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TBC Increased to $40 (vs $38 Proposed)

Neutral-to-Positive News for Plans

Relevant Companies

Our Take & Next Up

CMS released final TBC thresholds for 2025 at $40 (vs $38 proposed). Next year will be quite challenging for MA plans: Many plans have publicly discussed exiting markets, pricing for margin, and reducing benefits for '25 (in 1Q earnings calls over the past several weeks). 2025 is the second year of a negative rate update, with the continued phase-in of the v28 model and (now) subject to requirements to inform enrollees of unused supplemental benefits. The outlook for MA spending, and the pending election, has the plan community concerned.

Key Points

CMS is not obligated to accept every bid submitted and is authorized to deny a plan bid if it determines the bid proposes too significant an increase in cost sharing or decrease in benefits from one plan year to the next. In exercising this authority, CMS applies a TBC evaluation that is designed to protect enrollees from significant increases in cost sharing or decreases in benefits from one year to the next.

For 2025, the TBC evaluation will be consistent with the approach used for 2024. This includes using the same TBC change amount of $40 PMPM and applying the same methodology for plan-specific adjustments. As in prior years, the plan-specific adjustments include ensuring there is a year-over-year level playing field associated with updates to the Part D defined standard benefit, including benefit changes required under the Inflation Reduction Act.

What is TBC and why does it matter? Each year, CMS issues guidance on how much a Medicare Advantage (MA) plan can increase the expected costs that a beneficiary will face in that plan, both in terms of the premium and cost sharing. CMS uses a methodology called the Total Beneficiary Cost (TBC) to calculate the sum of the plan's expected premium and out of pocket costs for an average enrollee in the payment year.

Recall that plans have always had the ability to be generous with benefits; it's the reduction of benefits that concerns CMS. Plans can increase benefits as much as they want to, provided that the bid meets actuarial requirements. TBC is a mechanism that prevents plans from cutting benefits that would result in higher cost sharing for enrollees.

The agency has the authority to reject bids that it believes result in a large increase in beneficiary costs and/or a reduction in benefits. CMS sets a threshold that measures how much it will allow plans to increase the TBC for a member. The TBC test is applied to all MA plans *except* for D-SNPs, MSAs, and C-SNPs for Dialysis.

This higher than proposed threshold could mean that plans expand their benefits (slightly) or make other tweaks to their benefit structure to make the benefit more attractive to prospective enrollees. For example, plans could add additional non-Medicare benefits or decide to make other adjustments to their bids. These adjustments should be quite marginal given the small increase in the TBC threshold from the proposed amount of $38 to the final amount of $40.

Net/net: This is neutral-to-incrementally positive for plans as 2025 is still challenging for small, regional, non profit and even larger MA plans. We have already heard from larger plans like CVS that benefits will be reduced (such as FlexCards) due to the 2025 rate environment & other headwinds. Other plans have also noted they will exit certain markets (Humana, CVS), without being specific for competitor purposes.

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