

Summary of the 45-Day Notice

February 2009

CMS issued the preliminary Medicare Advantage benchmarks on Friday, February 20 as required by statute. Comments must be submitted by 6 pm EST, Friday March 6.

The combined impact of this announcement is significant. The preliminary estimates show that the Medicare Advantage benchmarks will *fall* by 4.6 percent from 2009 levels. This means that for the same member Plans will receive less CMS revenue. One large factor in the proposed decrease in benchmarks is the scheduled 20% reduction in fee-for-service RBRVS payments to physicians under the BBA. If Congress retracts physician fee schedule reductions, as it has done in each of the last several years, 2011 benchmarks would increase by that amount to offset this change (but that does not help 2010 revenues).

Assuming medical expense and administrative cost trends continue, the difference between revenue requirement and CMS benchmark payments will cause Plans to address costs in a variety of areas, including benefits, administrative costs, reduced profit margins and perhaps exiting low-paying counties. Additionally, renewed focus on enrollment reconciliation, HCC code improvement and utilization management are likely to occur. Finally, it is anticipated that member premiums will rise to offset the decreased CMS revenue.

The Part D program did not escape scrutiny, as CMS proposes to increase the normalization factor to 14.6% to account for identified difference in populations between those in Part D plans and those who are not enrolled in Part D plans. The result of this change reduces the CMS contribution and likely increases the member share.

- **Impact of all factors a negative 4.6% changes to benchmarks**
- **National Growth Rate: 0.5%**
 - Assumes -20% physician fee change on 1/1/2010

- If no reduction to physician fee schedules trend rises from -1.1% to +3.0%

- **Budget Neutrality Factor: -0.8%**
 - 5% of budget neutrality factor will be applied (vs. 25% in 2009)
 - Assumes full 2010 factor equal full 2009 factor of 1.038 (so 1.009 was applied)
- **Adjustment for MA Coding Pattern Differences: -3.74%**
 - Applies to all plans to account for differences from 2007 to 2010
 - MA risk scores have increased more than twice as much as FFS risk scores
 - Half due to changes in the population of enrollees in MA versus FFS.
 - Half due to coding
- **IME Phase Out: Maximum decrease of -0.6%**
 - Counties where payment rates are above FFS rates or where IME is less than 0.6% of the FFS rate will experience smaller reductions

Additional features of the preliminary rate announcement:

- **MA Normalization Factors: MA risk scores must grow by at 1.06% to offset factor increase**
 - CMS-HCC = 1.041 (vs. 1.030 in 2009)
- **Part D Normalization Factors: Part D risk scores must grow by at 5.62% to offset factor increase**
 - Part D = 1.146 (vs. 1.085 in 2009)
 - Big increase because calculated as average across enrolled instead of eligibles (previous method)
 - Shifts costs from CMS to member if Part D risk scores do not grow at same rate

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