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CLIENT BRIEFING

# CMS FINAL RATE NOTICE FOR MEDICARE ADVANTAGE RATES


AUTHORS
Jim Fields
Kamal Gautam


On April 1, 2013, CMS issued its Final Rate Notice for 2014 Medicare Advantage (MA) Rates, and the news was much more favorable for MA plans than anyone would have hoped. Two key numbers go into setting MA benchmark rates—the estimated Medicare Advantage U.S. Per Capita Cost growth rate and the equivalent figure for Fee-for-Service (FSS) programs. This year, in its February advance notice, CMS had put both of them in negative numbers, -2.2 percent for MA and -2.1 percent for FFS. In combination with other proposed reductions, MA plans were looking at total reductions of 7 percent to 8 percent. Instead, in the final notice, the MA growth rate increased by 2.96 percent and the FFS growth percentage increased by 3.53 percent—a much more favorable outcome than the industry had been led to expect.

Why the big change? In the Advance Notice, CMS factored in the scheduled 25 percent reduction in Medicare physician payment rates—just as it has done in years past. But for the Final Rate Notice, it took the important step of assuming that Congress would once again pass a "doc fix" to prevent the reduction from taking place.

The final notice also announced a number of other changes including:

- CMS will delay full implementation of its risk adjustment model. For 2014, individual plans' risk adjustment scores will be a 75/25 blend of what they would have received under the new model and under the 2013 model. For many MA plans, this will result in smaller payment reductions.
- CMS will continue to allow the use of diagnoses collected in MA Enrollee Risk Assessments in the calculation of risk adjustment scores. The agency still plans to limit use of some diagnoses of this sort and will issue new guidance on how to "flag" data obtained from enrollment assessments prior to 2014.
- The coding pattern adjustment, which accounts for differences in how MA and FFS plans diagnose diseases, is set at negative 4.91 percent.

The effect of these changes will depend on an individual plan's membership and the counties where it operates. In aggregate, however, the final notice is a welcome reprieve for the MA industry. But while CMS has shown some sensitivity to the industry's needs and problems, the notice contains no signs whatever that CMS is backing down on its long-term goals. The message is clear: Get better at managing care and quality or you won't be sustainable in this market much longer.

## WHAT DOES THIS MEANS FOR MA PLANS?

**MA is still an attractive market.** Medicare is still a significant growth market and MA is the best opportunity for payers (and many providers) to participate in Medicare in a financially attractive way.

**Payers have to be involved in managing quality and cost of care.** CMS is putting lots of programs in place (Stars, ACOs, MSSP, etc.) to encourage payers and providers to become more active in the management of patient care. Based on the signals CMS sent with its Advance Notice, the message is clear to all players in Medicare: "Step up your game."

**MA plans have a number of options to improve.** We have been advising plans to explore a portfolio of solutions to improve their MA performance, including:

- Payer/Provider partnerships – Share risk, equip providers with information, and collaborate on managing care for the sickest members in order to reduce medical costs and to improve quality and risk coding performance
- Medical Management – More intensive interventions targeting the highest cost members is where plans have the greatest opportunity to improve cost
- Risk Adjustment – It may sound like an overplayed song, but improvements in risk coding are still the fastest and biggest impact on revenue. Most plans are doing something and getting more sophisticated but there are still opportunities to capture risk codes more completely, accurately, and cost effectively
- Stars – It takes about three years to change your Stars scores, but the reward for MA plans that reach four stars is a 5 percent increase in revenue. Plans need to develop a targeted Stars program to succeed in MA and doing so will ultimately touch all areas of their organization (from provider contracts, to care management, to members services, and everything in between)
- Administrative Cost – If there is fat, it will need to be trimmed

Our prediction: 2013 and 2014 is the time for plans to get serious about managing medical cost and improving their risk coding and Stars quality performance and engaging providers in meaningful ways to get shared alignment on these objectives. This will ultimately make MA a better market but there is much work to be done.

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ABOUT THE AUTHORS

Jim Fields is a Partner in Oliver Wyman's Health & Life Sciences Practice. He leads the Government Programs platform and has done significant work with payer and provider organizations to expand and improve their performance in Medicare. Jim can be reached at jim.fields@oliverwyman.com.

Kamal Gautam is an Engagement Manager in Oliver Wyman's Health & Life Sciences Practice and a member of the Government Programs platform. He has done extensive work with clients on risk scoring, Stars quality optimization, and revenue management. Kamal can be reached at kamal.gautam@oliverwyman.com.