

Understanding the Cost-Shifting Implications of a Medicare Buy-In Policy Using EBRI's New Simulation Model

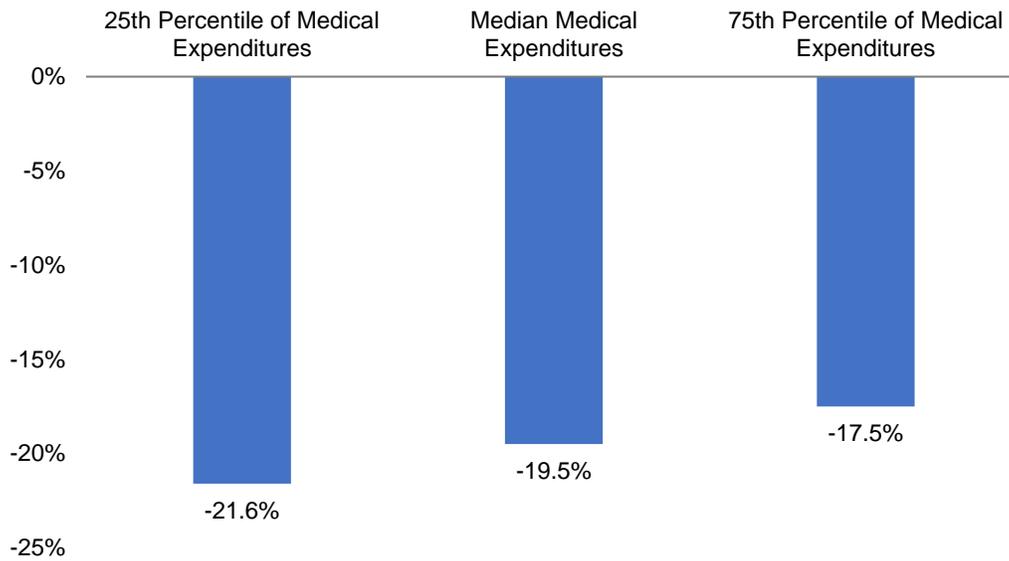
The rise in health care costs has outpaced inflation nearly every single year for the past decade, so a desire for health care reform is understandable. One specific policy proposal that has been offered periodically is to grant workers under the age of 65 the ability to enroll in Medicare. In this *Fast Fact*, we explore the implications for employers of such early Medicare buy-ins using a new EBRI (Employee Benefit Research Institute) simulation model, based on findings in the *EBRI Issue Brief* “[Money Can't Buy Me Love, But It Might Buy Me Medicare.](#)”

There were about 39 million workers between the ages of 50 and 64 with employment-based health insurance in 2018, and they spent an estimated \$372 billion on health care. A Medicare buy-in promises a shift in health care spending from employers to Medicare that could be significant depending on how many workers decide to switch. The key question is, of workers with access to employment-based health insurance, who might be tempted to switch to Medicare if it were made available?

To answer that question, EBRI built a simulation model informed by a database of administrative health care claims using the IBM Health Analytics MarketScan[®] Commercial Claims and Encounters Databases (copyright © IBM Health Analytics, all rights reserved). Workers in hypothetical firms picked the option — either remaining on the employment-based plan or switching to Medicare — that minimized their health care spending.

EBRI's analysis indicated that, on average, healthier, lower-spending workers were the ones that would be better off switching to Medicare. The reason very high-spending workers would not be better off on Medicare is that Medicare does not feature out-of-pocket maximums as employment-based plans do. Therefore, very high-spending workers would remain on the employment-based plan. Specifically, EBRI estimated that the median firm would see a 19.5 percent reduction in employer health care spending if workers aged 50–64 were eligible to choose to enroll in Medicare (Figure 1). A firm at the 25th percentile in terms of health care expenditures would see an estimated 21.6 percent reduction, and a firm at the 75th percentile would see an estimated 17.5 percent reduction.

Figure 1
Reduction in Hypothetical Firms' Health Care Spending Arising From Eligible 50–64 Workers Switching to Medicare According to EBRI's Model



Source: Author's estimates from simulation model using IBM Health Analytics Marketscan® Commercial Claims and Encounters Databases.

Of course, employers could always alter the generosity of their plans, which would impact the decision of whether or not to enroll in Medicare. In particular, the EBRI model indicates that lowering the premiums, deductibles, and out-of-pocket maximums all nudged fewer workers to enroll in the Medicare option relative to an employer option.

For instance, a firm with a relatively generous out-of-pocket maximum of \$3,000 would see an estimated 17.4 percent reduction in health care expenditures, while a firm with a less-generous \$5,000 out-of-pocket maximum would see an estimated 21.6 percent reduction (Figure 2). In this case, the less-generous plan design nudges more workers to choose Medicare.

Figure 2
Reduction in Hypothetical Firms' Health Care Spending Arising From Eligible 50–64 Workers Switching to Medicare, With Varying Out-of-Pocket Maximum Assumptions



Source: Author's estimates from simulation model using IBM Health Analytics Marketscan® Commercial Claims and Encounters Databases.

There are numerous political hurdles to navigate for a Medicare buy-in to be implemented. Therefore, understanding the cost implications — on both the employer and employee — of such a policy change is critically important. EBRI concludes that there is a broad range of possible outcomes on employer spending, depending on who enrolls in the buy-in. If only systematically very high-spending eligible workers decide to buy into Medicare — for example, due to the relative generosity of the employer-sponsored plan — a very large shift in cost could move from private insurance to the public insurance rolls. However, the opposite could also be true.

The EBRI report, “Money Can’t Buy Me Love, But it Might Buy Me Medicare,” is published as the September *EBRI Issue Brief* and is available online [here](#).

The Employee Benefit Research Institute is a private, nonpartisan, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on [Twitter](#) or [LinkedIn](#).

###