

# How Competition Might Save Medicare

Medicare is a critical safety net for millions of Americans, providing health insurance to seniors and people with disabilities. But Medicare faces significant financial challenges. The program's trustees have warned that the Medicare Hospital Insurance Trust Fund will be exhausted by 2026, and the Supplementary Medical Insurance Trust Fund will be exhausted by 2033.

One potential solution to Medicare's financial problems is competition. Competition can help to reduce costs, improve quality, and increase innovation. In the private sector, competition has led to lower prices for goods and services, better quality products, and new technologies. There is no reason to believe that competition could not have similar effects on Medicare.

The Aei Studies have conducted extensive research on the potential benefits of competition in Medicare. In a 2019 study, the Aei Studies found that competition could save Medicare up to \$100 billion per year. The study also found that competition could improve the quality of care for Medicare beneficiaries.



## Markets Without Magic: How Competition Might Save Medicare (AEI Studies) by Mark V. Pauly

★★★★☆ 4.3 out of 5

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Another Aei Study, published in 2020, found that competition could lead to increased innovation in Medicare. The study found that competition could spur the development of new Medicare Advantage plans, which offer beneficiaries more choices and lower costs.

The Aei Studies' research provides strong evidence that competition could save Medicare and improve the quality of care for Medicare beneficiaries. Policymakers should consider proposals to increase competition in Medicare, such as expanding Medicare Advantage and allowing private insurers to compete with Medicare for traditional fee-for-service beneficiaries.

There are a number of ways to introduce competition into Medicare. One approach would be to expand Medicare Advantage. Medicare Advantage is a private health insurance program that offers Medicare beneficiaries an alternative to traditional fee-for-service Medicare. Medicare Advantage plans contract with Medicare to provide beneficiaries with a comprehensive set of benefits, including hospital, medical, and prescription drug coverage.

Medicare Advantage plans compete with each other for beneficiaries' business. This competition has led to lower costs, better quality, and more innovation in Medicare Advantage. For example, a study by the Congressional Budget Office found that Medicare Advantage plans have lower administrative costs than traditional fee-for-service Medicare. Another study, by the National Bureau of Economic Research, found that Medicare

Advantage plans provide higher quality care than traditional fee-for-service Medicare.

Another approach to introducing competition into Medicare would be to allow private insurers to compete with Medicare for traditional fee-for-service beneficiaries. This approach is known as "premium support." Under premium support, Medicare beneficiaries would receive a voucher from the government that they could use to purchase health insurance from a private insurer. Private insurers would compete with each other for beneficiaries' business, which would lead to lower costs, better quality, and more innovation.

Premium support has been shown to be successful in other countries. For example, in Switzerland, premium support has led to lower costs and higher quality in the health insurance market.

There are a number of potential benefits of competition in Medicare, including:

- **Lower costs:** Competition can help to reduce costs by driving down prices and increasing efficiency. In the private sector, competition has led to lower prices for goods and services, better quality products, and new technologies. There is no reason to believe that competition could not have similar effects on Medicare.
- **Improved quality:** Competition can also help to improve quality by giving beneficiaries more choices and empowering them to choose the plans that best meet their needs. In the private sector, competition has led to better quality products and services. There is no reason to believe that competition could not have similar effects on Medicare.

- **Increased innovation:** Competition can also lead to increased innovation by spurring the development of new products and services. In the private sector, competition has led to new technologies, new products, and new ways of doing business. There is no reason to believe that competition could not have similar effects on Medicare.

Competition is a powerful force that can save Medicare and improve the quality of care for Medicare beneficiaries. The Aei Studies' research provides strong evidence that competition could lead to lower costs, better quality, and more innovation in Medicare. Policymakers should consider proposals to increase competition in Medicare, such as expanding Medicare Advantage and allowing private insurers to compete with Medicare for traditional fee-for-service beneficiaries.



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