What is Medicare Advantage?

Brief History: Since the 1970s, Medicare enrollees have had the option of choosing a managed care plan to receive their Medicare benefits. While the names have changed over the years — from Medicare Risk to Medicare+Choice, and now Medicare Advantage (MA) — the program has consistently provided high rates of satisfaction for members who choose to receive their care from innovative private health insurance plans.

The Current State of MA: MA plans cover more than 18.3 million Americans, or nearly 32 percent of all Medicare beneficiaries. Since 2010 enrollment has increased by 60 percent. The program enjoys strong bipartisan support in Congress. Ninety percent of enrollees express satisfaction with their MA plan. Research shows MA plans achieve better health outcomes than the government-run fee-for-service (FFS) program, and providers are adopting plan practices that “spill over” and reduce costs in FFS. In addition, the Medicare Payment Advisory Commission (MedPAC) has found that payments to MA plans are now equivalent to traditional Medicare costs.

What is the Advance Notice?

The Centers for Medicare & Medicaid Services (CMS) released the 2018 Advance Notice on February 1, 2017, which lays out the proposed policies governing plan payment for 2018. The agency has large discretion over certain payment policies and addressed several issues of critical importance to MA plans. Stakeholders have 30 days to comment on the Advance Notice prior to CMS issuing a Final Rate Notice on April 3.

What CMS Proposed: By the Numbers

Policy changes proposed by CMS for 2018 include:

- CMS’s estimate of the overall impact on MA funding of the policies proposed in the Advance Notice, which is well below the projected cost inflation rate (i.e., effective growth rate) of 2.8 percent.

- The reduction in MA funding due to a technical update to the risk score called “normalization” that assumes risk scores of beneficiaries enrolled in traditional Medicare dramatically increased from 2015 to 2016.

- The estimated reduction in payments to Employer Group Waiver Plans (EGWPs), enrolling over 3.6 million beneficiaries, if CMS fully transitions to a new payment methodology first implemented in 2017.

What Did CMS Propose to Do?

Encounter Data: CMS began to adjust risk scores in 2016 based on diagnoses from encounter data. In the Final Rate Notice for 2017, CMS increased the proportion of risk scores based on encounter data to 25 percent. For 2018, CMS acknowledged concerns about the impact of using encounter data on payment and proposed to maintain a blend of 25 percent encounter data to calculate risk scores.

Although CMS did not increase the percentage of encounter data for 2018 from 25 percent to 50 percent, as the Agency had previously announced in the 2017 Final Rate Notice, serious problems persist with respect to the accuracy and reliability of the encounter data.
Medicare Advantage: What Did CMS Propose in the 2018 Advance Notice?

Because of these problems, MA plans will effectively receive a payment cut if encounter data are used for payment. As the Government Accountability Office recently found, the agency has “yet to fully address data accuracy.” In addition, two recent independent studies – one from Milliman and the other from Avalere (sponsored by the RISE Association) – show a potential reduction of 0.4 percent to 1.6 percent for 2016 (based on using 10 percent encounter data for payment).

**Normalization:** Each year CMS applies a “normalization” factor to the risk score to account for trends in FFS coding and beneficiary health status. This factor is designed to ensure that bids and the county benchmarks can be compared on the same basis. **CMS proposed a 1.9 percent reduction in MA funding due to this factor, which assumes a dramatic change in FFS risk scores from 2015 to 2016.**

**What Should CMS Do?**

The MA program is very popular and has seen large scale growth throughout the United States. We urge CMS to adopt policies in the Final Rate Notice that ensure MA funding levels are consistent with the increase in health care costs. More specifically, in the 2018 Final Rate Notice CMS should:

- Ensure plan risk scores are not lowered because of problems with implementing the encounter data system
- Eliminate the policy in which quality bonus payments based on Star Ratings are reduced as a result of arbitrary downgrades and other negative impacts from audit findings
- Revise a technical update made to the risk adjustment model to more appropriately reflect trends in FFS risk scores
- Take steps to reverse the flawed payment reductions for EGWPs implemented in 2017

In addition, CMS should consider the negative implications of collecting the health insurance tax to the stability of MA plan benefits and premiums, which will resume in 2018 after a one-year suspension (absent any Congressional action).

**Impact | 2018 Advance Notice**
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Effective Growth Rate | 2.8%
Star ratings | -0.4%
Risk model revision | N/A
MA coding intensity adjustment | -0.25%
FFS Normalization | -1.9%
Expected Average Change in Revenue from Advance Notice Policies* | 0.25%
Coding trend | 2.5%
Expected Average Change in Revenue | 2.75%

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