April 1, 2024

MA Rates Flat For 2025

Growth Rate Lower in Final, Normalization Unchanged, v28 Charges Forward

Relevant Companies

Our Take & Next Up

Rates will be about the same as proposed for 2025, a negative for MA plans & VBC providers. Typically, rates improve incrementally between proposed and final. We said that rates would improve approx. +1.0% for 2025, and that CMS would likely provide relief in the form of growth rate given elevated utilization 4Q23. CMS released the final notice tonight after the close of the US markets. The final notice can be found here with Advanced Notice here. We believe that a separate MA & D-SNP final 2025 rule – likely to be released within the next few weeks – will likely not be seen as favorable to MA plans (see bullet on "clean up" rule below).

Please join us tomorrow Tuesday, April 2, at 2 pm ET for a deep dive to unpack CMS' final 2025 MA Rates. See here for our analysis of the Advanced Notice released on Jan. 31. Register here. A webinar link will be provided in the morning.

Key Points

A separate MA 'clean up' rule (2025+) is likely to be seen as mixed-to-negative for plans (due for release over the next few weeks). In the proposal (see our memo here) CMS proposed that MA plans provide (1) supplemental benefits to members mid-year. (2) a bibliography of resources providing evidence that supplemental benefits improve healthcare. The agency is displeased with benefits ranging from golf clubs to dog-walking services, as well as Amazon cards, and is uncertain of the value of these types of benefits. CMS also proposes policies on D-SNP open enrollment (SEP), SNP look-alikes, and broker/marketing rules, including limitations on fees paid to brokers.

CMS notes that it accounted for 4Q23 utilization in the final '25 rates. The agency states in a separate FAQ (here) the two bullets below.

- The CY 2025 rate announcement Medicare baseline used to calculate the growth rates includes an additional quarter of FFS program payments in the fourth quarter of 2023.
- Actual program payments during the fourth quarter of 2023 for FFS services provided during the fourth quarter of 2023 did not show higher utilization than what was expected based on prior year seasonal trends.

CMS justifies the '25 final rate notice as being adequate in various ways throughout the document. Of note, CMS included a "FAQ" in the Fact Sheet. The agency also refers to an actuarial group call as an input for final rates (when most stakeholders outside of plan actuaries are not on such calls).

1 – Medicare Advantage enrollment growth has been healthy (despite V28 phase in) over the last year.
2 – Duals enrolling in MA plans depress FFS but elevate MA costs.
3 -- In the first year of the updated v28 model, average premiums and benefits for MA remained stable and plan choice and average supplemental benefit offerings across plans increased.
4 – CMS includes a FAQ in the Fact Sheet (very rare) as they know the final policies are going to be questioned.

MEDICARE ADVANTAGE IMPACT CHART (2025) vs ADVANCED NOTICE

INPUT	CMS Notice	CMS final
Effective Growth Rate	+2.44%	+2.33%
Rebasing/Repricing	TBD	+0.07%
Star Ratings	-0.15%	-0.11%
Phase in of V28 model and normalization	-2.45%	-2.45%
Revenue Change (without MA risk score growth)	**-0.16%**	**-0.16%**
MA Risk Score Trend	3.86%	3.86%
Revenue Change (with MA risk score trend)	**+3.70%**	**+3.70%**

Source: CMS and Capitol Street, 2024

MA growth rate is +2.33%, lower than +2.44% proposed; we had said it would be slightly higher in the final rule given plans' unified voice on this issue. CMS was not persuaded by arguments about higher spending from the plans and other sources, and defended their estimates which have shown lower expected spending than was projected pre-Covid.

Phase-in of removal of medical education costs from MA rates results in a –0.53% impact on payment rates. When fully phased-in in 2026 – as CMS has indicated it would do in the 2024 Final Rate Notice, the reduction in rates could be an additional –1 to –1.5%. This input lowered the 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%. This # remains unchanged from proposal.

CMS adopted a new methodology for Part C normalization amounting to a -3% reduction in pay (for v28) that they are finalizing tonight. For 2025, CMS will have a complicated methodology – a multilinear regression model - that includes five years of data (from 2019 to 2023), 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. Plans raised concerns about the approach but CMS noted that there was not industry wide consensus on other approaches, which included using alternative data years in their projections and/or excluding the 2021 risk score from the trend. As such, CMS did not change their approach for normalization.

Still no 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 payment by providing cover around legislation that would increase the coding intensity factor to reduce Medicare spending.

CMS will continue to phase-in 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). 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. Still, we would have hoped for a more modest enhancement to rates.

CMS will introduce a new Part D risk model that reflects the new Part D benefit in 2025. Under this benefit, plan liability will be substantially higher, which will increase financial risk for plans. While the overall average Part D premium for 2025 cannot increase by more than 6% as per the Inflation Reduction Act, individual plan Part D premiums can increase by more, and less than, 6%.

For Part D, CMS will have separate normalization factors for MA-Part D plans (MA-PDs) and standalone Prescription Drug Plans (PDPs). This change would reduce PDP premiums, and increase MA-PD Part D premiums, relative to a combined normalization factor that was used for the 2024 Part D risk scores. CMS notes that the risk scores have trended differently between MA-PDs and PDPs, and as such a separate normalization factor is appropriate. Presumably CMS is making this change to avoid large scale increases in the PDP premiums for 2025.

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
