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Medicare Advantage plans nab 1.25% raise for 2016

The CMS said Monday that the benchmark payment rates for Medicare Advantage health plans will go up by 1.25% on average in 2016, a significant departure from the slight decrease the agency proposed in February.

When factoring in the expected growth of risk scores coded by insurers, payments will go up 3.25% on average, CMS officials said Monday.

However, in a defeat for the health insurance industry, the CMS held firm with its February proposal and will calculate 2016 Medicare Advantage risk-adjustment scores entirely under an updated model.

In February, the government said 2016 Medicare Advantage rates would decline 0.95% on average but would rise 1.05% when accounting for risk coding. Early reads of the CMS' 2016 final rate notice for Medicare Advantage plans (PDF) indicate health insurers at least got the higher rates they wanted after they hit the nation's capital with a six-week lobbying campaign—a campaign that drew bipartisan support in Congress.

“I think it looks like a win for the plans,” said Ipsita Smolinski, managing director of consulting firm Capitol Street and a former healthcare analyst on Wall Street. “It's not like CMS made any major policy changes. But nevertheless, it's good news for the Medicare Advantage plans and for seniors, who love the plans.”

Indeed, the rate reversal was not a change in policy, but “rather (a change) in the actuaries' estimated growth” of per capita Medicare fee-for-service spending, said Sean Cavanaugh, director of the CMS' Center for Medicare. Because more people are selecting Medicare Advantage plans instead of traditional Medicare, spending in the program is higher.

More than 17.3 million people are enrolled in a Medicare Advantage plan, according to March data from the CMS. That represents about one-third of all Medicare beneficiaries. Medicare Advantage membership has grown by more than 8% every year since 2010.

That large growth and continued popularity spurred the CMS to move ahead with a newer, more accurate version of its risk-adjustment model, Cavanaugh said.

Medicare Advantage plans use a risk-coding model to adjust for different demographics and conditions—known as hierarchical condition categories in industry parlance. Each beneficiary's health status incorporates those different categories to predict their future healthcare costs, and that risk score is then multiplied by the baseline rate to determine how much a plan will receive for a specific beneficiary.

Insurers are paid more to cover patients who are sicker and have more complications. For example, Medicare will pay a higher rate for an older beneficiary with colon cancer than a younger, relatively healthy senior.

But risk adjustment in the program has come under fire, as many healthcare companies have allegedly inflated the risk scores of their patients to garner higher Medicare payments.

The CMS has calculated the risk scores the past few years by blending old and new models. The hope is that transitioning to the new risk-adjustment model will weed out procedures and codes that are susceptible to fraud and abuse. And because Medicare Advantage operates in a capitated payment environment, insurers will still have an incentive to try and diagnose diseases and conditions early, Cavanaugh said.

“I am not surprised that the agency stuck to its guns on the new risk model,” Smolinski said. “Payment accuracy is of utmost importance to CMS, and Congress for that matter. Whether it's hospitals or plans or post-acute providers, the Medicare program has an obligation to make sure that federal dollars are not being spent wastefully or in a fraudulent manner.”

Health insurers, though, have slammed the new hierarchical condition categories, arguing they will hurt plans that treat the sickest seniors. A report sponsored by America's Health Insurance Plans, the industry's lobbying group, said the new model will cut payments for members with chronic kidney disease by 23%.

The CMS also provided further guidance on provider directories and networks, saying health plans are expected to update their online provider directories in real time.

The 2016 payment rates mark the final year of reductions to benchmark rates mandated by the Affordable Care Act. The ACA set out to lower payments to the Medicare Advantage program, which previously exceeded traditional Medicare payments by 14%. Now, Medicare Advantage plans are paid about 2% more, according to the Medicare Payment Advisory Commission (PDF).