January 31, 2024

MA Rates: -0.16% Without Risk Score Growth

Negative Normalization, No HRA/TBC Changes, v28 Phase-In Continues

Relevant Companies

Our Take & Next Up

Rates will be +3.7% for 2025 (-0.16% without CMS' estimate of MA risk score growth). We view this as mixed news for plans, given technical changes and puts & takes below, and could see modest improvement in the final print (April 1). We will discuss 2025 rate notice details on a Capitol Street client webinar Tomorrow at 3 pm (Feb 1, link to register here) - please join us for a deeper dive. CMS released the Advance Notice tonight after the close of the US markets. The notice can be found here. We had said that Medicare Advantage (MA) plans, suffering from elevated medical costs in 4Q as well as scrutiny from MedPAC as being overpaid, should see few surprises in the 2025 rate notice given year two of v28 phase in. The notice is slightly better than our projections. Of note, CMS includes MA risk score growth of 3.86% in their bottom line; without that MA risk score growth, the bottom line would be –0.16%. See below for details.

Key Points

Part D restructuring rules were also released this evening. The agency is setting up the new 3 phase benefit framework with elimination of the coverage gap (as per the IRA). Part D proposed changes include allowing supplemental benefits to count towards out-of-pocket costs, establishing a revised reinsurance subsidy calculation methodology, updating the prospective reinsurance amount for Part D Calendar Year EGWPs, and limiting Enhanced Alternative (EA) plan design options.

MEDICARE ADVANTAGE IMPACT CHART (2025) vs CAPITOL STREET PROJECTIONS

INPUT	CMS Notice	Capitol Street Projection
Effective Growth Rate	+2.44%	+3.5
Rebasing/Repricing	TBD	TBD
Star Ratings	-0.15%	-1.0%
Phase in of V28 model and normalization	-2.45%	-2.5%
Revenue Change (without MA risk score growth)	**-0.16%**	**0.5%**
MA Risk Score Trend	3.86%	N/A
Revenue Change (with MA risk score trend)	**+3.70%**	**N/A**

Source: CMS and Capitol Street, 2024

CMS has (surprisingly) adopted a new methodology for normalization amounting to a -3% reduction in pay (for v28) that does not seem to be reflected in their bottom line. In last year's rate notice, CMS did not include the 2021 risk scores in their estimate of normalization because these scores were artificially low due to the impact of Covid-19 on utilization. For 2025, CMS is proposing a complicated methodology that includes all data years – including 2021 – but which applies an adjustment based on whether or not it was a year after Covid-19 (e.g., 2021 and later). Under this approach, the normalization factor for the v28 model is 1.045. Last year's normalization factor for the v28 model was 1.015. In other words – not explicitly mentioned by CMS in their bottom-line estimate – normalization appears to account for a 3% reduction in payment for the V28 model.

MA Growth rate is +2.44%; we had said it would be in the +2.5 to 3.5% range. Given that the estimate in the advance rate notice may not include claims data through the end of 2023, it is possible that the growth rate could be higher in the final rate notice (due by April 1) than in the advance notice. Upticks in outpatient utilization in Medicare relative to projections could result in CMS increasing the growth rate when the final rate notice is published. CMS is also phasing in changes to the rate book (2023 is the second year of a three-year scheduled phase in) that involve removing medical education costs which are included in this effective growth rate.

CMS includes an estimate of MA risk score growth of +3.86% This estimate is based on differences in MA and FFS risk scores from 2018 to 2020 and is higher than what CMS had included in the 2024 rate notice of 3.3%.

No proposed changes to coding intensity or policy around HRAs. However, the increase in their estimate of excess risk score growth could be used in a second Biden term to support a higher coding intensity factor. In addition, this estimate could also help members of Congress who seek to reduce MA payments by providing cover around legislation that would increase the coding intensity factor to reduce Medicare spending.

CMS will continue to phase in of V28 model as proposed (no speed up or slow down). CMS indicated in last year's final rate notice that it would phase in the model over a three-year period. Given changes to Part D benefit (see below for details), CMS focuses most of its attention with regards to risk adjustment on the revised Part D model. We had said that CMS is unlikely to change its scheduled phase in of the model in response to comments in the final rate notice.

Bottom line impact is –0.16% (without MA risk score growth). We had said that it would be likely to be less than <+1% (unlikely to be negative). The phase in of v28 model, combined with reduced payment due to reduction in Star ratings, leads to a bottom line that is slightly negative to near zero. Given that it is an election year, and with increased enrollment in MA (over half of Medicare enrollees currently), CMS did not pursue major changes to risk adjustment or coding intensity in the rate notice.

PART D

Each year, CMS updates the statutory parameters for the defined standard Part D drug benefit. To ensure that the actuarial value of the Part D drug benefit remains consistent with drug expenses, certain parameters are updated using: the annual increase in average expenditures for Part D drugs per eligible beneficiary (API) or the annual increase in the Consumer Price Index (CPI). The percent increase in the benefit parameters indexed to the API for 2025 is +8.58%. The percent increase indexed to CPI for 2025 is +2.5%.

RxHCC models recalibrated to reflect 2024 Part D benefit structure. CMS updated the models to reflect the new Part D benefit structure. In particular, CMS used 2021 diagnoses and 2022 drug costs in their estimates. They also have provided estimates of Part D models estimated on 2018 diagnoses and 2019 drug costs. Due to differences between trends in risk scores between MA-PDs and PDPs, CMS is proposing to have a

normalization factor of 1.073 for MA-PD enrollees and 0.955 for PDP enrollees. This is the first year in which normalization factors have been different by plan type.

CMS put forth Part D guidelines for 2025 in tandem with the rate notice. The draft Part D instructions can be found here . The draft program instructions contain a detailed description of and guidance related to changes newly in place for 2025 made by the IRA.

As a reminder, most of the IRA Part D restructuring kicks in on January 1, 2025. Standard Part D prescription drug coverage will consist of a three-phase benefit. There will be no initial coverage limit and the initial coverage phase will extend to the maximum annual OOP threshold, at which point the catastrophic phase will begin. The coverage gap is eliminated. The 2025 benefit design consists of the following phases:

- Annual deductible: The enrollee pays 100% until the deductible is met.
- Initial coverage: The enrollee pays 25% coinsurance for covered Part D drugs. The sponsor typically pays 65% of brand drugs and 75% of the costs of all other covered Part D drugs. The manufacturer, through the Discount Program, covers 10% of the costs of brand drugs. This phase ends when the enrollee reaches the annual OOP spending threshold of $2,000.
- Catastrophic: Sponsors pay 60% of the costs of all covered Part D drugs. The manufacturer pays a discount, typically equal to 20%, for brand drugs. CMS pays a reinsurance subsidy equal to 20% of brand drug costs, and 40% of all other covered Part D drugs.

Premium stabilization will continue to be in effect. The base beneficiary premium (BBP) in CY 2025 will be limited by CY 2024 BBP + 6%. As a result, the base premium for 2025 will not be greater than $34.70 increased by +6%, or $36.78. However, premium stabilization does not mean that plan premiums will increase by only 6%; that is, their premium can be above or below this level, depending on their 2025 bid.

Supplemental benefits provided by Part D sponsors will count towards True Out-of-Pocket Costs (TrOOP) as required by law. TrOOP is the spending that determines when a beneficiary enters the initial coverage phase, reaches the annual OOP threshold, and enters the catastrophic coverage phase. The definition of incurred costs that count towards TrOOP will be updated to include supplemental Part D coverage provided by enhanced alternative (EA) Part D plans and other health insurance (OHI), which was previously excluded. CMS is not factoring in other third-party payments at this time that were not considered as eligible costs before 2025. Manufacturer discounts provided under the Discount Program will be excluded from the definition of incurred costs.

Insulin and vaccines are exempt from the deductible (as per IRA); plans are liable to cover non-deductible drug costs. For CY 2025, if a beneficiary has not met their plan deductible but has met the defined standard deductible ($590) based on their costs, they will be both an applicable beneficiary under the Discount Program and deemed to have satisfied their plan deductible.

Permissible EA plan design options are limited starting in 2025. CMS will use the Part D Out-of-Pocket Costs (OOPC) model to estimate the value of EA plans relative to the value of the defined standard benefit. Due to the elimination of the cost-sharing in the catastrophic phase and caps on annual OOP costs, EA plan options are limited to the following:

- Coverage of drugs that are specifically excluded from Part D drug coverage,
- Reduction (or elimination) of the defined standard deductible,
- Reduction of cost sharing in the initial coverage phase.

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