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Medicare Direct Contracting: A Threat to Seniors and to Medicare's Future

Testimony before the Senate Finance Committee, Subcommittee on Fiscal Responsibility and Economic Growth

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My name is Dr. Susan Rogers, a general internist from Chicago and president of Physicians for a National Health Program, a national organization of more than 24,000 doctors that advocates for a single-payer Medicare for All health care system. I am also a proud beneficiary of Traditional Medicare.

Thank you Sen. Warren for inviting me to this hearing. The current threat to Medicare is very real. What we now call Traditional Medicare was created in 1965 to provide a safety net for seniors and those with disabilities, many of whom lived in poverty. Medicare also accelerated equity in health care, as it effectively desegregated our nation's hospitals.

Today, even though it is the most popular, effective, and efficient health program in our nation's history, Traditional Medicare is at risk of being sold off to the highest bidder, with no input from seniors, health providers, or even members of Congress.

This privatization of Medicare began when President Nixon enacted the HMO Act in 1973, but exploded in 2003 with the creation of Medicare Advantage, the version of Medicare run by commercial insurers. The common thread among these privatization experiments is the theory that inserting a middleman between Medicare and health providers — and between providers and our patients — will somehow save money or improve care. It has failed at both. In fact, researchers estimate that Medicare overpaid Medicare Advantage insurers by more than $106 billion from 2010 through 2019. That's money that could have been spent on seniors' care.

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Despite decades of failure, the Center for Medicare and Medicaid Services launched a new model of Medicare privatization, called Direct Contracting. Instead of paying providers directly, Medicare pays third-party middlemen called Direct Contracting Entities, or DCEs, a set amount to "manage" seniors' health. DCEs are then allowed to pocket what they don't pay for in health services, a dangerous financial incentive to restrict and ration seniors' care.

If you haven't yet heard of Direct Contracting, that's by design. It was created in 2019 by the CMS Innovation Center, which is authorized to conduct payment experiments and scale them up to all of Medicare without input from Congress. Virtually any type of company can apply to be a DCE, including commercial insurers, venture capital investors, and even dialysis centers.

Seniors in Traditional Medicare are automatically assigned to a DCE, without their full knowledge or understanding, if their primary care provider is affiliated with a DCE. Then, the only way for a senior to opt out is to change primary care physicians, a bait-and-switch for Traditional Medicare beneficiaries. Forcing seniors to switch providers is a terrible burden, and undermines the importance of the patient-provider relationship.

This new model assumes that DCE middlemen will somehow lower costs and improve coordination of care. But former CMS and CMMI officials estimate that DCEs may spend as little as 60% of their Medicare payments on patient care, keeping the other 40% as profit and overhead. How is this an improvement on Traditional Medicare, which spends 98% of its funds on care? As for coordination, primary care physicians like me understand that it is our responsibility to make care decisions in partnership with our patients, not answer to third-party investors.

Medicare was designed as a lifeline for America's seniors and those with disabilities, NOT a playground for Wall Street investors.

If middlemen in health care actually saved money and improved outcomes, the U.S. wouldn't have the most expensive and ineffective health care system in the world. We don't need to put seniors through another failed experiment to prove this.

Like the old proverb says, "If you keep doing what you've been doing you'll keep getting what you already got." Privatization experiments have failed. Let's start with what works — Traditional Medicare — and make it stronger for future generations.