The Daily Dish

Medicare Advantage and Cutting Medicare

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Yesterday the Better Medicare Alliance (BMA) released a study by Avalere Health with the scintillating prose: "On February 1, Centers for Medicare & Medicaid Services (CMS) released the 2024 Advance Notice, an annual regulatory document that describes the agency's proposed payment and coverage policies for the next plan year." It added that "Avalere estimates that the decrease in payment could result in a $540 decrease in benefits per member per year."

Now, as a certified swamp-dwelling health wonk, I can attest that the annual Advance Notice is a big deal in the Medicare Advantage (MA) community. But the real heat comes from the finding that MA beneficiaries face a cut of $540 per year, a proposal made prior to the State of the Union (SOTU) address in which President Biden pledged not to cut Medicare and POTUS-shamed Congress into agreeing (or, at least, applauding). To do that while simultaneously cutting Medicare benefits sets off a few hypocrisy alerts.

What is going on?

MA plans submit bids to CMS that are the cost of covering their average enrollee. If the bids come in lower than would be the cost for those beneficiaries in the traditional fee-for-service (FFS) Medicare program (known as the FFS benchmark, which differs by county), then the MA plan can use the difference to reduce enrollees' premiums, or offer extra benefits (e.g., vision and dental coverage), or both. On average, MA plan bids come in a bit below 85 percent of the FFS benchmark, so these premium cuts and supplemental benefits are a big deal.

For calendar year 2024 – which I hasten to observe contains the 2024 election – CMS proposes to reduce the FFS benchmark in two ways. The first is (per Avelere) by "Removing Medical Education Payments in the Non-End Stage Renal Disease (ESRD) US Per Capita

Costs (USPCC) Baseline." This sounds like removing an MA-related cost from the FFS estimate of costs of covering a beneficiary, which seems legitimate. But it is as clear as mud and I just bought a bridge in Brooklyn. You decide.

The second is clearer. CMS is changing the way it does risk adjustment. Risk adjustment is the delivery of higher payments to MA plans with sicker seniors in order to cover their more expensive care. As a result of these changes, Avalere estimates that there will be a 3.12 percent reduction in plan payments. But the real kicker is the way, in part, this gets done: "As a result of the model update, over 2,000 ICD-10codes that were included in the 2023 CMS-HCC model will not be in the 2024 CMS-HCC model."

In English, conditions that were recognized as making a senior sicker in 2023 will not be recognized in 2024. The change gets rid of codes like those for pre-diabetes and other early-onset conditions. Budgetarily this is tantamount to saying: "We gave you enough to cover these ailing seniors last year, but no longer." From a health policy view, it removes the incentive to identify affected seniors early and arrest the deterioration of their health.

(This change is especially rich in irony because CMS is simultaneously arguing that plan payments will actually go up overall because it is raising the expected average level of risk adjustment. One might be able to rationalize that as a result of an aging beneficiary population, but it is hard to make this add up for all plans simultaneously.)

There is a third change to quality measures, and the upshot is that the FFS benchmark is lower, plans' bids will be unable finance the existing level of supplemental benefits, and benefits will get cut back. One can also argue that plans will raise premiums, but they are generally loath to do so.

The administration is proposing Medicare cuts, SOTU histrionics notwithstanding. Avelere's analysis applies to only 90 percent of the 30 million MA beneficiaries, but still, at $540 per enrollee, this totals in the neighborhood of $15 billion. If this were a legislative proposal, it would be characterized as a cut of $150 billion over 10 years. That is real money.

The larger point is not that the administration is talking out of both sides of its mouth. The larger point is that Medicare reforms should run through Congress and should encompass both FFS Medicare and MA simultaneously. Rifle-shot administrative actions are not Medicare reform.