Will Buy-Out Firms Buy Out Medicare?

By Kerry Pechter *Thu, Feb 24, 2022*

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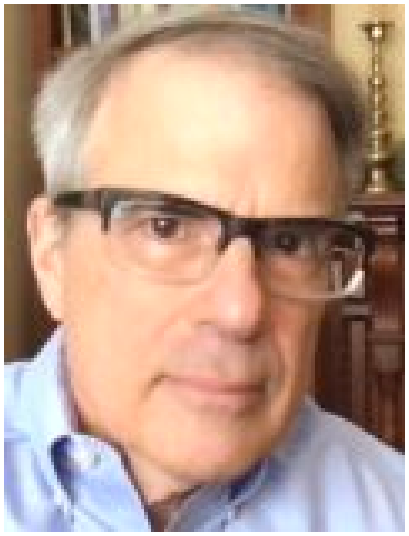

A friend recently sent me a heads-up about the "direct contracting" of Medicare services. Some Medicare recipients had been auto-enrolled into a federally sponsored pilot program, he said. The program was testing a new approach to privatizing Medicare.

As a Medicare beneficiary, he was concerned. And not without reason. "Direct Contracting," as the new approach is called, could put private equity (PE) firms between doctors and patients.

I had assumed that **Medicare Advantage** plans represented the future of health insurance for older Americans. (Bernie Sanders' Medicare-for-All idea notwithstanding). By the end of 2022, more than half of all Americans over age 65 are expected to use Medicare Advantage plans instead of traditional Medicare.

But some health care policy experts don't think that Medicare Advantage plans—HMOs and Preferred Provider Organizations that bundle traditional Medicare with non-Medicare services like dental and vision insurance for the aged—have delivered on their promises to "contain costs" and produce better "patient outcomes."

So the government has been entertaining alternative ideas for slowing the growth of Medicare and Medicaid expenditures as Boomers begin to line up for more hip replacements, more dialysis treatments, more MRIs and more nursing home beds as they age into their 80s, 90s, and 100s.

A Center for Medicare and Medicaid Innovation (CMMI) was created by the Obama administration. It was tasked with finding ways to bend the upward curve of medical costs, especially as Boomers age. A five-year pilot program to test one of the models, **Direct Contracting Entities** (DCE), was launched in 2020 by the Trump administration, and the Biden administration is letting it run. Fifty-three companies are participating.

A DCE might be a group of physician practices or a managed care company, owned perhaps by investors. The DCE would receive a steady stream of money from the government; it would accept—but manage—the chance that costs would be more or less than revenue. If they took all the risk, they could get all the upside.

That's a scenario that investors in private equity funds love, and PE firms are showing interest in aggregating physician groups and other health care providers that could become DCEs. The same appetite for higher yields and large asset pools that attracted PE firms to the life insurance/annuity business in recent years also attracts them to the health insurance business.

Here's what health policy experts **wrote** in *HealthAffairs* magazine last September:

Four main business realities drive the interest in Medicare-related acquisitions. First is the expected doubling of Medicare spending from $800 billion in 2019 to $1.6 trillion in 2028 as Baby Boomers age. Second is the reality that Medicare Advantage (MA) harbors an arbitrage game in which [Medicare] consistently overpays MA Plans with no demonstrable clinical benefit to patients. Third is the heavily subsidized and distorted market dynamics that result from these overpayments. Fourth is the Trump administration's creation of the Direct Contracting Model as a vehicle for privatizing Medicare's projected 2028 $1.6 trillion spend.

One of the authors of that article (and a follow-up **article**) was Donald Berwick, MD, a Harvard lecturer and former administrator of the Center for Medicare and Medicaid Services. Berwick told *RIJ* this week, "The auto enrollment under Direct Contracting was part of proposal under the Trump administration. We haven't seen the next generation of rules from the Biden administration yet, but I doubt that there will be auto-enrollment. There's a lot of debate on the future of that project."

I asked Berwick which was true: the research showing that MedicareAdvantage plans saves the government money or the research that shows that it drives up the cost of health care for all Americans.

"It has a lot to do with how you assess the costs," Berwick said. "But research by **MedPAC** (Medicare Payment Advisory Committee) has found over and over that when you adjust for the severity of the illness, that the cost goes up under MedicareAdvantage plans, not down. The research is solid on that point."

As the Direct Contracting pilot program reaches its conclusion and the results become

public, we’re bound to hear PE companies promise that they will make the delivery of health care less expensive for the government, more responsive to elderly patients, and highly profitable for their risk-hungry investors.

To me, hiring for-profit foxes to guard the health insurance henhouse may look good on paper, but it hasn’t worked in practice. My friend has reason to be concerned.