CAPITOL STREET

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MA & Part D Outlook for 2026

Flat to Negative Bottom Line for MA Expected for 2026

Relevant Companies

Our Take & Next Up

Our take on Medicare Advantage & Part D 2026 rates & payment policy (due by early February, but possible this week or next) can be found below. Medicare Advantage (MA) plans continue to experience headwinds resulting from elevated medical costs. There is continued scrutiny of coding practices from *Wall Street Journal*, as well as the non-partisan MedPAC stating plans are overpaid by over 20%, along with concern expressed by elected officials about prior authorization and ghost networks. Below, we provide thoughts on the projected bottom line for 2026 and other policies we could see in the Advance Notice. We reviewed our rate preview in our 2025 Outlook this week (contact us for deck or replay details). While CMS does not need to release the Advanced Notice until early February to meet statutory timing requirements, it is possible that the rate notice could come out prior to inauguration, and maybe even as early as the end of this week. The release would occur after the close of the US markets.

Key Points

MEDICARE ADVANTAGE

The MA growth rate is likely to be in the +1.5 to 3% range.

- For the 2025 Final Notice, CMS did not increase its growth rate estimates from the Advance Notice, despite concerns expressed by MA plans that the growth rate did not reflect their medical cost trends.
- CMS is also likely to fully phase-in changes to the rate book in 2026 that involve removing medical education costs, which could lower the growth rate by about a percentage point. In 2023, CMS noted it would phase-in changes over three years, beginning in 2024. CMS, however, slowed down the phase-in of these changes in 2025 – from 67% to 52% - which increases the impact of the full phase-in of the changes in 2026 (because it would be going from 52% to 100%).

We believe CMS is likely to fully phase-in the V28 model (no speed up or slow down). 2026 is the third year of a three-year phase-in that CMS announced in the 2023 Final Rate Notice for the V28 model. We expect that CMS will complete the full phase-in of the model in 2026. The V28 model resulted in large negative impacts for plans serving dual eligibles, and for value-based care (VBC) providers, because the codes removed in the

V28 model were for enrollees with multiple diseases, and these are the types of enrollees that tend to treated by these VBCs and dual eligible plans.

We expect a slight negative impact from lower MA Star Ratings for 2025. See below for some events of late and our take.

- As of October 2024, according to CMS, 62% of enrollees are in MA plans with 2025 Star Ratings of at least 4 Stars, as compared to 76% in 2024. Humana was most impacted by the new Star Ratings – only 25% of their enrollees are in plans with 4 or more Stars for 2025, whereas 92% of their enrollees are in plans with 4 or more Stars for 2024.
- **Humana** has filed a lawsuit in the Northern District of Texas against HHS (our memo here) challenging the methodology used by CMS to set cut points used to determine Humana's Star Ratings, and asking the Court to vacate their Star Rating for 2025. A decision in that case would likely occur before bids are due (June 2025), and given prior rulings from the Northern District, it seems likely the Court would rule in Humana's favor. Whether or not a favorable ruling would increase the Star Ratings for Humana is unclear, given the complexity of the calculations that go into the Star Ratings.
- Of note, **United** won a similar challenge against HHS, due to the government inappropriately measuring one specific customer service metric, which resulted in increased Star Ratings for 12 of their MA contracts. As a reminder, plans with Star Ratings of at least 4 Stars are eligible for bonus payments, and the timing of bids is such that this year's Star Ratings (i.e., from 2025) would be used to determine next year's payment (i.e., 2026). Although the Trump administration could be more favorable to plans, any policy change would not occur in time to impact the 2025 Star Ratings that determine 2026 payment.

Coding intensity, HRA and Chart review policies? We believe CMS is unlikely to increase the coding intensity factor, given that they have never increased this factor beyond the statutory minimum (5.91%). However, given the scrutiny of coding practices as described in recent *Wall Street Journal a*rticles – most notably the use of chart reviews and health risk assessments by MA plans to increase risk scores – CMS could decide to introduce new policies that restrict the use of diagnoses obtained from chart reviews and HRAs for risk adjustment.

The bottom line impact is likely to be flat to slightly negative (with improvement in the final print, early April). Phase in of v28 model, combined with reduced payment due to reduction in Star ratings, is likely to lead to a bottom line that is negative (around -1%).

Plans reduced benefits in 2025. According to an analysis by Milliman, MA plans reduced their Part C and D benefits in 2025. Many MA plans moved brand drugs from co-pay to co-insurance tiers, and Part D deductibles increased from $63 in 2024 to $225 in 2025, on average. As noted by ATI Advisory, more MA plans in 2025 are offering nonmedical supplemental benefits that target food, transportation, and housing than in 2024. However, more plans have chosen to use the Value Based Insurance Design (VBID) demonstration model to offer those benefits, and CMS has announced that it is ending the VBID demonstration at the end of 2025. ATI Advisory also found that fewer MA plans will offer their members long-term services and support (LTSS) benefits, including in-home services and support, support for caregivers, and adult day health.

Overpayment concerns are an overhang to MA – Reconciliation outlook. The level of bipartisan support that MA once received in Congress could be a relic of the past. Congress has been concerned – on both sides

of the aisle – about marketing abuses, prior authorization, and increased payments to MA plans from higher risk scores. Congress may look for budget savings to fund the extension of tax cuts and may target MA for reductions, either in reconciliation (more likely) or via regular order (less likely). The CBO estimated in December 2024 that a 10% reduction to MA benchmarks would save $489 B over ten years (here), increasing the coding intensity factor from 5.9% to 8% would save $159 B over ten years, and using two years of data to calculate the risk model while excluding diagnoses from HRAs would save $124 B over ten years.

PART D

The future of the Part D demonstration is uncertain. In order to limit the impacts of higher plan liability in 2025 vs 2024, CMS created a demonstration program for standalone Prescription Drug Plans (PDPs) that limits the year over year increase in premiums for these plans to $15. Although the demonstration does not need to be discussed in the advance notice, it is possible that CMS could signal its intent here for whether or not it will continue the demonstration in 2026. Regardless, the ultimate decision on continuing the demonstration will be made by the Trump Administration.

Selected manufacturers for 2027 drug negotiations will be announced before/around the same time as the rate notice (due by February 1). See our projected 2027 list here. Manufacturers will receive their initial negotiated price offers (CMS) by June 1. These offers will not be made public but may inform ongoing litigation (potentially helpful to manufacturers in defining "harm") and public commentary around Medicare's Drug Negotiation Program. We expect offer prices to fall close to net prices as CMS looks to set a sustainable pricing framework for 2027 and beyond.

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