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Payment Policy and Competition in the Medicare+Choice Program

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Abstract

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PAYMENT POLICY AND COMPETITION
IN THE MEDICARE+CHOICE PROGRAM

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**PAYMENT POLICY AND COMPETITION
IN THE MEDICARE+CHOICE PROGRAM**

Abstract

Over the last two years, Medicare+Choice plans raised premiums and reduced benefits to an unprecedented degree, arguing that these were unavoidable consequences of inadequate payments. We investigate plan premium and benefit decisions, taking advantage of a natural experiment to separate the influences of payment rates, the intensity of interplan competition, and the underlying cost of providing coverage. We find that the effects of competition are comparable in importance to the effects of payment rates, confirming empirically that it is possible for the Medicare program to improve benefits without increasing spending or shifting additional costs to beneficiaries.