CAPITOL STREET

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MA Rates May Improve 0.5 to 1.5% in Final 25 Rule

Three Major Trades Concerned About Growth Rate and Risk Adjustment Normalization

Relevant Companies

Our Take & Next Up

We believe MA 2025 pay rates could improve by approximately 1% in the final print. By April 1, CMS is scheduled to release the final MA rates for 2025. We believe CMS may revise the FFS growth rate for 2025 slightly upward from the Advance Notice, perhaps by 50 basis points, due to higher utilization in Q4 of 2023. On Part C normalization, CMS may lower the normalization factor for the V28 and V24 model by eliminating the year impacted by Covid-19 from the risk score trend, which could increase payment rates by about 1 percent. CMS is likely to finalize the proposal to have separate normalization factors for MA-PDs and PDPs, as the agency is concerned about premium impacts among standalone PDPs for 2025 (PDP premiums rose in 2024 and will continue to spike in 2025 in our view), and the separate normalization factor would mitigate impacts for PDPs. CMS is unlikely to narrow the Part D risk corridors, which would reduce plan losses but would require CMS to conduct a demonstration.

Key Points

Our proposed rate notice analysis can be found here.

- On January 31 CMS released the Advance Notice of Methodological Changes for Calendar Year (CY) 2025 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies (here).
- As a reminder, rates will be +3.7% for 2025 (-0.16% without CMS' estimate of MA risk score growth). The main components of that bottom line estimate are the growth rate of 2.4% and an impact of –2.45% from the V28 model and normalization.

Recall that rebasing/repricing will be addressed in the final 2025 rule, using updated claims for county-level data. This is a tiny % typically, and we do not believe this will meaningfully impact rates for 2025. Last year it was 0% (2024) and +0.39% (2023, in a year where there was a revenue change of ~5% growth rate).

In comments to CMS, main health insurance trade organizations coalesce around supporting modifications to fee-for-service (FFS) growth rate, Part C and Part D normalization factors. Trade organizations noted that the estimated growth rates in the notice are *not* sufficient to cover the cost for MA beneficiaries in 2025. They ask CMS to revise its normalization factor estimate for Part C. In Part D, they ask the agency not to develop a split normalization factor, and consider conducting a demonstration to test expanding the risk corridors (due to the increase in Part D plan liability in 2025, per IRA).

Commenters – including the major trade associations (BCBSA, AHIP, BMA, ACHP), and Humana – asked CMS to do the following: (1) Increase FFS growth rates (2) Lower Part C normalization (3) Not have a separate Part D normalization factor (4) Narrow Part D risk corridors.

FFS Growth Rates: As proposed, the effective growth rate would be 2.44%. Commenters believe this growth rate does not reflect recent trends in healthcare cost growth, and asked CMS to do the following:

- Incorporate recent FFS cost and utilization data to ensure 2025 MA rates reflect the higher use of healthcare services and cost trends to avoid benefit reductions (AHIP, BCBSA, ACHP, BMA)
- Include the most recently available data in calculating effective growth rate to account for current medical cost and utilization trends
- Look at a full range of sources available when considering data that may be incorporated into the growth rate calculation
- Produce the methodology or assumptions for *how* this growth rate is generated
- Provide greater transparency into the drivers of year-over-year changes to the growth rate
- Reflect the increase in Q4 utilization in the CY 2025 Final Rate Notice

Part C Normalization: The normalization factor is a technical adjustment that is designed to ensure that the average risk score is 1.0 in the payment year. The higher the normalization factor, the greater the reduction to risk scores, and therefore, the larger the impact on payment. As proposed, CMS would increase the normalization factor of the V28 model to 1.045, which represents a 3% increase in this factor from 1.015 (the V28 normalization factor for 2024). In the final rate notice, CMS may decrease the V28 normalization factor slightly, to 1.03, based on the comments from plans (a lower normalization factor is helpful to plans). The trade groups coalesced around the following asks for CMS to:

- Provide consistency with the Part D normalization factor and eliminate the use of the 2021 risk score from the normalization estimate
- Consider alternative modeling approaches to project 2025 FFS risks scores for both the V24 and V28 models when developing normalization factors. These modeling approaches could include using multiple years of data prior to Covid-19; as proposed, CMS would only use data from 2019 to 2022.
- Adapt alternative methodologies that would result in a normalization factor of 1.03, vs. 1.045, for the V28 model (BCBSA)

Part D Normalization and Risk Adjustment: Commenters (except for BMA, who did not comment on Part D risk adjustment) supported the use of the model estimated on 2021 diagnoses and 2022 Part D expenditures. On normalization, CMS proposed creating a separate normalization factor for MA-PD plans and standalone prescription drug plans (PDPs). The result of this policy would be to increase Part D premiums for MA-PD plans and decrease these premiums for PDPs. Because MA-PDs use rebate dollars to buy down Part D premiums, this change could result in a decrease in supplemental benefits offered by MA-PD plans. Comments asked CMS to:

- Continue to exclude the 2021 risk score from normalization
- Not have separate normalization factors for MA-PDs and PDPs
- Engage with stakeholders about potential alternatives for addressing concerns about diverging risk scores for MA-PD and PDP enrollees; this could potentially include separate risk adjustment models that

would result in more accurate risk scores.

Part D Risk Corridors (AHIP, Humana): The Part D program contains risk corridors that limit plan's losses above a certain threshold. If the corridors are narrowed, we believe plan losses from higher than anticipated costs would be lower.

- AHIP and Humana asked CMS to exercise its demonstration authority to test whether temporarily narrowing the statutorily established risk corridors would allow Part D to better maintain robust formulary coverage, keep premiums stable, and reduce the number of Low-Income Subsidy (LIS) reassignments.
- We believe that CMS is unlikely to use its demonstration authority as requested.

As a reminder, the MA 2025 "clean up rule" with guidance on supplemental benefits (reporting, etc.) and broker & marketing oversight is negative for MA plans. The CMS proposed rule (Nov. 2023) is likely to be finalized around the same time as the final 2025 MA & Part D rates (under review at OMB since Feb. 22). Our proposed rule analysis is here and link to the proposal here.

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