The Potential Impact on Medicare Beneficiaries of CMS' Proposed Cuts to the Medicare Advantage Program in 2015

by

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for the
House Energy and Commerce Committee
Subcommittee on Health

March 13, 2014

I. Introduction

Chairman Pitts, Ranking Member Pallone, and members of the subcommittee, I am Glenn Giese. I am a fellow in the Society of Actuaries and a Member of the American Academy of Actuaries. I am a Senior Principal with Oliver Wyman Actuarial Consulting and I serve as a Medicare Advantage (MA) actuary for over a dozen plans across the country.

I appreciate the subcommittee's interest in the Medicare Advantage program and how beneficiaries would be impacted by another round of deep funding cuts to Medicare Advantage Organizations (MAOs) in 2015. My testimony will focus on the findings of a recent analysis[1] by Oliver Wyman that estimates the potential impact of the funding cuts that would be imposed on the MA program by proposed changes to the MA payment methodology for 2015.

II. Focus and Key Findings of Oliver Wyman Analysis

Our analysis, which was commissioned by America's Health Insurance Plans (AHIP), focused on the combined impact of preliminary payment policies and regulatory changes announced by the Centers for Medicare & Medicaid Services (CMS) on February 21, 2014 in its "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.

[1] 2015 Advance Notice: Changes to Medicare Advantage Payment Methodology and the Potential Effect on Medicare Advantage Organizations and Beneficiaries, Oliver Wyman, February 27, 2014

Specifically, we identified nine different factors that would impact 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. A detailed explanation of these policies and the estimates shown below can be found in Appendix A, which contains the full text of our analysis. We note that the impact of these changes on individual plans will vary based on a number of factors, including the geographic area in which the MAO participates.

Estimated Reduction in 2015 for MAOs

	Reduction (%)
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%
Total Reduction for 2015	**-5.9%**

We further estimate that the 5.9 percent funding cut translates into a potential reduction of $35-$75 per month – or $420-$900 for the year – in the funding that will be available to support the benefits of MA enrollees in 2015. These cuts, if implemented, would represent the second consecutive year of deep cuts in MA funding. Due to a combination of legislative and regulatory policies implemented for 2014, MA payments already have been cut by 4-6 percent this year, resulting in cost increases and benefit cuts of $30-$70 per month for beneficiaries. If the new changes proposed by CMS are implemented, the program would be hit by a double-digit cut over

just a two-year period, causing cost increases and benefit reductions that could total as much as $1,740 per enrollee over two years, according to our projections.

III. Impact of Proposed MA Cuts on Beneficiaries

The MA cuts proposed for 2015 could have far-reaching implications for the over 15 million seniors and individuals with disabilities who are enrolled in MA plans. In our report, we explain that these cuts "could result in a high degree of disruption in the MA market," including the potential for plan exits, reductions in service areas, reduced benefits, provider network changes, and disenrollment from MA plans. Such disruptions occurred once before in recent history when Medicare health plan enrollment declined from 6.2 million in 1999 to 4.7 million in 2003, as numerous health plans were forced to exit the market due to deep funding cuts in what was known at that time as the Medicare+Choice program.

We further caution that the proposed funding cuts would disproportionately affect beneficiaries with low incomes, including the 41 percent of MA enrollees who have annual incomes below $20,000. For these beneficiaries, the potential increase in out-of-pocket costs resulting from the cuts would constitute a significant burden.

Another serious concern we highlight is that individuals who utilize health care services the most would be adversely affected if they lose their MA plans and are forced to move to the Medicare fee-for-service (FFS) program with its higher cost sharing and lack of coordinated care. This is a

particularly serious concern for enrollees in Special Needs Plans (SNPs) that serve beneficiaries who have severe or disabling chronic conditions or who reside in institutions. For example, Chronic Care SNPs offer services that are tailored to meet the specific medical needs of patients with diabetes, cardiovascular disease, and other conditions. The loss of these specialized services would be a serious blow to beneficiaries whose medical conditions require customized treatments and care.

From a broader perspective, disruptions to the MA program would be harmful to beneficiaries who would be at risk of losing access to disease and care management programs and other innovative services commonly offered by MA plans. These initiatives focus on preventing illness, managing chronic conditions, improving health status, and employing best practices to swiftly treat medical conditions as they occur, rather than waiting until they have advanced to a more serious stage. The success of these strategies can be seen in the track record of MA plans in reducing preventable hospital readmissions and providing better health outcomes for enrollees.

IV. State-by-State Impact of the Proposed MA Cuts

To provide additional insights into the impact of the MA cuts proposed for 2015, we have calculated state-by-state estimates across the nation:

Estimated State-by-State Impact of Proposed Reductions to 2015 Medicare Advantage*

State	MA Enrollment (February 2014)	Estimated Average PMPM Reduction
Alabama	221,361	$65-$75
Alaska	84	NA
Arizona	400,691	$35-$45
Arkansas	108,822	$45-$55
California	2,054,840	$45-$55
Colorado	238,438	$35-$45
Connecticut	146,284	$15-$25
Delaware	12,714	$25-$35
District of Columbia	4,056	NA
Florida	1,436,678	$35-$45
Georgia	404,645	$45-$55
Hawaii	107,960	$65-$75
Idaho	81,748	$45-$55
Illinois	317,787	$25-$35
Indiana	247,109	$45-$55
Iowa	69,450	$35-$45
Kansas	59,718	$45-$55
Kentucky	199,610	$45-$55
Louisiana	213,923	$55-$65
Maine	58,278	$25-$35
Maryland	44,862	$25-$35
Massachusetts	217,282	$35-$45
Michigan	547,989	$15-$25
Minnesota	175,858	$25-$35
Mississippi	71,044	$35-$45
Missouri	287,333	$45-$55
Montana	31,611	$5-$15
Nebraska	33,650	$35-$45
Nevada	136,323	$35-$45
New Hampshire	15,991	$35-$45
New Jersey	216,981	$65-$75
New Mexico	107,265	$55-$65
New York	1,145,899	$65-$75
North Carolina	476,615	$55-$65
North Dakota	2,182	$5-$15
Ohio	779,401	$55-$65
Oklahoma	107,817	$45-$55
Oregon	305,428	$35-$45
Pennsylvania	960,598	$45-$55

State	MA Enrollment (February 2014)	Estimated Average PMPM Reduction
Puerto Rico	536,234	$55-$65
Rhode Island	70,346	$5-$15
South Carolina	193,541	$45-$55
South Dakota	8,960	$5-$15
Tennessee	378,156	$25-$35
Texas	967,287	$65-$75
Utah	107,408	$45-$55
Vermont	8,673	$25-$35
Virginia	181,670	$45-$55
Washington	328,801	$55-$65
West Virginia	98,900	$35-$45
Wisconsin	315,038	$25-$35
Wyoming	2,087	$35-$45
Grand Total	15,245,426	$45-$55

* Note: Estimates reflect combined impact of the proposed FFS trend and growth rate in the Advance Notice, ACA phase-in, change in star ratings on benchmarks and rebates, the end of the Quality Bonus Payment Demonstration, projected increase in the health insurance tax, the change in the FFS Normalization Factor, the change in the coding intensity adjustment, and the elimination of home assessment visit diagnoses. Calculation of ACA phase-in component includes IME reductions in high IME counties pursuant to previous law. Does not include impact of CMS' rebasing of county fee-for-service amounts because CMS does not release county rates until final MA rates are announced in April.

V. Conclusion

Thank you again for this opportunity to testify. I encourage the subcommittee and Congress to consider the findings of our analysis as you communicate with CMS about its proposed payment policies and regulatory changes to the MA program for 2015.