on a budget" by fixing the amount of the government subsidy for each beneficiary, who would then be free to spend their subsidy on any private plan. Beneficiaries joining an expensive plan would top up their subsidy with their own funds. Those joining cheaper plans would keep the leftover subsidy as their own cash.

The book begins with analysis of current law, particularly aggregate budget projections (Charles Blahous, who highlights Medicare's "impending insolvency") and the incidence ("winners and losers") of the program (Mark Pauly). Chapters by Christopher Pope and Robert Moffit look at the record of Medicare Advantage (MA), which is a 25-year-old defined contribution program that by now has attracted about half of all seniors away from traditional "defined benefit" Medicare. A chapter by Walton Francis observes that the health insurance system for federal employees (Federal Employees Health Benefits Program, FEHBP) has been successful and relatively efficient because it too has defined contributions.

Three chapters show how MA can be improved to further unleash competition. John Goodman's chapter recommends deregulation, including permission for health savings accounts to be used with Medicare, allowing more use of telehealth, and allowing MA members to return to traditional Medicare without penalty. Brian Miller and Gail Wilensky recommend that MA be the default program for enrolling new seniors and the zero-premium plan their default plan. Seniors would be given an option to choose another MA plan or begin in traditional Medicare instead. Edmund Haislmaier observes that MA's current risk adjustment formula has serious flaws that risk transfer pools would remedy.

A chapter by Joseph Antos explains what would happen to traditional Medicare during the transition to a purely defined-contribution Medicare program. Doug Badger's chapter looks specifically at Medicare's prescription-drug program. Douglas Holtz-Eakin's chapter brings these insights together to project the amount of savings to be delivered by the defined benefit approach.

The strength of the book is its empirical foundations. Rather than an article of faith, the ability of insurer competition to increase beneficiary value and reduce costs is revealed through detailed examination of the histories of Medicare Advantage, FEHBP, and Medicare Part D.

As Mark Pauly concludes, "adverse selection is a 'paper tiger,' more important in theory than in practice in health insurance." Another dividend from *MM*'s empirical foundation is that it helps the authors avoid the obsession with "adverse selection" prevalent in academic economics literature.

The book mentions the major problem of fraud in traditional Medicare and why fraud is inherent to the design, although the book could have also compared the fraud records of the various programs.

A significant omission in the book is the lack of discussion of the Affordable Care Act Marketplace, commonly referred to as "Obamacare." These plans are also premium support arrangements, requiring consumers to pay based on their chosen plan type. Obamacare's rollout has been fraught with issues, including substantial increases in premiums and overall expenses, website crashes, and inadequate fraud protection. Moreover, its marketing results are embarrassing, to the point of many consumers paying out of their pocket to NOT have Obamacare.

It is unclear what the authors believe to be the essential differences between Obamacare and their vision for Medicare. Perhaps they see Obamacare as a program with no fixed budget, although the statute does include a hard cap on premium subsidies of 0.504% of GDP. Is it that Obamacare requires mental health and drug treatment coverage whereas Medicare Advantage does not? Perhaps the Goodman chapter is essential here in its emphasis on deregulation.

The book includes some jargon that is not carefully defined. Even the phrase “defined contribution” is a bit confusing because it is used somewhat differently in pension policy. A reader could look up the terms separately, or attempt to discern the meanings from other statements in the book, but those add to the cost of reading the book for the broader intended audience (health and public-finance economists, policy analysts, and others interested in Medicare reform ideas).

Much of the book recommends that market competition be unleashed because of the value it delivers to consumers. Other parts criticize “Medigap,” “wrap around,” “first-dollar,” and “supplemental” coverage that many seniors purchase or receive from their former employers. The book does not clearly explain what is special about these market outcomes.

The market success of supplemental coverage could be interpreted as a reflection of consumer demand that is not met by existing Medicare, and should be. The authors instead present them as indicating a regulatory failure, presumably because the policies shift additional financial consequences of healthcare decisions from patients to insurers. The authors want patients to have “skin in the game.” But what if consumers do not, and are willing to pay a premium for coverage that leaves them with little or no deductible, coinsurance, or copays? The book fails to articulate a general principle for answering such questions.

To be clear, the book intentionally concentrates on the financing of healthcare (health insurance), rather than the healthcare businesses and practices that also affect the cost of Medicare. Perhaps that means that even more Medicare savings is possible if provider competition were improved by, say, relaxing scope of healthcare practice laws or reducing drug approval barriers.

In conclusion, *Modernizing Medicare: Harnessing the Power of Consumer Choice and Market Competition* stands as a valuable, even indispensable, resource due to its focus on a single reform principle: premium support. Its conclusions, grounded in historical experiences from health insurance markets, show that one principle can significantly enhance Medicare’s financial status and value proposition.

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