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Proposed MA Plan Payment Changes May Impact Premiums and Benefits

Due to changes proposed in the CY 2024 Advance Notice, enrollees in Medicare Advantage could have higher premiums and/or fewer benefits in 2024 than 2023.

On February 1, Centers for Medicare & Medicaid Services (CMS) released the 2024 Advance Notice, an annual regulatory document that describes the agency's proposed payment and coverage policies for the next plan year. CMS estimates the net growth in Medicare Advantage (MA) plan revenue for 2024 to be -2.27%, a lower rate of growth compared to last year's net change of 5%.[1] The change is due to a lower effective growth rate for MA county benchmarks, the expiration of a COVID-19 related adjustment to the 2023 Star Ratings, and changes to the MA risk adjustment model. This decrease in payment to plans could result in less funding that plans use to offer supplemental benefits and lower premiums for their enrollees. Avalere estimates that the decrease in payment could result in a $540 decrease in benefits per member per year.

Background on Use of MA Plan Rebates

The major factors that determine both a plan's premiums and benefit offerings are based on the relationship between the plan's bid, the average county benchmark across its service area, the plan's Star Rating, and the plan's projected risk score. By the first Monday in June, plans will submit 2024 bids to CMS that include their expected costs for providing Medicare benefits to an average enrollee in their plan. These bids, which are risk adjusted to account for the health status of the plan's enrollees, are compared to county level benchmarks. For 2024, plans will be eligible to bid against a higher benchmark if they have at least at least a 4 Star or higher quality rating.

By the first Monday of April, CMS will publish the county benchmarks for 2024 based on projected Medicare Fee-For-Service (FFS) costs. Plans that bid below the benchmark receive a portion of the savings as a rebate, which they can use towards non-Medicare benefits (e.g., reduced cost sharing for medical services and/or prescription drugs, dental, transportation,

[1] These projections do not include CMS's estimates of MA risk score growth. CMS estimated risk score growth of 3.30% for 2024 and 3.5% for 2023.

meals). That is, if plans are able to provide Medicare services at costs that are below the benchmarks, they can apply a portion of the difference towards additional benefits for their enrollees. In 2023, average plan bids are 83% of FFS costs according to analyses by the Medicare Payment Advisory Commission (MedPAC).[2]

Payment Policies for 2024

In the Advance Notice, CMS made the following 2 key proposals that will impact 2024 plan payments, and benefits/premiums:

- **Removing Medical Education Payments in the Non-End Stage Renal Disease (ESRD) US Per Capita Costs (USPCC) Baseline:** CMS proposed including a one-time technical adjustment to account for the removal of MA-related Indirect Medical Education (IME) costs and direct graduate medical education costs from expenditures that support the non-ESRD FFS USPCCs, starting with the CY 2024 benchmarks. CMS noted that the proposed change would decrease the 2024 non-ESRD FFS USPCC and corresponding non-ERSD FFS growth percentage by 2.13%. As a result, CMS projected that the non-ESRD FFS USPCC would increase by 2.15%.
- **Updating the MA CMS Hierarchical Condition Category (HCC) Risk Adjustment Model**: CMS proposed updating the MA CMS Hierarchical Condition Category (HCC) risk adjustment model (excluding PACE) by 1) clinically reclassifying the HCCs using ICD-10-CM codes; 2) updating data years used for calibrating the model; and 3) updating denominator year used for determining the average per capita predicted expenditures. CMS estimates that the combined impact of risk adjustment changes, including the proposed normalization factor, will result in a 3.12% reduction to 2024 plan payments. As a result of the model update, over 2,000 ICD-10 codes that were included in the 2023 CMS-HCC model will not be in the 2024 CMS-HCC model.

In addition, CMS had previously made changes to the 2023 Star Ratings. In particular, the 2023 Ratings no longer adjust for extreme and uncontrollable circumstances due to COVID-19 for most measures. Also, the weight of measures related to access and patient experience was higher for 2023 ratings than for 2022. Due in part to these factors, the enrollment-weighted average MA Prescription Drug Plan (MA-PD) rating decreased from 4.37 Stars in 2022 to 4.15 in 2023.

Avalere Assessment of Rebates, Premiums, and Benefits

Avalere estimated average 2023 plan rebates nationally and for the top 10 largest metropolitan areas by MA enrollment and compared them to what rebates would be in 2024 if CMS finalizes the policies in the Advance Notice (Table 1). The analysis finds that enrollment-weighted average rebates would be $45 per member per month (PMPM) lower (29%) in 2024 than in

[2] https://www.medpac.gov/wp-content/uploads/2023/01/MedPAC-MA-status-report-Jan-2023.pdf

2023. Among the largest 10 metropolitan areas by MA enrolment, MA plans in Houston, TX could experience the largest decrease in rebates, at 63%, while the smallest decrease would occur in Los Angeles, CA, at 19%. In 6 of the 10 areas shown in Table 1, the decrease would be greater than the national average change of -29%.

Table 1. Projected MA Plan Rebates for 2023 and 2024, Nationally and in the Top 10 Metropolitan Areas by MA Enrollment (Per Member/Per Month)

	January 2023 MA Enrollment*	Average 2023 MA Plan Rebate PMPM	Average 2024 MA Plan Rebate Based on 2024 Advance Notice PMPM	Percent Change in Rebate, 2023-2024
National	22,070,564	$156.60	$111.72	-29%
New York, NY	1,086,910	$194.54	$132.50	-32%
Los Angeles, CA	808,724	$237.91	$193.57	-19%
Miami, FL	679,030	$252.97	$181.75	-28%
Houston, TX	409,590	$89.80	$33.26	-63%
Dallas, TX	398,403	$81.20	$35.85	-56%
Chicago, IL	388,849	$156.17	$115.95	-26%
Tampa, FL	385,353	$211.07	$130.43	-38%
Philadelphia, PA	356,002	$138.91	$107.87	-22%
Phoenix, AZ	350,948	$178.21	$123.04	-31%
Atlanta, GA	347,119	$106.98	$65.92	-38%

*Does not include Employer Group Waiver Plans (EGWPs).

Leveraging these reduced rebate amounts available, Avalere then modeled the potential impact on plan premiums and supplemental benefit offerings. Avalere first estimated the premiums and supplemental benefits available for 2023 (see methodology for more information).

As noted earlier, plans use rebates to fund additional benefits or reduce premiums. Avalere's analysis assumed that a plan would either maintain the same level of benefits and increase premiums or decrease funding for supplemental benefits. For example, if a given plan had $200 PMPM in supplemental benefits and a premium of $30 PMPM, and the rebate went from $160 PMPM to $100 PMPM, then the plan would either reduce its benefits to $140 PMPM ($200-$60) or would increase its premium to $90 PMPM ($30+$60).

Across all plans nationwide, the estimated decreases in rebates could result in an average increase in premiums or a decrease in funding for supplemental benefits of nearly $45 PMPM per plan, weighted by enrollment. The magnitude of the impact would vary by geography, ranging from $31 PMPM in Philadelphia to $80 PMPM in Tampa, 2 of the top 10 metropolitan areas by MA enrollment (Table 2).

Table 2. Potential Changes in MA Premiums and Benefits, Nationally and in the Top 10 Metropolitan Areas by MA Enrollment (Per Member/Per Month)

	Premiums		Supplemental Benefits	
	Average Monthly 2023 Premium	Average 2024 Monthly Premium Under Advance Notice, Assuming No Changes in Supplemental Benefits	Average 2023 Funding for Supplemental Benefits PMPM	Average 2024 Funding for Supplemental Benefits, Assuming No Change in Premium PMPM
National	$18.86	$63.75	$144.07	$99.18
New York, NY	$23.09	$85.13	$184.97	$122.93
Los Angeles, CA	$3.65	$48.00	$208.66	$164.31
Miami, FL	$11.71	$82.93	$232.05	$160.84
Houston, TX	$7.12	$63.66	$65.84	$9.29
Dallas, TX	$7.74	$53.09	$60.92	$15.57
Chicago, IL	$12.55	$52.78	$136.19	$95.96
Tampa, FL	$7.46	$88.10	$188.08	$107.44
Philadelphia, PA	$26.13	$57.17	$132.83	$101.78
Phoenix, AZ	$12.00	$67.16	$157.78	$102.61
Atlanta, GA	$14.08	$55.13	$91.16	$50.10

Conclusion

As proposed, the CY 2024 Advance Notice could lead to a national weighted average of a $45 PMPM decrease in rebate per plan. This decrease in rebates may lead to an increase in beneficiaries' premiums or fewer benefits. The magnitude of impact would vary across regions

due to plan enrollment trends and other plan characteristics (e.g., Star Ratings, risk scores). However, even beneficiaries in metropolitan areas that have lower average premiums (which is likely the result of a higher enrollment in $0 premium plans), could see changes in their premiums and/or benefits.

If CMS's proposed changes are finalized, beneficiaries could see plans reduce their 2024 benefits to keep premiums at their 2023 rate, increase their 2024 premiums to offer the same 2023 benefits, or a combination of both.

CMS will accept comments on the Advance Notice through March 3 and publish the final Rate Announcement by April 3.

Methodology

Avalere used its proprietary bid model to project the impact of policies from the Advance Notice on plan rebates for 2024. The model is built from data published by CMS with Medicare plan payments through 2019. CMS publishes, for each plan, the weighted-average risk score and rebate amount. Avalere used these data to project rebates for 2024, based on the 2023 published MA county benchmarks. The model uses published Medicare enrollment data at the plan/county level for January 2023. Avalere excluded EGWPs, Cost, Program of All-Inclusive Care for the Elderly, and Demo plans as well as plans in the US territories. Weighted-average rebates, premiums, and benefits were weighted by actual MA enrollment in January 2023. As a result, averages for 2023 may differ from the CMS amounts, which were based on projected enrollment. Metropolitan areas are defined as metropolitan core-based statistical areas. Avalere obtained premiums from the 2023 MA Landscape File.

For projected changes to premiums and funding for supplemental benefits, Avalere modeled two scenarios based on the projected change to rebates caused by the proposed changes of the CY 2024 Advance Notice. In the first, plans would maintain their level of supplemental benefits from 2023 and account for the reduced rebate by increasing their premiums. In the second, plans would maintain their premiums by reducing their funding for supplemental benefits. Avalere did not model mixed plan decisions to allocate the reduction in rebate between both premiums and benefits.

Avalere modeled the impact of the projected growth rate, proposed change to the CMS-HCC risk model, and quality bonuses for 2024. Avalere did not include the projected MA risk score trend from CMS as part of this analysis. The projected MA risk score trend is not a part of the rate setting methodology and the impact depends on actions in a future year, which are not yet known. Avalere also assumed a uniform decrease to risk scores consistent with the CMS estimate published in the Advance Notice. The decrease in risk scores was applied to all plans across all geographies at the contract plan level. The impact of the model change will vary by plan depending on plan enrollment (e.g., plans with higher risk, such as Dual Eligible and Chronic Condition Special Needs Plans may see greater impacts). If the actual decrease in risk scores exceeds the CMS estimate, the impacts would be higher.

As noted earlier, Avalere uses historical payment data that is available at the plan and county level from CMS to estimate bids and risk scores for future years. Under Avalere's model, the estimated rebate amount of $156. The actual average rebate amount for 2023 is $196, according to MedPAC.[3] Because the model is using historical data, the projection may not precisely match the actual numbers. However, having a lower projected rebate amount means that the model is conservative in that it does not overestimate rebates. Furthermore, because the model is conservative, it suggests that the results shown here, in terms of the potential changes to premiums or benefits, may be understated. In addition, because the model uses historical data, the enrollment numbers shown here are lower than the actual enrollment numbers for January 2023 because it will only include plans that existed both in 2019 and 2023.

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[3] https://www.medpac.gov/wp-content/uploads/2023/01/MedPAC-MA-status-report-Jan-2023.pdf