

Understanding Medicare Advantage Bidding and Payment: Effects on Plan Choice and Beneficiary Premiums



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MA Bidding and Payment

- Pre-2006 payment process
- Plan A/B bid
- Plan A/B benchmark
- Saving, rebate, basic premium
- Payment formulas
- Payment examples

Terminology

- Plan A/B bid
- Standardized A/B bid ("1.0" beneficiary)
- Standardized A/B benchmark
- Plan A/B benchmark

Pre-2006 MA Payment

- **Administratively set payment rates**
 - Prior to 2004, payment rate = max (floor, blend, minimum update)
 - MMA immediate improvements
 - Added local FFS costs as 4th prong
 - Minimum update = max(2%, national per capita MA growth rate)
- **ACR process**
- **Plan payment = MA rate * beneficiary's risk score**

Plan A/B Bid

- **Basis for payment**
- **Determines basic premium (if any)/rebate**
- **Reflects plan's revenue requirements**
 - Reduced to reflect Medicare FFS cost sharing or actuarial equivalent (AE) cost-sharing
- **3 components**
 - Medicare Parts A and B benefits
 - Medicare prescription drug benefits
 - Supplemental medical and prescription drug benefits

Acceptance and Negotiation of Bid Amounts

- **The Secretary's authority:**
 - Similar authority to that of the Director of OPM
 - Negotiate the monthly bid amount including supplemental benefits
 - May only accept bid if:
 - Supported by the actuarial bases
 - Equitably reflects the revenue requirement of benefits provided under the plan
 - Does not have authority to review bid amounts for PFFS plans.

Standardized A/B Benchmark

- **Local plans**
 - Single county service area - county capitation rate
 - Multiple county service area – weighted average of county capitation rates
 - Weighted by projected enrollment
- **Regional plans – 2 components**
 - Statutory component – weighted average of capitation rates for all counties in region
 - Weighted by MA eligibles
 - Plan bid component – weighted average of all standardized A/B bids in region
 - Weighted by projected plan enrollment
 - Blended benchmark
 - Statutory component weighted by national market share of traditional Medicare
 - Competitive component weighted by market share of all MA organizations

Payment Issues - 2006

- **Computation of benchmarks based on transition payment blends**
 - 75% of payments based on the CMS-HCC risk adjustment model
 - 25% of payments based on demographic-only model
- **Payments will be adjusted to reflect the risk and demographic characteristics of the enrollee**
- **ESRD enrollees not included in the plan A/B bid**

Savings, Rebate, and Premium

- **If standardized A/B bid < standardized A/B benchmark**
 - Savings = Plan A/B benchmark – plan A/B bid
 - Rebate = 75% of savings
- **If standardized A/B bid > standardized A/B benchmark**
 - Basic premium = standardized bid – standardized benchmark

Payment Formulas

- **If standardized bid < standardized benchmark**
 - CMS payment = (standardized bid x enrollee risk score) + rebate – part B premium reduction (if any)
 - No basic premium (that is, for Medicare-covered svcs.)
- **If standardized bid = standardized benchmark**
 - CMS payment = (standardized benchmark x enrollee risk score)
 - No rebate; no basic premium
- **If standardized bid > standardized benchmark**
 - CMS payment = (standardized benchmark x enrollee risk score) + government premium adjustment
 - No rebate, beneficiary pays basic premium

Geographic Intra-Service Area Rate (ISAR) Adjustment

- Based on MA rates
- Alternative ISAR option for regional plans – plan-determined adjustment factors
- Ratio of a county rate to the weighted average rate for the service area
- Does not apply to the rebate (if any)

- **What it does do:**
 - Accounts for difference in distribution of enrollment assumed in the bid and the actual geographic mix at time of payment
 - Converts bid or benchmark into a plan-specific county rate
- **What it doesn't do:**
 - Does not address regional vs. local benchmarks
 - Does not increase payments to local vs. regional plans or vice versa

Development of ISAR-Adjusted Payment Rates

- Plan bid = \$628

County	Projected Enrollment	MA Ratebook	ISAR Factor	ISAR-adjusted Std bid
A	100	\$600	.889	\$558
B	300	\$650	.963	\$605
C	600	\$700	1.037	\$651
Weighted Average	1,000	\$675	1.000	\$628

Government Premium Adjustment

- Only applies when plan A/B bid > plan A/B benchmark
- Basic premiums are not adjusted for enrollee health status
- Adjustment upward or downward to ensure plan's revenue needs are met regardless of whether the plan enrolls more or less healthy individuals
- Premium adjustment = (enrollee's risk score – 1.0) * basic premium

Payment Example: Plan A/B Bid < Plan A/B Benchmark

- Formula: $[(\text{ISAR-adjusted standardized bid}) \times \text{enrollee risk factor}] + \text{rebate}$
- Payment for Mr. Jones (resides in County B):

standardized bid:	\$628
ISAR-adjusted standardized bid:	\$605
Mr. Jones' risk factor:	1.2
Plan rebate:	\$44
- Monthly A/B payment for Mr. Jones:
 $(\$605 \times 1.2) + \$44 = \$770$

Payment Example:

Plan A/B Bid > Plan A/B Benchmark

- Formula: [(ISAR-adjusted standardized benchmark) x enrollee risk factor] + government adjustment

- Payment for Mr. Jones:

standardized benchmark: \$675

ISAR-adjusted standardized benchmark: \$650

Mr. Jones' risk factor: 1.2

Basic premium: \$13

- Monthly A/B payment for Mr. Jones:

$$(\$650.00 \times 1.2) + [\$13.00 \times (1.2 - 1.0)] = \\ \$780.00 + \$2.60 = \$782.60$$

Key Projected Dates for Title II

May	20	CMS begins accepting CY 2006 bids via HPMS
June	6	Final day for MA organizations to submit CY 2006 bids via HPMS
	7	MA organizations should begin to submit ANOCs and SBs for initial review
	30	Final day for MA organizations to submit CY 2006 marketing materials for CMS's review and approval
August	5	2006 Model EOCs will be available to all plans via HPMS
September	13-15	MA organizations preview the 2006 MPPF plan data in HPMS prior to Internet release
	14	Tentative date for approval of packages
	15	2006 EOCs will be available to all plans via HPMS

Key Projected Dates for Title II

October	1-15	CMS mails Medicare & You for CY 2006
	1	MA organizations may begin marketing CY 2006 benefits to Medicare beneficiaries using CMS-approved marketing materials
	13	New Plan Compare website goes live
	13	Medicare Personal Plan Finder data goes on web
	31	CY 2006 ANOCs (with SBs) are due to all MA members
November	15	- May 15, 2006 Open enrollment
December	17	Final day for MA organizations to send non-model EOCs to CMS RO
January	1	Effective date for 2006 plan benefits