

# GAO Highlights

Highlights of [GAO-14-417T](#), a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

## Why GAO Did This Study

Since the enactment of Medicare in 1965, contractors have played a vital role in the administration of the program. The original FFS program was designed so that the federal government contracted with health insurers or similar private organizations experienced in handling physician and hospital claims to process and pay Medicare claims rather than having the federal government do so. CMS now also contracts with private organizations that provide covered services under the MA program and the Part D prescription drug program.

This statement provides an overview of the manner in which CMS has contracted with private organizations to administer benefits in (1) original FFS Medicare, (2) MA, and (3) the Part D prescription drug program. It is based primarily on products that GAO has issued regarding CMS contracting with claims administration contractors to administer the FFS program, and with other private organizations as part of MA and the Part D prescription drug benefit programs. These products were issued from November 1989 through January 2014 using a variety of methodologies, including reviews of relevant laws, policies, and procedures; data analysis; and interviews with contractors, stakeholders, and CMS officials. We have supplemented information from our prior products with publicly-available data on Medicare private plan contracts and enrollment, CMS-issued guidance for Medicare private plans, and a review of relevant literature. GAO has made numerous recommendations to CMS in these previous products and is not making any new recommendations at this time.

View [GAO-14-417T](#). For more information, contact Kathleen M. King at (202) 512-7114 or [kingk@gao.gov](mailto:kingk@gao.gov) or James Cosgrove at (202) 512-7114 or [cosgrovej@gao.gov](mailto:cosgrovej@gao.gov).

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## MEDICARE

### Contractors and Private Plans Play a Major Role in Administering Benefits

#### What GAO Found

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) reformed the way the Centers for Medicare & Medicaid Services (CMS), the agency that administers Medicare, contracts with claims administration contractors. From its inception, the process for selecting Medicare fee-for-service (FFS) claims administration contractors was stipulated by Congress and differed from most other federal contracts in that, among other things, the Medicare contracts were not awarded through a competitive process. The MMA repealed limitations on the types of contractors CMS could use and required that CMS use competitive procedures to select new contracting entities to process medical claims and provide incentives for contractors to provide quality services. CMS has implemented the MMA contracting reform requirements by shifting and consolidating all claims administration tasks to new entities called Medicare Administrative Contractors. CMS is currently in the process of further consolidating these contracts. The agency also uses other contractors to review claims to ensure payments are proper and investigate potential fraud.

CMS contracts with private organizations to administer benefits under Medicare Advantage (MA), but has an important administrative and oversight role. MA is the private plan alternative to FFS and differs from FFS in that CMS contracts with private entities, known as Medicare Advantage organizations (MAOs), to provide covered health care services to beneficiaries who enroll. MAOs are paid a predetermined monthly amount for each beneficiary enrolled in one of their health plans and must provide coverage for all FFS services (except hospice care), but may also provide additional coverage. The government first began contracting with private plans in 1973. Several laws since then have changed how the MAOs are paid and the types of plans that can participate. While contract requirements for MAOs and parameters of the program are largely derived from statute, CMS has responsibility to implement the program and ensure compliance with these requirements.

CMS also contracts with private organizations, called plan sponsors, to provide the outpatient prescription drug benefit under Part D. Through the Part D contracts, plan sponsors offer prescription drug plans which may have different beneficiary cost-sharing arrangements (such as copayments and deductibles) and charge different monthly premiums. The Part D program relies on sponsors to generate prescription drug savings through negotiating price concessions with entities such as drug manufacturers, pharmacy benefit managers, and pharmacies, and managing beneficiary use. While CMS contracts with plan sponsors to provide the Part D benefit, the agency has oversight responsibilities. For instance, CMS is responsible for making accurate payments to plan sponsors and ensuring the accuracy of information submitted by plan sponsors to the beneficiary-focused Medicare Plan Finder website. Medicare actuaries have attributed lower-than-projected expenditures in Part D to a combination of factors, including lower-than-projected Part D enrollment, slower growth of drug prices in recent years, greater use of generic drugs, and higher-than-expected rebates from pharmaceutical manufacturers to the prescription drug plans.