On February 1, 2017, the Centers for Medicare and Medicaid Services (CMS) released proposed changes to the 2018 Medicare Advantage (MA) Program payment rates that intend to deliver stable and fair payments to the plans.

A Win for Industry – CMS Delays Change to Funding Formula

CMS delayed a planned change to the way it calculates MA plans' funding formula, choosing instead to maintain the level of encounter data it used in 2017. This is a win for health insurers, who argue that an increase in the use of encounter data would have resulted in lower payments to MA plans.

The issue involved how much "encounter data" CMS uses when calculating each year's payment formula. Every year, CMS determines how much it will pay towards each plan based on the health of an MA plan's beneficiaries – its "risk score." Historically, CMS used a limited set of claims data submitted by plans into the Risk Adjustment Processing System (RAPS) to calculate the risk scores. More recently, CMS began collecting a new source of comprehensive claims data – encounter data – from MA organizations to develop more accurate risk scores and payment models. Encounter data is similar to the data hospitals and physicians submit to traditional Medicare. Beginning in 2016, CMS began blending encounter data-based risk scores with RAPS-based risk scores to calculate the MA plans' final scores. In 2016, encounter data accounted for 10 percent of the risk score; in 2017, the percentage increased to 25 percent. The Obama administration had proposed increasing that threshold to 50 percent for 2018.

While CMS had predicted that encounter data would produce the same risk scores as RAPS, health plans argue that encounter data is not complete or accurate enough to be a reliable gauge for MA payments and thus, would result in inaccurate (and lower) A January 2017 study by Avalere found that average risk scores based on encounter data were 26 percent lower in the 2015 payment year (using 2014 claims data) and 16 percent lower in the 2016 payment year (using 2015 claims data) compared to RAPS. At a blend of 10 percent encounter data, the 16 percent average difference in raw risk scores would translate to an average payment reduction of 1.6 percent, or $25.2 million per-plan, in 2016. A January 2017 white paper by Milliman also found discrepancies, albeit on a smaller scale. The white paper found the median percentage difference between payment year 2016 risk scores based on RAPS and the encounter-based risk scores is 4 percent, resulting in a median payment reduction of 0.4 percent in 2016 (using a 10 percent blend). In addition, a GAO report released in January 2017 found that MA plans are still facing numerous problems with submitting data and receiving reliable edits from CMS. Based on this uncertainty, health insurers strongly resisted the change, with America's Health

Insurance Plans (AHIP) calling for a complete halt on the use of encounter data entirely until it could be established that its use doesn't incorrectly drive down payments.

MA Payments Increase by 0.25 percent

The proposal increased MA plan payments by an average of 0.25 percent. This modest growth is consistent with last year's update and reflect the pattern in Medicare fee-for-service. Still, some expect health plans may show resistance and continue to fight against any unwanted policy changes. The ACA cut payments to Medicare Advantage by $200 billion in an attempt to better align MA payments with traditional government-run Medicare. Last year, private plans were paid an average of 102 percent of traditional fee-for-service costs per member.

Outlook

The reaction from industry has been largely positive. With more than 18 million people enrolled, and with health plans receiving roughly $200 billion through the MA plans, the stakes are large. However, as Ankur Goel, a partner with McDermott Will & Emery, said, "stability and continuity" seemed to be the theme of the proposed rate notice. During this uncertain political climate, stability and continuity remain consistently positive.

The proposal also addressed changes to the Part C and D Prescription Drug Programs payment policies. CMS will accept comments until March 3, 2017. The final notice will be issued on April 3, 2017.

Proposed Guidance; Fact Sheet; Press Release