January 12, 2024

MedPAC: MA Overpaid at 123% FFS

CMS Unlikely to Act '25 With v28 Phase-In, Congressional Scrutiny Continues

Relevant Companies

Our Take & Next Up

MedPAC calculates Medicare Advantage plans are being paid 123% FFS, indicating that the federal government is significantly overpaying MA plans. Recall that this compares to 106% FFS. We take issue with the calculations and findings from MedPAC (see below on methodology potential flaws), but we see that the non-partisan panel is not making explicit recommendations to Congress, rather they are ringing the bell for Congress and/or the agency to act in some way in 2024+. We do not foresee CMS accelerating V28 phase-in, and find it fascinating that the Commission fails to mention the new 3-year phase-in of a brand new program to address upcoding in its discussion today. The commission picks on HRA/chart review/favorable selection as contributing to elevated risk scores. See below for major findings and our take on MedPAC calculations. We reiterate our take on 2025 proposed rates (Rate notice due by Feb 1) as well as Part D / MA final CMS rules (Separate from the rate notice) as being more plan-impactful potentially as it hits on supplemental benefits, DSNPs, marketing and prior authorization.

Key Points

Highlights from the commission today with links to analysis: MA decks are here and here. (1) MA margins may not be the best way to assess MA due to insurers being vertically integrated **(2)** Care quality cannot be meaningfully assessed by researchers for MA versus FFS **(3)** Coding intensity was tacitly picked on: HRA (health risk adjustment) & Chart reviews are both used in MA but not FFS & therefore contribute to coding intensity. Commission projects that risk scores would be 20.1% higher (2024) than in FFS Medicare **(4)** Favorable selection generates higher payments to plans -- Separate from coding but the effects are additive, according to MedPAC. **(5)** Benchmarks 132% FFS, with payments being 123% above FFS (bids106% FFS).

MedPAC reports that Medicare Advantage (MA) is paid at 123% of Medicare fee-for-service (FFS), ringing the bell for Congress & CMS to take a deeper look. Their new estimate is a significant increase from their previous estimate of 106% and is due primarily to the incorporation of their new methodology to measure coding intensity and favorable selection in MA.

We do not foresee CMS acting in any new, meaningful way in 2025 rate notice (due out at the end of Jan). There is speculation that coding intensity (5.91 factor) could be ramped up in some way, which is not out of the question, but we would argue that v28 – the new program being phased in by CMS – is a major new way to address elevated risk scores. We do anticipate that some of these issues will be addressed in the MA/Part D rules due out 1Q, which hits on many of these issues. The latter may also be more meaningful than the MA rate notice.

Congress is already ticked off at MA plans & will continue oversight via hearings & letters in 2024. Could there be lame duck (4Q24) action? Maybe. As we noted in our 2024 Outlook webinar there is less bipartisan support for the MA program than there was just 1-2 years ago (subtle change we are seeing), despite seniors satisfaction with the program and 52% penetration (new figures released today). Congressional members & staff on both sides of the aisle are ticked off at: prior auth headlines, perceived care denials for seniors, ghost networks (particularly in behavioral health), marketing practices (TPMOs, and other broker actions), as well as lack of clarity of supplemental benefit utility and awareness among beneficiaries as well as D-SNP look-alikes)

DEEPER DIVE ON MEDPAC ANALYSIS & THOUGHTS ON RATE NOTICE

MA paid 23% more than FFS. The payment is the sum of two factors: coding intensity (14%) and favorable selection (9%). In other words, MedPAC finds that MA payments are 23% higher than FFS even after applying the statutory coding intensity adjustment.

Coding intensity at 14%. To determine MA coding relative to FFS, MedPAC calculates the ratio of the difference between the MA and FFS risk scores and the MA and FFS demographic portion of the risk scores (e.g., the risk score without HCCs). This ratio is 14% when the statutory coding intensity adjustment is removed.

Plans have +9% "favorable selection." MedPAC has expressed concern that MA plans have favorable selection – meaning they enroll people who are healthier than FFS enrollees. MedPAC compared the costs for enrollees who joined MA to those who stayed in FFS and found that these costs were 9% lower than FFS.

The revised estimate of 123% of FFS is based on the combination of MedPAC's estimates of the impact of coding intensity & favorable selection. Of note, these estimates do not incorporate the V28 CMS-HCC model, because the risk score estimates are based on the CMS-HCC model that was in use prior to the V28 model. In addition, MedPAC does not actually track the utilization of the MA enrollees within the MA plan to determine if regression to the mean occurs.

- **CMS is unlikely to make dramatic changes to risk adjustment**, particularly given that CMS introduced the V28 model for 2024 an effort to address coding intensity. In addition, during an election year, the Biden Administration will want to avoid disruption in the MA market, particularly given that MA represents over half of all Medicare enrollees.
- **Our expectation for the Advance Notice for 2025** – which will be released on or before February 1, 2024 – is that the bottom line will be near zero or negative before adding the 'coding growth factor' in CMS' bottom line analysis.

Watch the final Part D rules – Due 1Q2024 – as having some bite to MA Plans. In addition, it also could continue some of the erosion in public support that had been shown by Congress to MA plans. CMS' decision to collect data on spending on supplemental benefits from MA plans is a signal that the agency will scrutinize MA plan activities more in the coming year.

Ipsita Smolinski
Managing Director I Capitol Street
ipsita@capitol-street.com
202.250.3741 I www.capitol-street.com

900 19th St NW 6th Fl
Washington, D.C. 20006

CAPITOL STREET