

Payment Parity Between Medicare Advantage and Traditional Fee-For-Service Medicare

BETTER MEDICARE
ALLIANCE

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Key Facts

- Over the past decade, Medicare Advantage plan payments have decreased in relation to Traditional Fee-for-Service (FFS) Medicare spending while enrollment has grown significantly.
- Medicare Advantage plans are paid on parity with Traditional FFS Medicare, while Medicare Advantage continues to demonstrate better clinical outcomes compared to Traditional FFS Medicare with similar beneficiary populations.
- Payment parity meets the goal set by Congress to pay Medicare Advantage at parity with Traditional FFS Medicare, while enabling Medicare Advantage to provide additional benefits at the same cost as Traditional FFS Medicare.

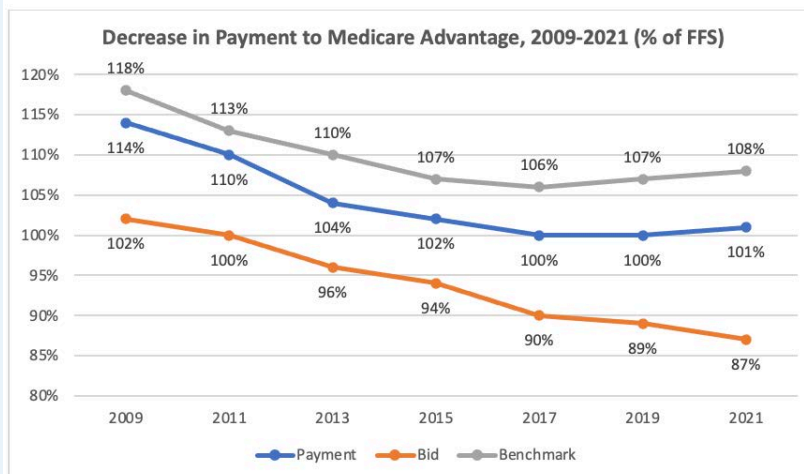
As of November 2020, 24.8 million beneficiaries, representing more than a third of Medicare beneficiaries, were enrolled in Medicare Advantage. This number is projected to increase to 26.9 million in 2021 and by 2030, reach 51% of beneficiaries. As policymakers look to encourage value-driven, high-quality, and cost-effective care delivery models, there are significant lessons to learn from Medicare Advantage's ability to be paid the same as Traditional FFS Medicare while providing additional benefits and demonstrating better clinical outcomes in similar populations.

Payment to Medicare Advantage Plans is on Parity with FFS

While Traditional FFS Medicare reimburses providers based on the volume of services provided to beneficiaries, Medicare Advantage plans are paid a capitated, per-beneficiary amount based on FFS spending at the county level. Currently, Medicare Advantage plans are paid on parity with FFS across counties.

Payment to Medicare Advantage plans has decreased incrementally since passage of the Affordable Care Act (ACA), which reduced benchmarks—the maximum amount Medicare pays plans—such that they would be based on the costs of FFS Medicare enrollees in each county. The benchmark adjustment began in 2012 and was implemented over a 6-year period. Consistent with the longstanding recommendation of the Medicare Payment Advisory Commission (MedPAC), the ACA has resulted in near consistent payment parity since 2017. While Medicare Advantage plans were once paid 114% of FFS costs, these costs are now equivalent.

MedPAC has noted that the ACA limited the disparity between Medicare Advantage and FFS payment while instituting a quality bonus program that increases payment to plans for higher quality. Since 2012, plan bids and payments have decreased in relation to FFS spending, while quality has increased, achieving payment parity even with the quality bonus payments. Despite the pressure of lower benchmarks and reduced payment in the last decade, Medicare Advantage plans have improved efficiencies, developed new care models, met quality standards, and seen enrollment grown significantly. Enrollment is expected to reach 42% of Medicare beneficiaries in 2020.



Source: MedPAC, 2020

Medicare Advantage is Paid Equal to Traditional FFS Medicare While Offering Additional Benefits and Better Outcomes

Medicare Advantage plans provide supplemental benefits not covered under Traditional FFS Medicare, most commonly dental, vision, hearing, and wellness programs, while not increasing costs for the Medicare program. Almost all plans offer one of these extra benefits and half of plans offer all four. Nearly half of all Medicare Advantage plans offered new types of supplemental benefits allowed in 2019, such as care in the home and meal delivery. The number and types of new benefits are projected to increase in 2020. These new benefits are provided even as Medicare Advantage plan payments are equal to Traditional FFS Medicare costs.

Additionally, Medicare Advantage payment is tied to quality, which incentivizes plans to ensure enrollees have access to all services and that they are of high quality. A key provision of the ACA aligned Medicare Advantage payments with positive patient outcomes through the 5-Star rating system which offers quality bonuses to plans with high ratings. In fact, 77% of beneficiaries are projected to be in high quality plans in 2020.

Medicare Advantage has demonstrated that it performs better relative to Traditional FFS Medicare on a range of utilization, cost, and quality outcome measures. Between 2015 and 2017, Medicare Advantage beneficiaries with major complex conditions had an avoidable hospitalization rate that was 51% lower than those in Traditional FFS Medicare and 21% of Medicare Advantage beneficiaries had a physician visit within 14 days post-hospital discharge.

BMA Policy Recommendation

Legislative and regulatory policies should ensure continued support for flexibility in benefit offerings, promote care management, and incentive quality outcomes that encourage value-driven, high-quality, and cost-effective care delivery for Medicare beneficiaries through adequate payment for Medicare Advantage.