Research

Medicare Advantage Star Ratings: Detaching Pay from Performance

DOUGLAS HOLTZ-EAKIN, ROBERT BOOK | MAY 15, 2012

Rewarding quality health plans is an admirable goal for the Medicare Advantage program. Unfortunately, the current system of linking star ratings to bonus payments and rebate adjustments instituted by the Patient Protection and Affordable Care Act (and expanded by the CMS Quality Bonus Payment Demonstration) fails to achieve that goal, and depending on its specific implementation, may even be counterproductive.

Because criteria for evaluation are not published until after the period for which performance will be evaluated, there is no possibility that MA plans will be able to improve their performance to achieve the goals CMS intends to incentivize. Any adjustment plans will be able to make to their bids or plan offerings would have to be aimed at increasing enrollment in counties with the highest bonuses and rebates based on data from performance in *previous* years, possibly at the expense of improving their performance in the future.

The system rewards beneficiaries for choosing those plans favored by the selected CMS criteria, rather than the plans that best meet their needs. In effect patients whose preferences, health status, and even counties of residence, don't match the CMS model of a highly rated plan will be at a disadvantage. Simultaneously, the system will likely reduce the scope of choice available to MA-eligible beneficiaries, and reduce competition among MA plans.

Finally, the system rewards beneficiaries for living in counties with low poverty rates (since relatively wealthier counties tend to have more plans with higher ratings), thus adversely impacting poor beneficiaries even more than non-poor beneficiaries.

These impacts are inconsistent with the overall policy purpose. The goal of incentivizing quality health plans is legitimate and admirable; that goal will not be achieved by the rating structure currently being put into place.

The star bonus system could be improved by transforming it to a system in which criteria for performance were announced in advance, and bonuses were paid based on performance during the period in which it occurred. In

addition, the system should not tilt the playing field against any particular beneficiaries' preferences. A star system with these characteristics would ensure that the program goal of incentivizing the achievement of high-quality plan offerings is achieved.

Read the full paper by clicking below.