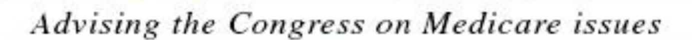

Balancing efficiency with equity in Medicare Advantage benchmark policy

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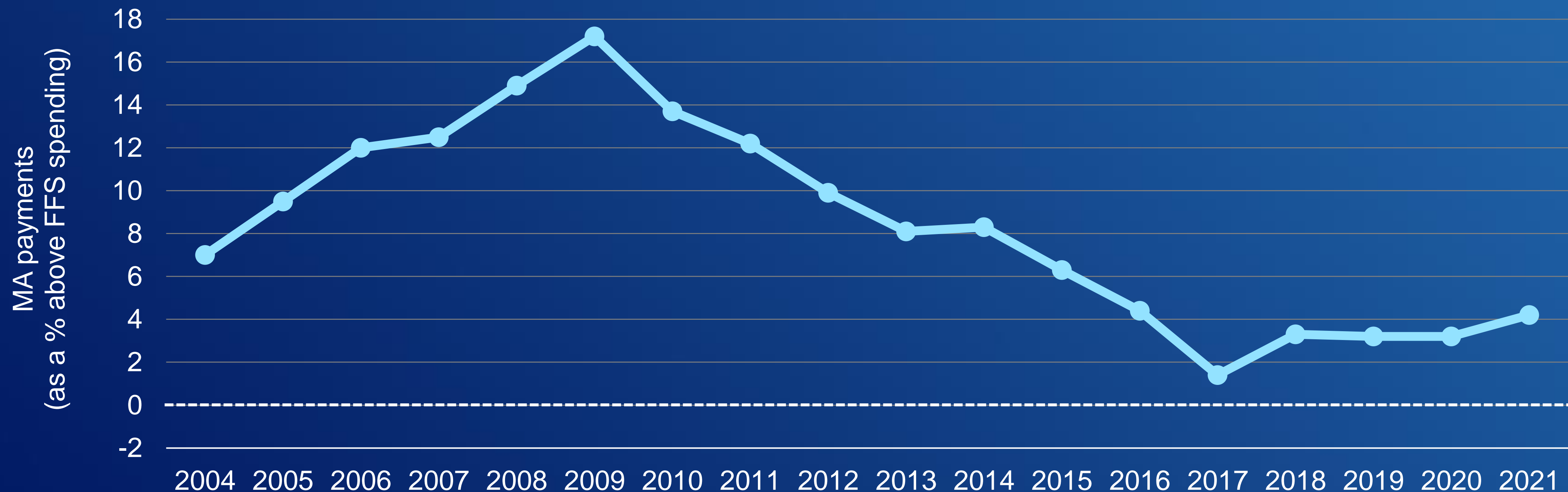
MEDPAC

Today's presentation

- Consider how Medicare policies treat the Medicare Advantage (MA) and Original Medicare (FFS) programs
  - Benefit equity: differences across programs and geographic regions
  - MA plan efficiency: Medicare should share in savings
- Current MA payment basics
- Issues with MA benchmark and rebate policies
- Alternative approach for establishing benchmarks

Private plans have *never* yielded aggregate savings to Medicare

- Prior to 2004, payments to plans were high due to favorable selection
- Since 2004, payments to MA plans continue to be above FFS:



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Source: MedPAC reports 2006 through 2020, analysis of risk score files, and analysis of 2021 bid and benchmark data. Estimates are preliminary and subject to change.

MedPAC's method of comparing MA and FFS spending is accurate

- Analysis in the MA chapter of MedPAC's annual March report accounts for differences in:
  - the health status of MA and FFS enrollees
  - the geographic distribution of enrollment in MA and FFS
  - Medicare Part A spending for hospice services and graduate medical education
  - diagnostic coding (which inflates MA risk scores relative to FFS)
- MedPAC recommended using FFS spending for beneficiaries with Part A and B to align MA benchmarks with MA enrollment requirement
  - Implementing recommendation would have a minimal effect on comparison estimates and assessment of Medicare spending for MA
- We stand by our method and conclusions
  - Critiques of our analysis that claim the contrary are not accurate

The MA program is robust and growing

- Despite ACA payment reductions, 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, gym memberships)

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

Equity considerations across Medicare programs and geographic areas

- Beneficiaries choose between FFS and MA benefits
  - FFS: unrestricted provider networks and less utilization management
  - MA: reduced cost sharing and other supplemental benefits
  - Given historically high level of extra benefits in MA, is the tradeoff appropriately balanced?
- Access to MA extra benefits varies across the country
  - Differing benchmark levels in the current system cause extra benefits to vary substantially across regions

Medicare should share in savings from MA plan efficiency

- MA plans show efficiency by bidding well below FFS spending*
  - Average 2021 MA plan bid is 87 percent of FFS spending
- In 2021, Medicare pays MA plans 4 percent more than FFS would spend for the same beneficiaries
  - Excluding quality bonuses, benchmarks are 3 percent above FFS spending
  - 14 percent of MA payments go to extra benefits (including some administration costs and profit)
- Without benchmark reform, Medicare will continue to pay more for MA
  - Plan quality is not meaningfully measured
  - Limited encounter data hinders our ability to understand plan efficiency

*Excludes employer group waiver plans, which do not submit bids.
Estimates are preliminary and subject to change.

How Medicare pays MA plans

- Each plan submits a bid: estimated revenue needed to cover the basic Medicare benefit (Parts A and B)
- Bids are compared with benchmark to determine base payment
- If bid < benchmark (almost all plans)
  - Base payment is the plan bid + a “rebate”
  - Rebate is a share (50 to 70 percent, 65 percent on average) of the bid and benchmark difference, must be used to cover extra benefits
  - Medicare keeps the remainder of the bid and benchmark difference
- If bid > benchmark (rarely)
  - Base payment is benchmark, enrollee pays difference as premium

MA benchmarks are set based on quartiles of fee-for-service (FFS) spending

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

- Counties ranked by FFS spending and divided into quartiles
- Benchmarks set as a percentage of county FFS spending for each quartile
- For 2021, the average benchmark is 103 percent of FFS spending

Issues with MA benchmarks

- Benchmarks 15 percent above FFS spending have attracted a disproportionate share of MA enrollment
  - Plans in these areas are paid an average of 9 percent above FFS and have the highest share of MA enrollment
- Quartile system creates benchmark “cliffs” across counties
  - $1 difference in FFS spending can result in $54 difference in benchmark
- Despite plan bids averaging 87 percent of FFS, the current benchmark and rebate system has not yielded aggregate savings to Medicare

Alternative benchmark structure

- Over the long term, the Commission could discuss benchmark and rebate alternatives that would require more extensive changes, such as benefit uniformity across FFS and MA
- In the short term, the Commission favored a benchmark alternative that:
  - Could be implemented immediately
  - Would leverage the efficiency of MA plans and support wide availability of plans

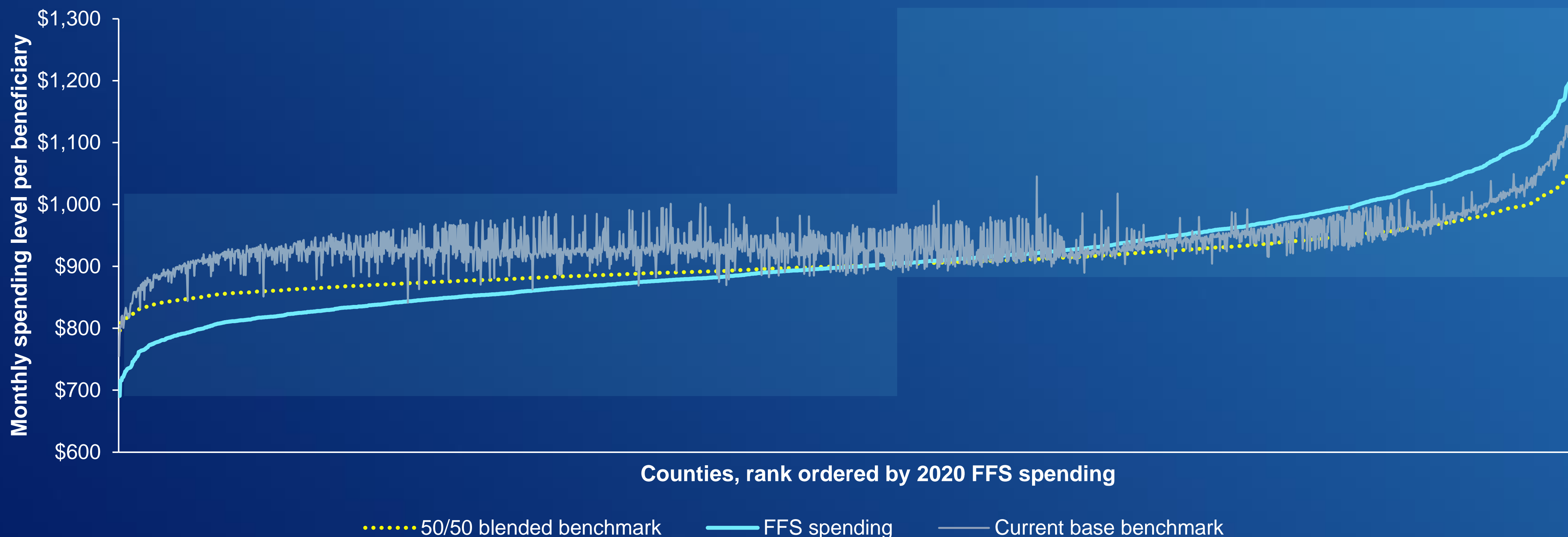
Leveraging the efficiency of MA plans

- Prior discussions identified four goals for improving MA benchmarks:
  - Eliminate the benchmark cliffs between payment quartiles
  - Benchmarks above local FFS spending should be brought much closer to local FFS spending
  - Benchmarks in some high-spending areas (in the 95% quartile) are inappropriately high and could be reduced
  - An immediate change in benchmarks should try to avoid being overly disruptive to basic supplemental coverage (e.g., cost-sharing reductions)
- Benchmarks that blend local and national FFS spending and apply a discount factor conform to these improvements

Assumptions underlying blended benchmark alternative simulations

- Compare 2020 base benchmarks (prior to quality bonus), which are 103% of FFS spending
- Include prior MedPAC 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 current 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

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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). 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 has not yielded aggregate savings to the Medicare program
- An alternative benchmark approach would better balance efficiency with equity
  - 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