Issues in Medicare Advantage

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Informational presentation on three issues in Medicare Advantage

- The provider-sponsored organization MA contracting option
- Narrowed networks and network adequacy requirements
- Margins in 2012
The provider-sponsored organization (PSO) option

- Introduced in 1997
  - Federal PSO option available through 2002
  - “PSO (state licensed)” — state certification using solvency standards following the Federal model; still an available option
  - Last “PSO (state licensed)” left the MA program in 2012
- A number of provider-based organizations have MA contracts, but as state-licensed HMOs or PPOs
Narrowed networks and network adequacy in MA

- Plans can terminate providers with 60-day notice to provider and 30-day notice to beneficiary
- Recent CMS policy changes
  - 90-day notice to CMS of major changes in provider network
  - Special election period for affected beneficiaries in certain cases
- Plans must continue to comply with network adequacy requirements
- We will continue to monitor this issue
Why examine margins of MA plans?

- Consistent with our charge to survey the “landscape” of the MA sector
  - Improves and deepens our knowledge of the MA sector
  - Provides information about trends in MA and differences within MA
- Plans are held to a medical loss ratio requirement beginning in 2014, which can have an effect on margin levels
MA margin levels, 2012 historical data

- MA-wide revenue-weighted average margin at 4.9 percent (Part C)
  - Administrative costs average 8.8 percent
  - Benefit costs average 86.3 percent
- Very few companies reported negative margins
- Differences by plan categories
- Will report on Part D in the future

Source: MedPAC analysis of 2014 MA bid data. Data are preliminary and subject to change.
In 2012, few companies had negative MA margins.

<table>
<thead>
<tr>
<th>Margins ranges</th>
<th>Percent of total MA revenue within each margin range</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;-5%</td>
<td>2%</td>
</tr>
<tr>
<td>&lt;-2.5%, &gt;=5%</td>
<td>1%</td>
</tr>
<tr>
<td>&lt;=0, &gt;=2.5%</td>
<td>5%</td>
</tr>
<tr>
<td>&gt;0, &lt;2.5%</td>
<td>27%</td>
</tr>
<tr>
<td>&gt;=2.5%, &lt;5%</td>
<td>7%</td>
</tr>
<tr>
<td>&gt;=5%, &lt;7.5%</td>
<td>25%</td>
</tr>
<tr>
<td>&gt;=7.5%, &lt;10%</td>
<td>30%</td>
</tr>
<tr>
<td>&gt;=10%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: MedPAC analysis of 2014 MA bid data. Data are preliminary and subject to change.
MA margins in 2012 varied across plan categories

<table>
<thead>
<tr>
<th>Higher margins</th>
<th>Lower margins</th>
</tr>
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<tbody>
<tr>
<td>HMOs (5.4%)</td>
<td>Local preferred provider organizations (3.1%)</td>
</tr>
<tr>
<td>For-profit plans (6.3%)</td>
<td>Not-for-profit plans (1.9%)</td>
</tr>
<tr>
<td>Employer-group plans (7.2%)</td>
<td>Plans for individual Medicare beneficiaries (4.4%)</td>
</tr>
<tr>
<td>Older plans (5.1%)</td>
<td>Newer plans (3.1%)</td>
</tr>
<tr>
<td>Special needs plans (SNPs, 8.6%), compared to non-SNP plans (4.3%)</td>
<td>Not-for-profit SNPs (-0.6%)</td>
</tr>
</tbody>
</table>

Note: Comparison of older versus newer plans is based on a subset of plans, not the entire data set. Source: MedPAC analysis of 2014 MA bid data. Data are preliminary and subject to change.
Variation in margins by other plan characteristics (1)

Higher margins among plans

- Operating in counties with high average fee-for-service expenditures
- That enroll a high proportion of partial dual-eligible beneficiaries (12.9% margin), compared to plans with large full-dual enrollment (5.7% margin)

Source: MedPAC analysis of 2014 MA bid data. Data are preliminary and subject to change.
Variation in margins by other plan characteristics (2)

- Higher margins among plans
  - With higher average risk scores
  - With higher share of beneficiaries with multiple diagnosed conditions
- Possible differences in coding practices

Source: MedPAC analysis of 2014 MA bid data. Data are preliminary and subject to change.
Discussion

- Questions?
- Additional analyses?