



## **Reducing Payments for Medicare Advantage Plans Will Disrupt Retiree Programs for Employers and Retirees Who Rely on Them, Increase Costs and May Cause Some Plans to Withdraw from Certain High-Cost Geographic Areas, and/or Reduce Benefits**

**Issue:** The Patient Protection and Affordable Care Act (Affordable Care Act) freezes Medicare Advantage plan payments in 2011 and reduces Medicare Advantage payments to 100% of traditional fee-for-service rates in 2013 and adjusts payments based on local benchmark rates in future years:

- Plans in the highest cost quartile of areas will receive 95% of the base rate, 100% in the second highest cost quartile, 107.5% in the third highest quartile, increasing to 115% in the lowest-cost quartile areas;
- Plans will receive additional reductions or increases based on quality scores from the Centers for Medicare and Medicaid Services (CMS) with plans scoring 4 stars or higher receiving a 1.5% increase in 2012, a 3% increase in 2013 and a 5% increase in 2014—new plans with 4 stars or higher will get 1.5% in 2012, 2.5% in 2013 and 3.5% in 2014;
- In 2013, if there is a change in the quartile in which an area is ranked, plans in that quartile will receive the applicable percentage from the previous year; and
- If the applicable amount and the projected benchmark amount for 2010 is more than \$30 but less than \$50 then payments will be phased in for 4 years or 6 years if the projected amount is more than \$50.

The Affordable Care Act also reduces the rebates that Medicare Advantage plans can pass back to beneficiaries as supplemental benefits to 70% for plans with 4.5 stars, 65% with plans above 3.5 and up to 4.5 stars, and 50% to plans with less than 3.5 stars.

The Affordable Care Act also establishes a medical loss ratio of .85% for Medicare Advantage plans—the Secretary of Health and Human Services (HHS) will terminate an Medicare Advantage contract if the plan fails to have that medical loss ratio for 5 consecutive contract plan years

For plan years 2011 and beyond, the Affordable Care Act allows employers who contract with the HHS Secretary as Medicare Advantage private fee-for-service plans for their retirees and who offer “800 series” local coordinated care employer/union-only group waiver plans (EGWPs) to:

## NATIONAL BUSINESS GROUP ON HEALTH

1) Expand the current Medicare Advantage coordinated care service area (i.e. State) to beneficiaries outside of the State, including with *noncontract providers* in areas where it is unable for the Medicare Advantage EGWPs to secure contracts with an adequate number of network providers to satisfy CMS' Medicare Advantage coordinated care network adequacy requirements that otherwise would apply; and

2) Pay more than the minimum total dollar amount otherwise authorized to these providers under Medicare parts A and B (including balance billing).

Medicare Advantage plans may grandfather any extra benefits, beyond fee-for-service, in areas where average plan bids are  $\leq 75\%$  of local fee-for-service costs, in 2012—the HHS Secretary will grant rebates to these Medicare Advantage enrollees.

The HHS Secretary will provide transitional benefits in 2012 to seniors who enroll in Medicare Advantage plans and experience a “significant reduction” in extra benefits from competitive bidding in certain areas: the 2 largest metropolitan areas if benefits are  $> \$100/\text{month}$ ; and in other areas of the country where Medicare Advantage penetration is  $> 30\%$ ; and Medicare Advantage plans bid below local fee-for-service costs.

Unlike traditional Medicare, private plans, utilized by a number of employers for their retirees, submit bids to CMS for the opportunity to offer Medicare Advantage plans in different parts of the country at the payment rates CMS proposes. Under Medicare Advantage, the government does not pay physicians and hospitals directly but instead pays insurers directly to manage care and pay providers.

Congress created the Medicare Advantage program as the successor to the Medicare+Choice program in the Medicare Modernization Act of 2003, which also created the Medicare prescription drug benefit. Through a waiver process, plans can and do extend this flexibility in benefit design to employer retiree plans which can enroll as a group in Medicare Advantage. Many employers have chosen this route as a seamless transition from being the primary sponsor of retiree health benefits.

**Position:** The National Business Group on Health, a member organization of over 300 primarily large employers who provide coverage for over 55 million Americans, supports a stable and successful Medicare Advantage program. People in Medicare deserve a strong Medicare program, including the choice of coverage options that other Americans have. Medicare Advantage offers expanded benefits unavailable in original Medicare, innovative delivery systems and care arrangements, affordable costs, and integrated prescription drug benefits. The Business Group looks forward to continue to work constructively with CMS to make it easier for retirees with employer-sponsored coverage to participate in the program. The Business Group supports a robust Medicare Advantage program and believes that it offers increased benefits, flexibility, and choice.

- **Medicare Advantage Waivers Offer Retirees More Choices and More of the Benefits They Have Come to Expect.** These waivers give more retirees the opportunity to make the voluntary decision whether to enroll in a Medicare Advantage plan or remain in the original Medicare program. The flexibility in supplemental benefit design and coverage terms also makes it easier to offer Medicare-eligible retirees plans similar to the coverage they received as active

employees or as early retirees. This continuity will minimize confusion and increase retiree satisfaction with their health benefits.

- **Medicare Advantage Waivers Promote Employer Participation in Medicare Advantage.** The waivers introduce more flexibility to accommodate the needs and benefit preferences of employer groups and their retirees. The simplified and streamlined administrative requirements will enable employer groups to customize benefit and enrollment communications to the needs of their retirees. They will also reduce the operational burdens of participation. Increased employer involvement fosters quality, access, service and a competitive Medicare Advantage marketplace that benefits retirees.