Employer Group Waiver Plans Financial Impact Based on the 2017 Advance Notice Summary

Prepared for:
U.S. Chamber of Commerce

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I. EXECUTIVE SUMMARY

The Medicare Advantage program is a government-sponsored program that offers an alternative to traditional fee-for-service (FFS) Medicare where benefits are provided to Medicare beneficiaries by private health plans. The cost of the program is funded in large part by the federal government, with the revenue received by private plans based on laws, regulations, and an underlying bidding process established, regulated, and overseen by the Center for Medicare and Medicaid Services (CMS).

The Medicare Advantage program includes two market segments: the individual market in which beneficiaries enroll in an individual plan offering based on their personal selection and the employer / union (herein collectively referred to as "employer") group market in which groups of retired and / or active Medicare eligible employees enroll in the employer's selected Employer Group Waiver Plan (EGWP). The EGWP market segment currently covers approximately 3.3 million beneficiaries.

Historically, the federal government funding for the provision of medical benefits (Medicare Part C) for both the individual and EGWP markets has been based on a bidding process. However, on February 19, 2016, CMS released the 2017 Advance Notice which provides, in part, proposed regulatory changes for the 2017 bid year. The 2017 Advance Notice included a proposed waiver to the bidding process for all EGWP plans, thereby eliminating bids for the employer group market segment. Along with this waiver, CMS is proposing an alternative payment policy under which the EGWP funding is based on the individual market 2017 bids.

Due to historical bid relationships between the individual and EGWP markets, the proposed EGWP payment policy will likely result in a reduction to the federal government funding of the program. **We estimate the nationwide average reduction in EGWP funding will be approximately $19 – $22 per member per month (PMPM), or 2.5% – 2.8% of total federal government Part C funding. This reduction in federal government funding will likely result in increases to EGWP member premiums and / or reductions in benefits, all else equal.** It is worth noting that actual funding impacts will vary considerably across the country as EGWP federal funding under the proposed payment policy will be determined at the county level.

II. OVERVIEW

Historically, CMS required all Medicare Advantage Organizations (MAOs) to submit a bid by the first Monday in June that estimates the cost to provide traditional Medicare benefits to an "average risk" Medicare beneficiary for the coming year for both the individual and EGWP markets. A portion of any savings generated by the MAO (the savings defined as the difference between the benchmark payment rate and the bid) is returned to the plan as a rebate, which can be used by the plan to provide benefits above and beyond traditional Medicare, such as reductions to cost-sharing on Medicare services or coverage of non-Medicare services, such as dental. If a plan's total estimated cost to provide traditional Medicare and supplemental benefits (including administrative costs and profit margin) is greater than the amount of revenue received from CMS through the base revenue and rebate, the difference is funded through premiums charged to the plan's members.

The Medicare Advantage program includes two market segments: the individual market in which beneficiaries enroll in an individual plan offering based on their personal selection and the employer group market in which groups of retired and / or active Medicare eligible employees enroll in the employer's selected EGWP. The EGWP market segment currently covers approximately 3.3 million beneficiaries.

This report highlights the impact on federal government funding due to a proposed waiver to the bidding process for all EGWP plans, thereby eliminating bids for the employer group market segment. On February 19, 2016, CMS released the 2017 Advance Notice which provides, in part, proposed regulatory changes for the 2017 bid year. CMS has expressed concerns over the competitiveness of EGWP bids and, based on these concerns, CMS included in the 2017 Advance Notice a proposed waiver to the bidding process for all EGWP plans. Along with this waiver, CMS is proposing an alternative payment policy under which the EGWP funding is based on the individual market 2017 bids.

As stated on pages 23 and 24 of the 2017 Advance Notice:

"Specifically, we are proposing to use individual market non-EGWP plan bids, including RPPOs, submitted for 2017 to establish Part C county-level payment amounts for EGWPs. We are proposing to calculate the EGWP county payment rates as follows:

- First, a weighted average bid-to-benchmark ratio will be calculated at the quartile level. The calculation would be: (weighted average of the intra-service area rate adjustment (ISAR) adjusted county bid amounts by actual enrollment) / (weighted average of the county standardized benchmarks by actual enrollment) = percentage by quartile.

- The percentages will be applied to each of the published 5%, 3.5%, and 0% bonus county ratebook rates to establish Part C base payment amounts for EGWPs based on their star rating for each county.

- In order to calculate a county rebate payment, each county-level EGWP Part C base payment amount will then be compared to the corresponding published 5%, 3.5%, and 0% bonus county benchmarks to determine the amount of savings. The savings amounts will be multiplied by the corresponding star rebate percentage to determine the Part C EGWP county-level rebate amount.

- The EGWP Part C base payment amount will be added to the Part C EGWP rebate amount to establish the county-level EGWP total payment amount.

- The total payment amount will be risk adjusted in payment using beneficiary-specific risk scores. Therefore, the formula applied for payment will be: (base county payment rate + county rebate) * beneficiary level risk score."

Due to historical bid relationships between the individual and EGWP markets, the proposed EGWP payment policy will result in a reduction to the federal government funding of the program. **We estimate the nationwide average reduction in EGWP funding will be approximately $19 – $22 per member per month (PMPM), or 2.5% – 2.8% of total federal government Part C funding. Based on the approximately 3.3 million beneficiaries currently in the EGWP market, this amounts to an annual reduction in federal government funding of approximately $750 – $870 million across the program. This reduction in federal government funding will likely result in increases to EGWP member premiums and / or reductions in benefits, all else equal.** It is worth noting that actual funding impacts will vary considerably across the country as EGWP federal funding under the proposed payment policy will be determined at the county level.

III. METHODOLOGY

We relied on detailed Medicare Advantage plan payment data for bid year 2014 which includes rebate amounts and risk scores for every plan in the individual and EGWP markets. We also used publicly available Medicare Advantage enrollment information for April 2013 to estimate the membership distribution included in the 2014 bid submission to CMS by county for each plan. Using the membership distribution, risk score, and rebate amount, as well as the published 2013 star rating used in the 2014 bid development by plan, we calculated the estimated 2014 bid and weighted average benchmark for each plan. We adjusted the results for changes in the payment rate structure between 2014 and 2017, including changes in the bonus payment structure and the rebate retention percentage structure. We then calculated the average EGWP federal government Part C funding under the current bidding policy for EGWPs as well as the proposed EGWP payment policy included in the 2017 Advance Notice. The results contained in this report are the nationwide member weighted average impact to EGWP funding based on the assumed membership distribution underlying the 2014 bid year. However, these results should be indicative of the estimated impact to federal government funding for the 2017 bid year.

IV. QUALIFICATIONS, LIMITATIONS, AND CAVEATS

We, Brett Swanson and Julia Friedman, are actuaries for Milliman, members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

The material in this report represents the opinion of the authors and is not representative of the views of Milliman. As such, Milliman is not advocating for, or endorsing, any specific views contained in this report related to the Medicare Advantage program.

The information in this report was developed to help the U.S. Chamber of Commerce better understand the resulting financial impact of the proposed Employer Group Waiver Plan payment policy change in the 2017 Advance Notice. This information may not be appropriate, and should not be used, for other purposes.

We relied upon CMS guidance and publicly available information from CMS. If any of this information is inaccurate or changes, the conclusions in this report could change.