Current Issues in Medicare Advantage, and Recommendations by the Medicare Payment Advisory Commission

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Roadmap to today's Medicare Advantage (MA) presentation

- Medicare Advantage - trends
- Medicare Advantage - issues
  - MA coding generates excess payments
  - Quality of care in MA cannot be meaningfully evaluated
  - Favorable selection adds to MA overpayments
- Q&A and discussion

Medicare Advantage: Trends

- Despite reductions in Medicare payments to MA plans under the Affordable Care Act of 2010 (which were fully phased in by 2017), between 2018 and 2023:
  - The share of eligible beneficiaries enrolled in MA rose from 37 to 52 percent
  - The average number of plan choices (beneficiary-weighted) increased from 20 to 41 plans,
  - The share of beneficiaries with $0 premium plan option available rose from 84 to 99 percent, and
  - Plans' annual rebate amount, which finances supplemental benefits, increased from an average of $1,140 to about $2,350 per enrollee, the highest in the program's history.

Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2023; Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2024

Medicare Advantage: Trends (cont.)

- Medicare spending on MA has increased rapidly as enrollment has grown, reaching $455 billion in 2024.
- This might not be a problem in and of itself, except that:

> *"Medicare spends an estimated 22 percent more for MA enrollees than it would spend if those beneficiaries were enrolled in FFS Medicare, a difference that translates into a projected $83 billion in 2024."*

Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2024

Issue: MA coding intensity generates excess payments

- Differences in diagnostic coding incentives between FFS and MA lead to higher MA risk scores for similar health status
  - 2024 MA risk scores were about 20% higher than FFS
  - After accounting for CMS coding adjustment of 5.9%, 2024 MA risk scores were still about 13% higher than FFS due to coding differences alone
  - Between 2007 and 2024, MA coding intensity alone generated $217 billion in excess payments, with $50 billion of that total just in 2024
- Chart reviews and health risk assessments (HRAs) are key drivers of coding intensity accounting for about half of excess payments to MA plans

Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy. March 2024.

MedPAC recommendation: Addressing MA coding intensity (March 2016)

- Use two years of MA and FFS Medicare diagnostic data to calibrate the risk adjustment model
- Remove health risk assessments (HRAs) from risk adjustment
- Adjust plan payments to reflect any residual coding intensity

Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy. March 2016.

Issue: Quality in MA cannot be meaningfully evauated

- Quality bonus program (QBP) is not a good basis of judging quality for Medicare beneficiaries in MA
  - Large and dispersed contracts, exacerbated by consolidations
  - Too many measures, some based on small sample
  - Cannot be compared to FFS in local market
- QBP accounts for at least $15 billion annually in MA payments
- Roughly 75 percent of MA enrollees are in a quality bonus plan, generating a payment windfall for plans in 2024

Note: MA (Medicare Advantage), QBP (Quality Bonus Program).

MedPAC recommendation: Replace MA QBP with MA Value Improvement Program (VIP)

Flaws with current QBP design	Redesigned MA VIP
• Too many measures, not focused on outcomes and patient/enrollee experiences	• Score a small set of population-based measures
• Contract-level quality measurement is too broad and inconsistent	• Evaluate quality at the local market level
• Ineffective accounting for social risk factors	• Use a peer grouping mechanism to account for differences in enrollees' social risk factors
• "Cliff" effect where only plans receiving a set rating receive bonuses	• Establish a system for distributing rewards with no "cliff" effects
• Bonus financing is through added program dollars, unlike most FFS quality incentive programs	• Distribute plan-financed rewards and penalties

Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare and the Health Care Delivery System. June 2020.

Issue: Favorable selection adds to MA overpayments

- Risk score based on average cost for beneficiaries with defined characteristics/conditions
- There is variation in beneficiary cost underlying the average; some beneficiaries will have higher costs and some will have lower costs
- MA favorable selection occurs when average MA costs are lower than their risk scores predict (separate from MA coding)
- Research suggests that risk scores, on average, overpredict spending for the MA population, before considering any coding differences between FFS and MA

Note: MA (Medicare Advantage), FFS (Fee-for-service).

Issue: MA plan and beneficiary incentives contribute to favorable selection

- Beneficiaries may find MA generally attractive due to the availability of supplemental benefits at no additional cost
- Plan networks and perceived delays in care from prior authorization may discourage enrollment by beneficiaries with certain health conditions
- Beneficiaries who expect to use more medical services may prefer to stay in FFS and purchase supplemental insurance to cover out-of-pocket spending

Note: FFS (fee-for-service), MA (Medicare Advantage).

FFS-based benchmarks create a favorable bias for MA plans

- MA enrollees' FFS spending in the year prior to enrollment ranged from 90-96% of that for beneficiaries who stayed in FFS between 2007-2021
- MA benchmarks reflect the higher level of costs associated with the FFS-enrolled population rather than a plan's enrollees
- Favorable selection allows plans to bid lower than FFS spending before producing any efficiencies in care delivery
- Results in overpayments to MA plans – of the 22% higher payments to MA plans in 2024, 9 percentage points reflect favorable selection

Note: FFS (fee-for-service), MA (Medicare Advantage). Source: Medicare Payment Advisory Commission, Report to the Congress: Medicare Payment Policy, March 2024.

Policy options to address favorable selection

1. Use plan bids to calculate benchmarks (competitive bidding) instead of FFS spending data
2. Use all Medicare spending (local area FFS and MA) to calculate benchmarks
3. Establish benchmarks in an initial year and update using a fixed growth rate instead of FFS spending growth rates

Note: FFS (fee-for-service), MA (Medicare Advantage). Source: Medicare Payment Advisory Commission, March 2023 public meeting, Washington, DC.

Medicare Advantage: Issues for discussion

- Issues
  - Coding-driven overpayments
  - Quality
  - Favorable selection
- Questions on material?
- Discussion