Advising the Congress on Medicare issues

# Rebalancing Medicare Advantage benchmark policy

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MEDPAC

# Today's presentation

- Brief overview of Medicare Advantage (MA) landscape
- Issues with MA benchmark and rebate policies
- Alternative approach for establishing benchmarks
- Draft recommendation

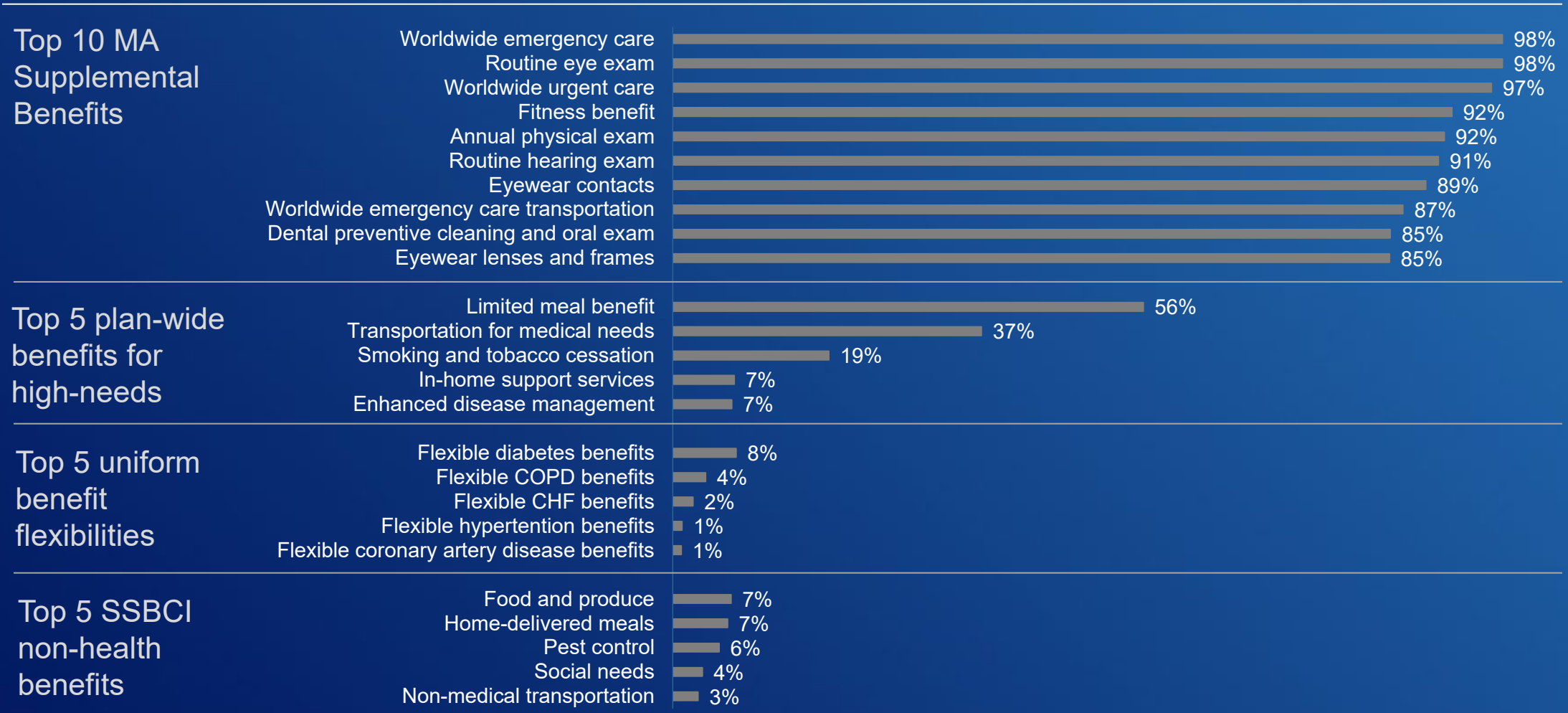
# The MA program is robust and growing

- Despite MA payment reductions under ACA, from 2016 to 2021:
  - MA share of eligible enrollees rose from 33 to 46 percent
  - Average number of plan choices (beneficiary-weighted) increased from 18 to 32 plans
  - Share of beneficiaries with $0 premium plan option available rose from 81 to 96 percent
  - Annual extra benefit value increased from $972 to $1,668 per enrollee
    - Reduced cost sharing
    - Reduced Part B and Part D premiums
    - Health-related benefits (e.g., vision, dental, fitness, and travel emergencies)



ACA (Affordable Care Act of 2010).
Estimates are preliminary and subject to change.

# Common MA supplemental benefits, 2021




COPD (chronic obstructive pulmonary disease) CHF (congestive heart failure), SSBCI (special supplemental benefits for the chronically ill). Excludes employer group and special needs plans. Uniform benefit flexibility allows MA plans to design benefits specific to a disease (or socioeconomic status under the value-based insurance design model). SSBCI benefits are not primarily health related and may be offered non-uniformly to eligible chronically ill enrollees. *Estimates are preliminary and subject to change.*

# Issues with MA benchmarks

- Current benchmark system should better balance policy goals:
  - maintaining a wide availability of plans
  - establishing predictable and stable payment rates
  - supporting access to essential extra benefits across geographic areas
  - appropriately allocating savings from MA plan efficiency
- Higher benchmarks and payments in low-spending FFS areas attract a disproportionate share of MA enrollees
  - In these areas, benchmarks are 15 percent above FFS spending, plans are paid 9 percent above FFS spending, and MA enrollment share is highest

# Issues with MA benchmarks (continued)

- Quartile structure creates “cliffs” in county benchmarks despite small differences in county FFS spending
  - $1 difference in FFS spending can result in $54 difference in benchmark
- Plan bids average 87 percent of FFS spending, yet Medicare payments to MA plans are 4 percent above FFS spending
  - Current system does not leverage MA plan efficiency for Medicare
- Medicare subsidizes extra benefits for MA enrollees
  - Extra benefits have increased over 70 percent in 5 years, yet utilization data are not available and the value of extra benefits for beneficiaries has not been assessed

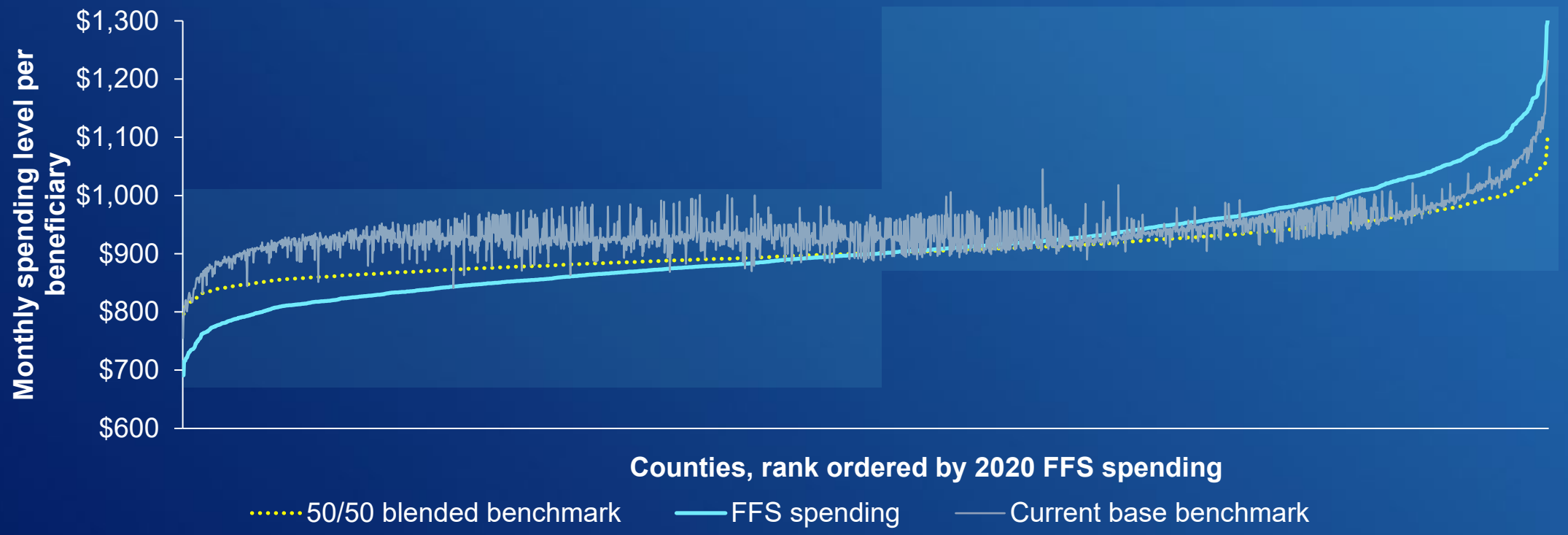
# Rebalancing MA benchmarks

- Prior discussions identified four goals for improving MA benchmarks:
  - Eliminate the benchmark cliffs between payment quartiles
  - Benchmarks above local FFS spending should be brought closer to local FFS spending
  - Benchmarks in some high-spending areas (in the 95% quartile) could be reduced
  - An immediate change in benchmarks should avoid being overly disruptive to basic supplemental coverage
- Benchmarks that blend local and national FFS spending and apply a discount factor that align with these goals

# Assumptions underlying blended benchmark alternative simulations

- Compare 2020 base benchmarks (prior to quality bonus), which are 103% of FFS spending
- Include prior MedPAC benchmark recommendations:
  - Adjust FFS spending for population with both Part A and Part B
  - Remove benchmark caps
  - Remove quality bonus from benchmarks
- Simulations use a 75% rebate—an increase from 2020 65% rebate average—to align with pre-ACA rebates
  - 75% is equivalent to the highest shared savings for ACOs in the Medicare Shared Savings Program
  - An alternative structure for MA supplemental benefits will require a longer-term discussion for the Commission to address in the future

# 50/50 blend of local and national FFS spending decreases benchmarks in both low and high spending areas




Note: FFS (fee-for-service), MA (Medicare Advantage). We used CMS's estimate of FFS spending for 2020 benchmark calculations and made adjustments to better reflect spending for the FFS population with both Part A and Part B coverage. Current base benchmark includes the cap on benchmarks. Blended benchmarks are equally weighted between mean local FFS spending and mean price-standardized national spending. Results are preliminary and subject to change.

Source: MedPAC analysis of 2020 MA rate data

# Level of savings: 2% discount to blended benchmarks would help Medicare share in plan efficiencies

| 50/50 blended benchmark | Overall | Quartiles of FFS spending | | | |
|---|---|---|---|---|---|
| | | Lowest | Second | Third | Highest |
| Simulated MA payment relative to current MA base payments: | | | | | |
| 0% discount | **0%** | -3% | -2% | +1% | +1% |
| 2% discount | **-2%** | -4% | -3% | -1% | -1% |

Note: FFS (fee-for-service), MA (Medicare Advantage). CMS assigns quartiles at the county level, but a plan's service area includes one or more counties. Therefore, quartiles in the table are assigned using the average monthly FFS spending per beneficiary in a plan's entire service area. Current MA base payments do not include quality bonuses. Blended benchmarks adjust FFS spending to better reflect spending for the FFS population with both Part A and Part B coverage. Blended benchmarks are equally weighted between mean local FFS spending and mean price-standardized national spending. Blended benchmarks use a rebate of 75 percent. Results are preliminary and subject to change.

Source: MedPAC analysis of 2020 MA rate and bid data

# Access to MA plans with rebates covering current levels of cost sharing would be high under this approach

| | Quartiles of FFS spending | | | |
|---|---|---|---|---|
| | Lowest | Second | Third | Highest |
| Share of Medicare beneficiaries with at least 1 available plan | >99.5% | >99.5% | 99% | 97% |
| Avg. number of available plan sponsors | 6 | 6 | 7 | 8 |
| Avg. number of available plans | 15 | 16 | 22 | 24 |

Note: FFS (fee-for-service), MA (Medicare Advantage). Available MA plans do not include employer plans, specials needs plans, and plans that did not offer cost sharing reductions in 2020. Payments for alternative benchmarks reflect rebate values at 75 percent of the difference between benchmarks and bids for plans that bid below the benchmark. Simulated rebate values for blended benchmarks assume no change in plan bidding behavior. Blended benchmarks reflect a 50/50 weight of local area FFS spending and mean price-standardized national spending. Blended benchmarks also include a 2 percent reduction through a discount rate. Plan sponsors represent the number of distinct parent organizations. Results are preliminary and subject to change.

Source: MedPAC analysis of 2020 MA rate data

# Summary

- MA sector is extremely robust, but the MA benchmark system is flawed, and overall plan savings are not sufficiently shared with the Medicare program
- An alternative approach would rebalance benchmarks to both leverage plan efficiency and support plan availability
  - Payment set on a continuous scale of local FFS spending
  - Subsidized benchmarks (those over 100% of FFS) brought closer to local FFS spending
  - Additional modest efficiencies leveraged in areas where plans bid far below local FFS spending
  - Sufficient rebate to cover cost-sharing and premium reductions