

Reforming the benchmarks in the Medicare Advantage payment system

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Urgent need for reform of MA benchmarks

- Historically, Medicare paid plans high rates relative to FFS
- Legislation in 2010 brought MA payments closer to FFS
 - Plans responded to fiscal pressure by increasing efficiency and lowering bids
- Reform needed for increased efficiency and the realization of Medicare savings

History of Medicare payments to managed care plans

- Beginning in 1985, Medicare plans paid 95% of local FFS
 - 5 percent differential recognized the presumed greater efficiency of plans through tools to reduce program expenditures
- As a result of a series of subsequent legislative actions
 - Enrollment grew steadily
 - MA payments increased, by 2009 benchmarks averaged 118 percent of FFS and payments averaged 114 percent

Affordable Care Act of 2010 (ACA) changes

- In response ACA reduced the benchmarks
 - Introduced the quartile system and quality bonuses
 - Base (no quality bonus) benchmarks to decline to 103 percent of FFS by 2016
- Despite concern of predicted decline in enrollment:
 - Average plan bid was 100% of FFS in 2010, 89% of FFS in 2019
 - Extra benefits (rebates) reached record high of \$107 in 2019
 - Enrollment has doubled since 2010
- Fiscal pressure succeeded, but Medicare program yet to realize aggregate saving from MA

Current system sets benchmarks based on quartiles of FFS spending

Quartiles (786 counties each)	Current Benchmark
Lowest FFS spending	115% FFS
2 nd lowest spending	107.5% FFS
2 nd highest spending	100% FFS
Highest spending	95% FFS

- Initiated by the ACA
- Counties sorted by FFS spending and divided into quartiles
- Benchmarks set as a percentage of county FFS spending for each quartile

How Medicare pays MA plans

- Plans submit bids for the Medicare benefit package
- Bids are compared with benchmark to determine payment
- If bid < benchmark (almost all plans)
 - Program pays plan bid + a “rebate”
 - Medicare keeps a portion of the difference, beneficiaries get the rest as extra benefits
- If bid > benchmark (rarely)
 - Program pays benchmark, enrollee pays difference

Illustration of a quartile cliff

FFS spending	Current benchmark quartile
County A - \$741	1.15% of FFS=\$852
County B - \$742	1.075% of FFS=\$798

- Quartiles system creates cliffs between the quartiles
 - Counties with lower FFS spending can have higher benchmarks than counties with higher FFS spending
 - Three cliffs, each about a \$50 drop (only one shown in panel)

Increased fiscal pressure needed for Medicare to realize savings from plan efficiency

- MA enrollment in 115-percent quartile areas costs 11% more than FFS in those areas
- Overall MA costs roughly equal to FFS Medicare, not likely to change with current benchmarks
- Evidence that MA plans can provide benefits more efficiently than FFS
 - Plans are bidding 89 percent of FFS

Issues with current benchmarks and potential alternatives

- Issues
 - Cliffs
 - Program is not realizing savings
 - Trade-off between geographic equity relative to local FFS and desire to promote plan participation
- Three alternatives with average benchmarks equal to 98 percent of FFS-spending

Alternative 1: Set all benchmarks at 98 percent of local FFS spending in all areas

Quartiles	Current Benchmark	Alternative Benchmark
Lowest FFS spending	115% FFS	98% FFS
2 nd lowest spending	107.5% FFS	98% FFS
2 nd highest spending	100% FFS	98% FFS
Highest spending	95% FFS	98% FFS

- No cliffs
- All areas paid the same relative to FFS spending (geographic equity)
- Does not directly promote plan participation in low FFS areas (unlike current system)

Alternative 2: Lower quartile factors by 3 percentage points

Quartile	Current Benchmark	Alternative Benchmark
Lowest FFS spending	115% FFS	112% FFS
2 nd lowest spending	107.5% FFS	104.5% FFS
2 nd highest spending	100% FFS	97% FFS
Highest spending	95% FFS	92% FFS

- Cliffs remain
- Maintains current geographic differences relative to FFS (geographic inequity)
- Directly promotes plan participation in low FFS areas (similar to current system)

Alternative 3: Hybrid approach with continuous benchmarks between a floor and a ceiling

Quartile	Current Benchmark	Alternative Benchmark
Lowest FFS spending	115% FFS	104-112% FFS
2 nd lowest spending	107.5% FFS	101-104% FFS
2 nd highest spending	100% FFS	91-101% FFS
Highest spending	95% FFS	85-91% FFS

- No cliffs
- Maintains geographic differences relative to FFS (geographic inequity)
- Directly promotes plan participation in low FFS areas (similar to current system)

Summary of alternatives

Alternatives	Fiscal pressure	Removes cliffs	Geographic equity relative to FFS <u>OR</u> promotes plan participation in low FFS areas
Current system	X	X	Promotes plan participation
98% of FFS Spending	✓	✓	Geographic equity
Reduce quartile factors	✓	X	Promotes plan participation
Hybrid approach	✓	✓	Promotes plan participation

Summary

- Urgent need for reform of MA benchmarks—Medicare is not realizing savings from plan efficiency
- Discuss alternatives: Which attributes of a reformed benchmark system should be prioritized?
- Other alternatives or considerations?
- Return in January with policy options incorporating guidance