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Medicare Advantage Summit 2017: The Ongoing Changes and Regulation of MA EGWPs

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April 6, 2017

Agenda

- Changes for 2017 Plan Year
- Plans' / Groups' Responses to Changes
- CMS Regulation of Group Rating
- Changes for 2018 Plan Year
- Looking Ahead
- Questions / Further Discussion

Changes for 2017 Plan Year

- CMS changed payment structure for EGWPs for plan year 2017
- Prior to 2017, plans submitted bids for EGWP plans
- Plans received CMS revenue for EGWP groups / members based on the EGWP bids submitted
- CMS felt plans were potentially using the EGWP bid mechanics to their advantage to increase CMS revenue
  - Plans could conceivably show higher costs (medical and / or admin) in EGWP bids to maximize bid amount and decrease revenue lost to CMS as part of rebate calculation

Changes for 2017 Plan Year *(continued)*

- Hard to track "gaming" of bids
  - EGWP bids were submitted based on FFS benefits (typically), not a group's benefit
  - Multiple groups' experience was typically grouped into only one or a few bids thus making it more difficult to monitor in the bid process
- Beginning in 2017, plans were not required to submit EGWP bids
- 2017 Advance Notice proposed having all EGWPs paid based on bid-to-benchmark ratios of individual plan bids only
  - CMS felt individual bids better estimated costs for a typical MA population
- Plans / industry pushed back hard due to potential shake-up of market and thus CMS implemented a revised payment methodology
- CMS settled on a weighted average (50/50) of 2016 individual bid and EGWP bid-to-benchmark ratios

Changes for 2017 Plan Year *(continued)*

- Revised Payment Methodology for 2017
  - CMS calculates membership-weighted average bid-to-benchmark ratios by quartile
    - 50/50 split of 2016 individual bids and EGWP bids
  - Ratios are applied to CMS published 5%, 3.5%, and 0% county benchmark payment rates to calculate a base EGWP payment amount (“bid”)
  - CMS calculates rebate amounts by comparing base payment amount to published county benchmark
  - CMS applies rebate percent based on Star rating to calculate rebate amount
  - CMS combines base payment amount and rebate amount to calculate final payment
  - Final payment is risk adjusted

Changes for 2017 Plan Year *(continued)*

- New Methodology has its issues
  - Ratios are based on nationwide bids and thus any service area differences are not necessarily reflected in ratios
    - Ratios are calculated at the quartile level so there is some separation of rates
  - Ratios include Special Needs Plans (SNPs) which aren't similar to an EGWP population
  - Many EGWP plans are PPOs while a large portion of individual bids are HMOs
    - Plans felt individual bid ratios would be lower because of medical management and other efficiencies achieved by HMOs
- New Methodology decreased revenue
  - Milliman estimated CMS revenue decreased a few percent on average in 2017

Plans' / Groups' Responses to Revenue Change

- During process of group rating, plans were faced with decisions on what to do with revenue decrease
- Choices included:
  - Passing entire reduction onto groups and risk losing them
  - Taking the hit in profit and keeping groups premiums / benefits relatively flat
- Our experience showed that many plans simply passed the increase on to the group(s)
  - There were some instances of plans taking a small hit on profit, but it was only a portion of the total
- We also saw many groups shop their business around, hopefully looking for a better deal
- In most cases groups were also left with a decision of decreasing benefits or paying for the additional premiums

CMS Regulation of Group Rating

- CMS uses audits to determine if group rates are unreasonable
- Prior to 2017, CMS had certain (unpublished) formulas / models they used to determine if rates were reasonable
  - Formulas essentially compared the profit load in a group's rates to the EGWP bid to determine if they were relatively close
- It is unknown how CMS will analyze the reasonability of group profit margins since there is no longer an EGWP bid to compare to
- Will CMS institute new rules comparing group profit loads to individual bids?
  - Similar to how CMS limited profits in filed EGWP bids prior to 2017 compared to individual plan bids
- Remains to be seen

Changes for 2018 Plan Year

- After asking for industry feedback in the 2018 Advance Notice, CMS kept the 2018 methodology the same as 2017
  - Ratios are still based off 2016 bids
  - Had they switched to 100% of individual bids, the ratios would have been based off 2017 individual bid data
- Revenue will still likely increase though as county benchmarks increase
- The industry wanted to avoid significant disruption for a second year and felt as though the decrease in revenue in 2017 was enough
- CMS still likely intends to fully phase-in revenue to be based off individual plan bid ratios in the future
- CMS is still soliciting feedback on the changes, but no further changes for 2018

Changes for 2018 Plan Year *(continued)*

- CMS did publish ratios for just the individual bids in 2017 to show potential impact
- 2016 Weighted-average ratios:
  - 95%: 88.7%
  - 100%: 92.2%
  - 107.5%: 93.3%
  - 115%: 93.6%
- 2017 Individual only bid ratios:
  - 95%: 82.1%
  - 100%: 85.3%
  - 107.5%: 87.4%
  - 115%: 88.3%

Changes for 2018 Plan Year *(continued)*

- Individual bid ratios are nearly 6% to 7% lower for each quartile as compared to the weighted-average ratios
- Based on these ratios, CMS revenue would decrease an additional 2% to 3% when using the individual ratios
  - Revenue will not decrease by full 6% to 7% due to rebate calculation

Looking Ahead

- If plans feel as though CMS will look to transition revenue to based entirely off individual bids, what should be done now?
  - Should plans try to increase premiums in 2018 in preparation for 2019 hit (potentially) to avoid larger hit in 2019?
- Question also becomes: Are the continued decreases in revenue sustainable for group coverage?
- It was apparent in 2017 that some groups were looking for other options
  - Potential for private exchanges for larger groups to encourage competition
  - Groups could offer a defined contribution and allow members to obtain coverage in individual plans
  - Groups could eliminate coverage

QUESTIONS / FURTHER DISCUSSION

Caveats and Limitations

We are 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 presentation is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

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We relied on information from CMS in preparing this presentation. If that information is incorrect, our estimates are likely to be inappropriate. Actual results will vary from estimates contained in this presentation.

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Thank you

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