

# MA Advance Notice Does Not Offset Rising Medical Costs and Could Lead to Reduced Healthcare Value for Beneficiaries

February 2024

Medicare Advantage (MA) payment per month per beneficiary could drop by an estimated 1.0% in 2025 if the Centers for Medicare & Medicaid Services (CMS) finalizes policies proposed in its Advance Notice, based on analysis by BRG utilizing its MA microsimulation model. CMS estimates a -0.16% payment update. BRG projects MA medical cost inflation will increase by 4% to 6% in 2025. When payments from CMS drop relative to expected medical costs, the value of supplemental benefits and reductions to premiums and cost sharing tends to fall.

Plans will need to cover at least a portion of cost inflation with a higher allocation for medical costs; BRG conservatively estimates a 2% increase. Neither CMS' nor BRG's estimate of increased MA plan payments would sufficiently cover medical cost increases. As a result, BRG estimates the value of supplemental benefits or reductions to premiums and cost sharing could fall by \$33 or more per beneficiary per month, on average. Beneficiaries would experience this as an increase in their health care costs and/or reduction in available benefits. This analysis does not include the impact of the changes in Part D from the Inflation Reduction Act (IRA) that likely will cause Part D premiums to increase.

BRG forecasts how the three major impacts to 2025 payment could affect MA buy-down of premiums, cost sharing, and supplemental benefit offerings:

- (1) Net risk scores will drop by 2.9% due to changes in normalization factors and the continued phase-in of the new risk model V28
- (2) Star rating changes will lower payment by 0.5%
- (3) Growth factor will increase by 2.4%

One main reason why BRG expects a larger reduction than CMS estimates is that BRG expects medical inflation for MA plans to increase by 4% to 6% in 2025. Medical costs per MA member per month grew by an estimated 7.3% for the first nine months of 2023, based on analysis of NAIC<sup>1</sup> statutory filing data for plans that represent 85% of MA lives. The fourth quarter of 2023 had similar growth for MA plans, based on filings by publicly-traded plans and capitated providers. Indications from plans' public-facing financial reporting suggest 2024 medical cost levels will remain elevated, while Price Waterhouse Cooper (PWC)<sup>2</sup> has estimated medical cost growth of 7% in 2024, albeit for the commercial population. Expected MA inflation is higher than the 2.4% growth factor that CMS included in the Advance Notice, and also higher than the CMS forecasted fee-for-service growth rates of 3.3% from 2023 to 2024 and 3.9% from 2024 to 2025.

BRG believes MA plans will need to account for the expected medical inflation in 2025. BRG's forecast assumes plans will need to increase payments for medical costs by at least 2%, which could cover a portion of the estimated medical cost increase of 4% to 6%. MA plans do have potential to reduce costs through various measures and thus might not need the full 4% to 6% increase to keep benefits for MA beneficiaries relatively stable for 2025. However, there are limits to a plan's ability to control costs and thus the expected increase in medical inflation will likely impact beneficiaries.

The expected reduction in payment from CMS's Advance Notice, coupled with the need to offset rising medical costs leads to a projected reduction in healthcare value to beneficiaries. The value of supplemental benefits or reductions to premiums and cost sharing could fall by \$33 per beneficiary per month, on average, which beneficiaries would experience as an increase in health care costs. The impact on those fully-eligible for Medicare and Medicaid could be reduced by \$50 per beneficiary per month, on average. This analysis does not include the impact of the changes in Part D from the Inflation Reduction Act (IRA) that are likely causing Part D plan liability to increase and thus Part D premiums to increase. MA-PDP plans may have to allocate more rebate dollars to reduce Part D premiums. This analysis also does not include assumptions around changes in plan risk coding behavior that could impact risk scores.

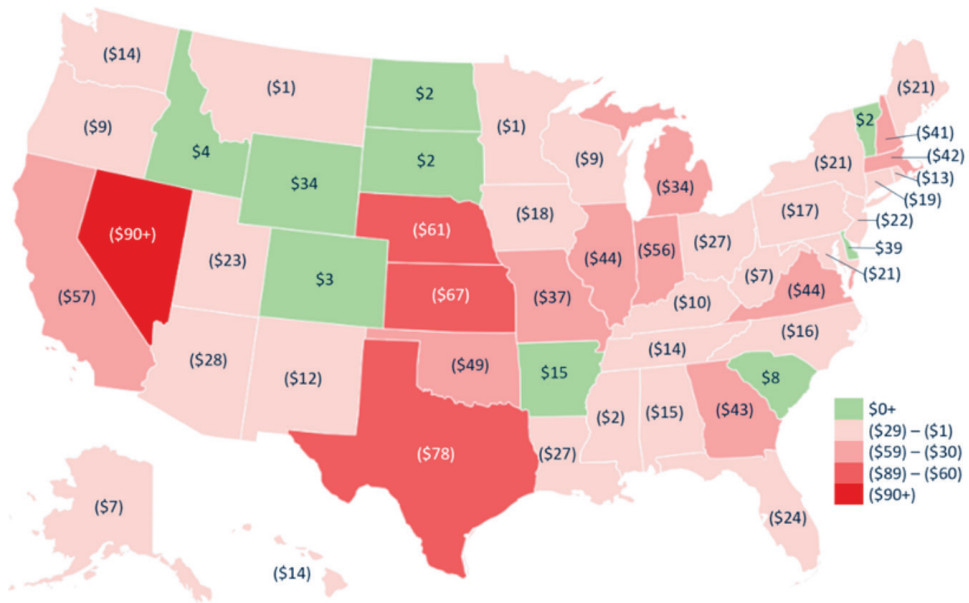
The increased cost burden on beneficiaries could vary significantly by state, largely driven by changes in risk score impact of the phased-in new model and star ratings. Nevada, Texas, Kansas, and Nebraska have the greatest estimated impact. The value of supplemental benefits or reductions to premiums and cost sharing for these four states could fall by \$60 or more per beneficiary per month, on average, which beneficiaries would experience as an increase in their health care costs. About half of states could see a reduction of \$20 or more. Seven states have potential increases of up to \$15 per month, while Wyoming and Delaware could see increases of over \$30. Impacts may vary based on MA plan bidding behavior and risk coding in 2024 and 2025.

<sup>1</sup> Source: S&P Global Market Intelligence Statutory Insurance Data, TD Cowen, BRG. Analysis captures 26m lives.

<sup>2</sup> iPWC "Medical Cost Trend: Behind the Numbers 2024"

### Likely Monthly Reduction in Healthcare Value for All Beneficiaries, 2025

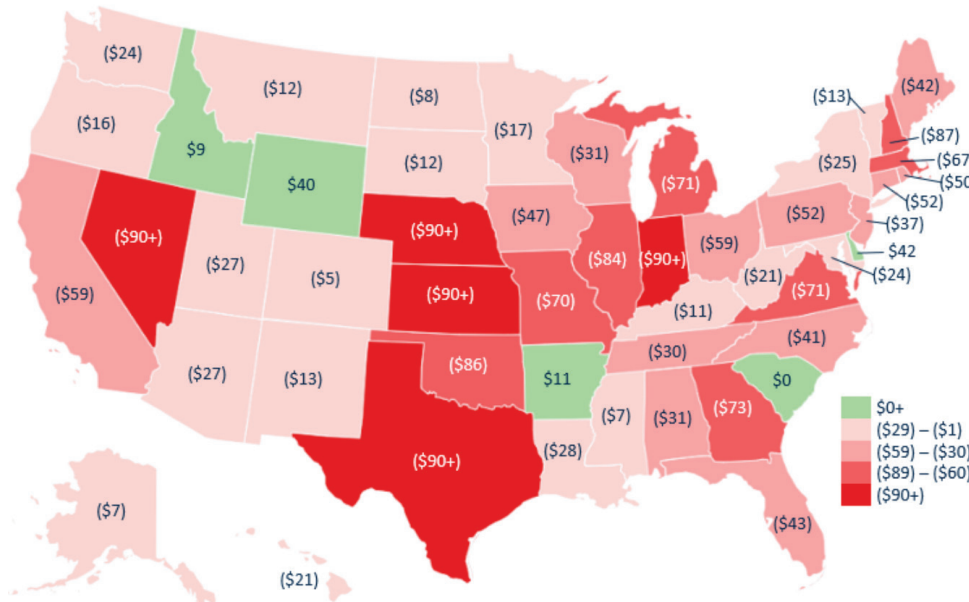
National = (\$33)



Those dually eligible for full Medicare and Medicaid benefits could experience even greater impact. Nevada, Texas, Kansas, Nebraska, and Indiana have the greatest estimated impact. The value of supplemental benefits for these five states could fall by \$90 or more per beneficiary per month, on average, which beneficiaries would experience as an increase in their health care costs. About twenty states could see a reduction of \$50 or more. Arkansas, Idaho, and South Carolina could see slight increase, while Wyoming and Delaware could see increases of around \$40.

### Likely Monthly Reduction in Healthcare Value for Full-Dual Beneficiaries, 2025

National = (\$50)



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