



Medicare: Today's Issue

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BETTER BENEFITS – MORE CHOICES

CMS Announces 2005 Medicare Advantage Payment Rates and New Results on Beneficiary Savings from Medicare Advantage

Medicare Advantage offers more comprehensive benefits at a lower cost for Medicare beneficiaries, leading to lower costs for our health care system. Millions of beneficiaries, particularly those with limited means and no access to subsidized Medigap coverage, depend on these plans. The Department of Health and Human Services is committed to providing reliable, affordable health care options, to those who need it most, now more than ever.

New Funding for Medicare Advantage Plans:

- ❖ Yesterday, the Centers for Medicare & Medicaid Services (CMS) released the Medicare Advantage (formerly Medicare+Choice) payment rates for 2005. The new funding is expected to help ensure that Medicare beneficiaries who count on Medicare Advantage plans will have **reliable access to the additional benefits and significantly lower out-of-pocket costs typically provided by these plans.**
- ❖ As a result of new funding and other changes in the Medicare Prescription Drug, Improvement, and Modernization Act (MMA), **Medicare Advantage plans will expand into more markets and serve more Medicare beneficiaries.** Because of the efficiencies achieved by many Medicare Advantage plans – such as negotiated price reductions and coordination and other management of utilization – **these plans can also help keep overall health care costs down.**

CMS Report Shows Savings:

- ❖ A new report was also issued yesterday by CMS demonstrating the impact of Medicare Advantage plans on Medicare and the plans' impact on Medicare beneficiaries. The report suggests that **beneficiaries in Medicare Advantage spend, on average, 34 percent less than do beneficiaries in traditional fee-for-service Medicare.** The new CMS report also demonstrates that Medicare Advantage plans are popular with low-income beneficiaries who are struggling to afford up-to-date medical care and that the recent payment increases have led to improved benefits and reduced cost sharing for Medicare Advantage enrollees.

Medicare Advantage 2005 Payment Rates:

- ❖ Under the Medicare Modernization Act, the 2005 rate that Medicare pays for an MA enrollee in each county is the greater of the 2005 fee-for-service (FFS) county rate or the 2004 county rate increased by the 2005 minimum percentage increase of 6.6 percent. The 6.6 percent represents the estimated increase in per capita Medicare costs for all beneficiaries for 2005.
- ❖ The 2005 Medicare Advantage rate for about 80 percent of counties will be determined by the minimum rate increase of 6.6 percent. The rates for the other 20 percent of counties will be determined by the local average per capita fee-for-service rate, which represents increases of greater than the 6.6 percent, in order to ensure that their rates remain on a level playing field with fee-for-service costs.
- ❖ **These rate increases are much greater than increases in years before enactment of the Medicare Modernization Act (MMA), when annual rate updates were lower than the cost increases faced by most health plans. The rate increases also promote greater access to coverage that frequently reduces overall medical costs.**

- ❖ Medicare Advantage plans will also receive payments that are more closely tied to the “risk” or expected cost of their enrollees than ever before. As required by law, 50 percent of payments to Medicare Advantage plans in 2005 will be risk adjusted using the CMS-HCC model. This model was introduced in 2004, when only 30 percent of plan payments were risk-adjusted.
- ❖ **In addition, for the first time, payments to Medicare Advantage plans will reflect a new risk adjustment methodology for enrollees with End Stage Renal Disease (ESRD), which pays more accurately for beneficiaries on dialysis and makes additional payments for enrollees receiving kidney transplants.** Together, these payment modifications substantially redirect payments to plans that care for the sickest beneficiaries – those patients who stand to gain the most from managed care's focus on coordinating care. Plans whose enrollees are sicker than average will receive relatively greater payments and plans with healthier enrollees will receive relatively less.
- ❖ Along with these substantial enhancements in risk adjustment, CMS found the difference in average risk scores between Medicare Advantage and fee-for-service enrollees is now 8 percent, lower than previously believed. Previous studies suggested that these differences amounted to a 12 percent difference in average risk scores between beneficiaries in fee-for-service Medicare and those in Medicare health plans. As a result, the so-called “budget neutrality” adjustment in health plan payments will be much smaller in 2005 compared with previous years – 3.5 percent in 2005 compared with 8.3 percent in 2004.

Additional Information:

- ❖ Currently, there are about 4.6 million Medicare beneficiaries enrolled in MA health plans. Due to the additional funds for 2004 and later years as provided under the MMA, beneficiaries are seeing improved benefits offered by their health plans. Premiums and cost sharing dropped, benefits were improved, and provider networks strengthened, further stabilizing health plans across the nation, helping to ensure that beneficiaries will continue to have choices in how they get their health care.
- ❖ Medicare Advantage plans are also vitally important for lower-income seniors, minority seniors and disabled individuals who rely on them for their health care, to keep costs affordable, and for the valuable benefits that are not available in fee-for-service Medicare.
- ❖ In addition to the improvements in drug coverage and other benefits, more than 80 Medicare Advantage plans are offering Medicare-approved drug discount cards in an effort to provide additional savings to their enrollees.

The payment rates can be found at: <http://www.cms.hhs.gov/healthplans/rates/default.asp>.