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AHIP Speaks to MA 2025 Rate & Policy Environment

Winners, Losers & Other Observations

Relevant Companies

Our Take & Next Up

We spent time with AHIP (America's Health Insurance Plans) Medicare policy guru this week on MA and the outlook for the next 1-3 years. We asked our guest speaker to unpack the 2025 rate notice, thoughts and analyses the trade performed going into 2025, as well as messaging and priorities going forward. 2025 will be challenging, benefits will be reduced (they already were in 2024), with smaller plans not having the cost base that larger plans have. Plans with a higher proportion of duals will also be disadvantaged. Piling on, the MA & Part D "clean up" rule with broker fee & supplemental benefit reforms and v28/rate cuts for 2024 provide almost a death by 1,000 paper cuts situation. No matter who takes the White House, according to AHIP, Medicare spending will be a high priority, and the focus will likely be on reducing MA spending, not Medicare per se. Part D reforms (per IRA in 2025) are forgotten with higher insurance liability in the catastrophic phase, and that also presents a challenge as plans bid in a whole new world, not being completely sure where inflation, utilization, as and where their competitors will shake out on pricing. Recall that MA buys down Part D plans (and Part D premiums spiked in '24 and will likely spike again in '25).

Key Points

CMS always assumed that there would be a much lower cost situation in 2025. Our speaker noted that changes between the advanced notice in the final notice can go in both directions, generally they go up, but sometimes they can go down. This was one of those years of a downward final rate: the issue that was always a concern to AHIP was that in the advance notice CMS provided a growth rate projection in fee-for-service in 2023 for the first three quarters of 7%. Yet the agency came in with an overall projected growth rate in 2025 that was much lower than that, approx. 2.5%, an effective growth rate. So that suggests that CMS's model has always assumed that there would be a much lower cost situation in 2025..

Duals are enrolling in more MA plans than ever, and those plans get a double whammy. CMS also noted over the last several years a greater proportion of duals have been enrolling in MA, and that has decreased the average fee-for-service per capita cost, for a number of costs. The Medicare Trustees called out inpatient hospital, SNF, and home health. Recall that the primary driver of benchmarks in MA is fee-for-service spend. CMS has noted that this may be contributing to the disconnect between the growth MA plans are seeing and the data that they're seeing in FFS. At the same time, the agency suggests that the movement of duals is reducing costs in fee-for-service, which was reducing benchmarks. Then CMS also was implemented policies like the change in the risk adjustment (RA) model that they're phasing in (v28), which seems to have a disproportionate effect on plans covering a lot of duals. Those plans getting a "double whammy:" a reduced benchmark, but no real credit for it because they're also getting reduced payments.

The CMS Office of the Actuary (OACT) can update growth and other projections in future years but 2025 is final. The rate notice is final. There won't be any changes. There certainly could be some restatements in future years, and potentially those could have some impact on CMS modeling on a go forward basis. Plans now have until June 3, the first Monday of the month, when bids are going to be submitted. OACT can be protective of their data and ability to say that their analyses are data driven and should not be challenged.

Plans are going to have to make major changes, in reaction to growth rates not being nearly enough, v28 & cuts from last year, as well as other new requirements (prior auth, supplemental benefits, marketing), with small plans being more disadvantaged. MA plans will need to make major systems changes, changes in contracts with their various providers, work on internal training and external training, smaller plans have an even smaller base of enrollees to allocate those costs across and some of them will vary by numbers, and some of them will be relatively similar and fixed.

Benefits will likely be reduced, AHIP analysis noted some of that in 2024, with certain localized impacts (versus national). There was a Health Affairs article raising questions about how much changes in rate notice for cuts and rate notices translate into benefit impacts. Premiums will be impacted as will benefits. After the 2024 rate notice, CMS released “Landscape Files” in September that provide all available benefits and premiums in the MA market for the coming year. CMS said that the data shows a stable market in terms of average premiums, benefits, and choices. But upon a deeper analysis and beneath the surface, the impacts were far more variable and there were some pretty significant impacts in various geographies. A key narrative of the MA program is that we talk about national impacts but oftentimes the impacts are very localized and can have very significant impacts depending upon the plans, geography, and its population.

AHIP analysis shows that in 2024 deductibles increased on average by almost 12% that there was a significant ~13% decline in the number of $0 premium plans. Some states saw average premium increases above 50%. Plan choices are declining in a number of states, with some states losing nearly 20% of their options. The analysis noted of the 20 most popular supplemental benefits,13 of those 20 are going to be available to fewer enrollees in 2024 based on enrollment. Some of the biggest reductions were in the less traditional supplemental benefits: remote access technologies, transportation, and meals.

Is this a preview of what we can expect under a second Biden Administration? According to our guest speaker, Yes, and even if we return to a prior administration. There is bipartisan interest & concern about spending. We've seen a drumbeat of criticisms more generally focused on the MA program, and others are concerned about broader economic and spending implications, whether it's for the Trustees, our broader debt issues. Even though both parties say that Medicare cuts are off the table, that the reality is that the MA program is more than half of those who are eligible are now enrolled in it and yet, the administration for two rate notices in a row has proposed cuts and was willing to do that in the lead up to the presidential election. Whether it’s a second term for this administration or return for the prior administration. both are likely going to be focused on spending. It's coming from different perspectives, but it's likely that in 2024, spending in MA is going to be in excess of $500 B.

Part D reforms also start Jan 1 and MA plans buy down Part D ($0 plans), which may be under appreciated. Another dynamic, according to our guest speaker, that plans have in 2025 relates to Part D implementation. That includes CMS finalizing in the notice different normalization factors for MA PDs and standalone PDPs. This places some upward pressure on Part D costs for MA PDs, which is important because of the popularity of zero premium plans. That's an important benefit for plans to be able to buy down to Part D premium. CMS is making the Part D premium *more* expensive. There is also a new risk model, so there is uncertainty for actuaries and to what degree the risk model will in fact do a good job of projecting actual costs. There will be Part D restructuring: the utilization impacts of the $2,000 maximum out of pocket cost, the Medicare prescription payment plan, the smoothing provisions, both trying to make estimates about potential amounts that will not be collected, and the utilization impacts of that.

Premium stabilization only helps so much in Part D (2025, 6% buffer). Average base beneficiary premiums will go up only 6% according to Part D restructuring rules per IRA. However individual plan bids could be higher than average, and they can see their premiums go up more than that, as there was a fair amount of that in 2024. There is some protection overall, at least for base plans, but not for enhanced plans as they have a whole different set of complexities. For basic Part D coverage, there is premium stabilization in the background. Uncertainty is the real problem: not just the fact that it's a richer benefit, but it's a richer benefit, plus bidding uncertainty that makes it hard for individual plans to make good projections of where their competitors are going and where costs are going.

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
