

**Additional Questions for the Record for Mr. Giese**

**The Honorable Joseph R. Pitts**

**1. Can you explain why your report projects deeper cuts to Medicare Advantage plans than CMS’s estimates?**

**Response:**

I have not seen the CMS estimate to which you are referring. It is possible the estimate reflects the impact only of the preliminary growth rates and does not incorporate other factors such as the continued phase-in of the ACA cuts, the end of the Quality Bonus Demonstration, the impact of the health insurance fee, and other factors outlined in our report. My report analyzes all the factors impacting MA in 2015 including the policies and regulatory changes in CMS’ “Advance Notice of Methodological Changes for Calendar Year (CY) 2015 for Medicare Advantage (MA) Capitation Rates, Part C and Part D Payment Policies and Draft 2015 Call Letter”, cuts included in the Affordable Care Act (ACA), and other legislative provisions addressing MA payments. Specifically, we identified nine different factors affecting MA payments in 2015, most of which would reduce payments. As shown in the table below, we have calculated that the projected overall impact of these policies would be to reduce MA payments by an estimated 5.9 percent in 2015.

**Estimated Reduction in 2015 for MAOs**

	<b>Reduction (%)</b>
ACA quartile impact for 2015	-2.4%
Change in plans' star rating for 2015	0.4%
Elimination of bonus for 3.0 and 3.5 stars for 2015	-1.9%
Elimination of applicable amount bonus	-0.1%
Ratebook change for 2015	-1.9%
Projected insurer fee for 2015	-0.8%
Coding intensity change for 2015	-0.25%
Risk score normalization factor for 2015	3.2%
*Elimination of home assessment visit diagnoses	-2.0%
<b>Total Reduction for 2015</b>	<b>-5.9%</b>

**2. What are the tools that CMS has at its disposal to *legally* (i.e., other than a nationwide demo) reduce the impact of the cuts in the Advance Notice, through administrative or regulatory means?**

**Response:**

The report is an actuarial analysis of the reduction in payments and the impact on beneficiaries and does not evaluate all the tools and solutions to reduce the impact of the 2015 Advance Notice. However, it is my understanding CMS has wide discretion to establish rates for MA plans in 2015. For example, in the Advance Notice the agency decided to use its discretion to change the way the FFS Normalization Factor is calculated, which we estimate will increase

payments by 3.2%. Other changes include revised estimates to the MA and FFS growth rates, which reduce payments by 1.9%, and CMS' new proposed approach to in-home health risk assessments, which we estimate will reduce payments to MA plans by an average of 2%.

**3. What is the impact of the 2014 changes to the risk model on sick and frail Medicare beneficiaries, in particular those in Special Needs Plans?**

**Response:**

The impact of the 2014 MA Risk Adjustment Model reduces incentives for investment by health plans in chronic care management activities on which sick and frail beneficiaries, especially those enrolled in a Special Needs Plan, depend. For example, CMS made significant model changes that place less emphasis on lower stages of Chronic Kidney Disease and Diabetes. This means MA plans that effectively detect beneficiaries with these conditions and invest in care management programs will not be appropriately reimbursed for the investment necessary to implement these activities. It should be noted that CMS proposes in the 2015 Advance Notice that the 2014 Risk Adjustment Model changes would continue to be phased in by blending risk scores for 2014 under the revised 2014 model (75%) and the model that had previously been in place (25%).

**4. How severe do you think these cuts are, and when was the last time you saw cuts of this nature— what was the impact on the program in terms of enrollment, stability, plan participation, etc.?**

**Response:**

The last time cuts of this magnitude occurred was after enactment of the Balanced Budget Act of 1997, when enrollment in Medicare Advantage (then known as Medicare+Choice) experienced multi-year reductions in enrollment. As my report indicates, between 1999 and 2003 Medicare+Choice enrollment declined from 6.2 million to 4.7 million. This past history demonstrates it is likely that the continued erosion of funding would eventually lead to increased costs for beneficiaries and reduced access to MA plans.

**5. When Obamacare passed, the Medicare actuary projected the impact of the MA cuts: “We estimate that in 2017, when the MA provisions will be fully phased in, enrollment in MA plans will be lower by about 50 percent (from its projected level of 14.8 million under the prior law to 7.4 million under the new law).” According to my calculations, only about 20% of the more than \$300B in cuts to MA that the CBO projects have been phased in this year. So is it safe to say that the worse is yet to come?**

**Response:**

Yes, the ACA cuts are back loaded and the vast majority has not yet taken effect. Only about 10% of the cuts CBO originally projected will have gone into effect by the end of 2013 with another 10% implemented this year. In addition to these cuts, the American Tax Relief Act of 2012 and policies put into place through the 2014 Final Rate Notice have reduced payments to plans. The additional 6% cut proposed in the 2015 Advance Notice would further reduce payments to plans. The combined impact of these cuts may result in a significant upheaval in

the MA market, including the potential for plan exits, reductions in service areas, reduced benefits, provider network changes, and reduced MA enrollment.

**6. Do you believe if the proposed cuts will disproportionately impact the elderly living in rural setting? Why/why not?**

**Response:**

We did not specifically compare urban and rural areas in the report. However, the report identifies the proposed cuts in the 2015 Advance Notice would disproportionately affect beneficiaries with low incomes, including the 41 percent of MA enrollees who have annual incomes below \$20,000, many of which live in rural areas. Additionally in state-by-state analysis we found several states which have significant rural populations such as Alabama and Texas (see map below) are among the most affected by the changes proposed in the 2015 Advance Notice.

**Map: Estimated State Impact of Proposed Reductions to 2015 Medicare Advantage\***

