CAPITOL STREET

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Medicare Advantage 2026 Rate Outlook

MA & Part D Rule Provide Myriad Headwinds

Relevant Companies

Our Take & Next Up

We project a flat-to-down advanced rate notice for 2026; our take on the separate MA & Part D CMS rule & headwinds is below. The 2026 Advance Rate Notice, which sets Medicare Advantage (MA) and Part D payment policy is currently at the Office of Management and Budget (OMB). It is possible that the Biden administration could release the document *prior* to Trump's inauguration (Jan 20, 2025). By statute, the final rate notice must be released by the first Monday in April, which for the 2026 rate notice is April 7, 2025. The advance notice requires a 30-day comment period, and CMS will usually ask for comments to be submitted on a Friday. As such, we expect that the advance rate notice will be published on or around February 7, 2025. We also provide the (a) most impactful policies to plans (below), with (b) more minimally impactful policies listed at the end, as well as our take on obesity medication coverage outlook (Medicare & Medicaid). **See our separate analysis of the MA & Part D rule (2026)** as it contains small-medium headwinds in a wide-ranging rule released prior to the Thanksgiving holiday (with the main headline being obesity medicine coverage in Medicare & Medicaid -- our analysis is here).

Key Points

What do we expect?

- The advance rate notice will probably include a relatively low fee-for-service (FFS) growth rate of anywhere from 1 to 3%. It will likely also include additional payment cuts due to phase-ins of removal of indirect medical education (IME) costs and the full phase-in of the new risk adjustment model.
- The normalization factor, which is a downward adjustment that is applied to the risk score such that the average risk score is 1.0 in 2026, could also be a headwind. The normalization factor would likely be included in the advance rate notice.
- As a result of these factors, the bottom line for the Advance Notice will probably be close to zero, or potentially negative.
- In the final notice, the incoming Trump administration would likely modify some of these proposals – namely on the risk adjustment model, IME costs, and normalization factor – which could add 1-2% back to the bottom line.

While MA plans (HUM, UNH, CVS, others) have noted that the medical cost trend is higher than what they expected, we are unsure what CMS will project. As a reminder, in the 2025 Rate Notice CMS stated that it did not see this same increase in costs that plans & hospitals articulated. Given the growth rate from the past two years, we expect that the fee-for-service growth rate for 2026 would not exceed 3%. For 2025, CMS scaled back the intended phase-in of a technical change that removed IME costs from the MA county rates. Were CMS to fully phase-in this change for 2026, the impact would be -1%.

We do not believe there will be any changes to the V28 model (or phase-in) in the 2026 proposal. That is, no acceleration or deceleration of the three-year phase-in. As a reminder, in 2024 CMS introduced a new risk adjustment model, called the Version 28 (or V28) model, that removed nearly 2,000 diagnosis codes from the model and targeted those codes that were more frequently coded in MA than FFS ("upcoding"). The V28 model resulted in large negative impacts for plans serving dual eligibles, and for value-based care (VBC) providers, because the codes targeted were for enrollees with multiple chronic diseases.

CMS will likely keep the coding intensity factor at 5.9%, which is the minimum reduction to risk scores under the statute. CMS has the authority to increase the coding intensity factor but has not historically increased the factor beyond that required by the minimum. Given this backdrop – as well as their use of the V28 model to reduce upcoding – it seems unlikely they would increase the factor beyond 5.9%.

See our separate analysis on the 2026 proposed MA & Part D rule. Highlights can be found below.

- The MA and Part D rule was [published] by CMS on November 26, 2024
- Among dual eligible Special Needs Plans, CMS would require integrated dual eligible special needs plans (D-SNPs) to have an integrated membership card for both the Medicare and Medicaid plans and an integrated health risk assessment (HRA) for Medicare and Medicaid.
- The proposed policies that are likely most detrimental to MA plans are below.
  - GLP-1 coverage loophole makes sense to us but it's expensive: $25 B for Medicare and $15 B for Medicaid.
  - Given conflicting views from HHS & CMS nominees, RFK Jr. and Dr. Oz, respectively (RFK Jr has been critical of the AOMs while Dr. Oz has been supportive), it is difficult to know how the new administration will view this change.
  - The Biden Administration also continues to focus on mental health by requiring parity in mental health coverage in MA and FFS.
  - Under a new requirement, MA plans would be required to submit provider directory data to CMS that the agency could publish on Medicare Plan Finder, and plans must attest to the accuracy of the data submitted to CMS (likely for 2027).
  - CMS also has concerns about the inclusion of administrative costs as part of the quality improvement activities in the numerator of the Medical Loss Ratio (MLR).
  - CMS also notes that it has concerns about the impact of vertical integration on the Medicare MLR
  - CMS has expressed concern about how pharmacies have an unlevel playing field with respect to contract terminations with Part D sponsors.
- The remaining policies from the rule could have a low-medium impact on plans:
  - Adult Vaccines, Insulin, Health Equity of Prior Authorization, Agent/Broker Communication, Medicare Transaction Facilitator (MTF) Requirements for Network Pharmacies, Network Pharmacy Notifications, Enhanced Marketing Review, Medication Therapy Management (MTM) Program Eligibility Expansion, Guardrails for Use of Artificial Intelligence, Debit card usage, Special

Supplemental Benefits for the Chronically Ill, Supplemental Benefit Providers, Medicare Prepayment Plan, Enhanced Rules on Internal Coverage Criteria

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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

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