Medicare Advantage

What Happened in the 2019 Final Notice?

The Centers for Medicare & Medicaid Services (CMS) released the Medicare Advantage (MA) Final Notice on April 2, 2018. The Final Notice lays out the policies for how CMS will pay MA plans in 2019. CMS estimates that MA funding will increase by 3.40 percent on average in 2019. However, plan costs are expected to increase more than 5 percent, on average, due to increasing health care costs.

Final Notice: By the Numbers

+3.40% CMS's estimate of the overall impact on MA funding for 2019.

25% The proportion of risk scores that will be based on encounter data in 2019, which CMS increased from 15 percent in 2018.

+0.2 The increase in MA funding due to a technical adjustment to payments for retiree plans.

Impact	2019 Final Notice	Change from Advance Notice
Effective growth rate	5.28%	+0.93
Rebasing/re-pricing	0.49%	+0.49
Star ratings	-0.26%	-0.06
Risk model revision	0.28%	-
MA coding intensity	0.01%	-
Normalization	-2.26%	-
Encounter data transition	-0.04%	-
EGWP payment policy	-0.1%	+0.2
Expected Average Change in Revenue	**3.40%**	**+1.56**

Risk Adjustment

What Did CMS Propose?

Based on provisions in the 21st Century Cures Act, CMS proposed to change how it adjusts payments to MA plans **based on health status** – also known as risk adjustment. CMS proposed adding new conditions to the model for mental health and substance use disorders and moderate chronic kidney disease. CMS also proposed increasing the risk score based on the number of conditions for an enrollee.

CMS proposed to phase in the new risk adjustment model from 2019 to 2022, beginning with a **25 percent blend** of the new model and **75 percent blend** of the old model in 2019.

What Did CMS Do in the Final Notice?

CMS incorporated the new clinical conditions into the risk model and will begin implementing the new model in 2019 at a blend of 25 percent as proposed. However, CMS will delay incorporating the number of clinical conditions an individual has into the risk model until 2020.

Encounter Data

What Did CMS Propose?

CMS began to adjust risk scores in 2016 **based on diagnoses from encounter data**, which are detailed claims data for MA enrollees that plans have submitted to CMS since 2012. For 2019, CMS proposed to **increase** the proportion of risk scores based on encounter data from 15 percent **to 25 percent.**

What Did CMS Do in the Final Notice?

Despite problems that persist with the **accuracy and reliability of encounter data,** and CMS's acknowledgement that **increasing the use of encounter data reduces MA program funding,** CMS increased the proportion of **encounter data used to calculate risk scores to 25 percent** as proposed**.** CMS will supplement encounter data with inpatient diagnoses from the legacy Risk Adjustment Processing System (RAPS) to provide plans with payment stability.

Employer Group Waiver Plans (EGWPs)

What Did CMS Propose?

CMS proposed to fully phase in a change in methodology for cutting payments to EGWPs, which began in 2017. Under this change, EGWPs would be paid based only on bids submitted by individual market MA plans. These individual market plans are more likely to enroll beneficiaries in lower cost health maintenance organizations (HMOs) than the broader network preferred provider organizations (PPOs) more prevalent in the employer market.

What Did CMS Do in the Final Notice?

CMS finalized its proposal to fully phase in the new payment methodology in 2019 but incorporated a technical adjustment to account for higher relative enrollment in EGWP PPOs.

Normalization

What Did CMS Propose?

Each year CMS applies a "normalization" factor to the risk score to account for trends in traditional Medicare coding and beneficiary health status. This factor ensures bids and county benchmarks can be compared on the same basis. **CMS proposed a 2.26 percent reduction in MA funding due to this factor.**

What Did CMS Do in the Final Notice?

CMS finalized the normalization factor as proposed for 2019.

Calculation of Benchmarks Based on FFS Cost

CMS did not implement a recommendation made last year by the Medicare Payment Advisory Commission (MedPAC), which would calculate county benchmark rates used to set MA payments by using only costs for Medicare beneficiaries with both Parts A and B coverage (a requirement to enroll in an MA plan). CMS's approach includes beneficiaries with only Part A – who cost less than beneficiaries with Parts A and B and cannot enroll in MA plans – **and creates inaccurate benchmarks.**

Other Changes in 2019

CMS finalized the following additional changes in the 2019 notice:

- **Growth Rate:** CMS increased the growth rate from 4.35 percent in the Advance Notice to 5.28 percent in the Final Notice, due to changes made to traditional Medicare spending under the Bipartisan Budget Act of 2018.
- **Coding Intensity:** CMS finalized as proposed the minimum coding intensity adjustment at 5.90 percent. However, CMS indicated the agency will consider other options for determining this adjustment in future years.