

January 2021

## Key Facts:

- The Centers for Medicare & Medicaid Services (CMS) issues annual payment updates to rates for Medicare Advantage and Medicare Prescription Drug plans (Part D).
- Medicare Advantage payment rates are mainly based on spending trends in Traditional Fee-For-Service (FFS) Medicare.
- Payment policies are also specified in the annual Medicare Advantage Advance Notice and Rate Announcement.
- The rates and policy changes inform the development of Medicare Advantage plan bids which include each plan's benefits and beneficiary cost-sharing for the upcoming contract year.

## BMA Recommendation:

A stable rate environment ensures plans have the financial resources and payment policies to cover all guaranteed benefits for all enrollees, develop and implement innovative benefit design and care delivery, offer varied health plan choices, offer low beneficiary premiums and out-of-pocket costs, and provide high-quality, coordinated affordable care for the millions of beneficiaries in Medicare Advantage across the country.

## Advance Notice and Rate Announcement Background and Purpose

The Centers for Medicare & Medicaid Services (CMS) are required to determine annual payment rates for Medicare Advantage and Part D plans by April 4<sup>th</sup> for the following contract year. The process, which is defined by statute, begins with the public release of a proposed rate and payment policy modifications, called the Advance Notice. Historically the Advance Notice is announced in early February, although it may be done sooner.

In recent years, CMS has released the Advance Notice in two parts due to different public comment period requirements. Proposed changes to risk adjustment require a 60-day comment period, whereas other payment policy changes require a 30-day comment period. Following the public comment periods, CMS issues the Rate Announcement to finalize the payment updates and policy changes for the following contract year.

The Rate Announcement must be finalized and made public by the first week of April, prior to the upcoming plan year. Other policy changes impacting Medicare Advantage and Part D may be issued through separate regulations and guidance throughout the year.

Medicare Advantage and Part D plans use the information in the Rate Announcement to develop their annual plan bids, which are statutorily required to be submitted to CMS by the first Monday in June. Medicare Advantage plan bids take into account the expected costs of providing Part A and Part B services, prescription drugs when offered, and supplemental benefits.

## Key Updates and Policies are Addressed in the Advance Notice and Rate Announcement

CMS sets the payment rate for local area benchmarks that represent the maximum amount CMS will pay health plans for benefits for beneficiaries in that area. The benchmarks for each county are based on a statutory formula using average Traditional Fee-For-Service (FFS) Medicare spending per beneficiary. The Advance Notice and Rate Announcement are used to update the factors that impact the annual benchmark. These factors include the growth rate in the Traditional FFS Medicare, the Medicare Advantage growth rate, and changes to the Star Ratings System. Overall payment to health plans varies by geography, with higher payments made in rural areas and lower payments in urban areas. Health plan payment is also modified by the risk scores of enrollees and quality performance payments.

CMS also uses the Advance Notice and Rate Announcement for policy changes that impact payment to health plans, including risk adjustment, the Star Ratings System, and changes to programs within Medicare Advantage, such as Employer Group Waiver Plans and Special Needs Plans. Factors that impact risk scores include coding intensity and Traditional FFS Medicare normalization adjustments. Significant changes to any one of these factors that impact payment require adjustments by health plans that then impact provider payments, supplemental benefits offered and cost sharing for beneficiaries.

The Advance Notice and Rate Announcement also address key elements of the Part D program. CMS announces benefit parameters such as the deductible and out-of-pocket threshold, elements related to the Low-Income Subsidy (LIS), risk adjustment factors specific to Part D plans, and any changes to the risk sharing factors.