Medicare Advantage Then and Now

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Retiree Health Exchange Strategy
Via Benefits, WTW's Individual Marketplace
Providence, Rhode Island

Agenda

- History and context
  - Medicare programs and growth
  - Types of retiree health care designs
- Inflation Reduction Act impact
- Medicare Advantage update
- Key Takeaways

History of Retiree Health Care

1965

Part A

Hospital care

Part B

Outpatient care

Social Security Act

1990's

Part C

Private-sector plans

Medicare Advantage

2006

Part D

Prescription drugs

Medicare Modernization Act

2010

Affordable Care Act

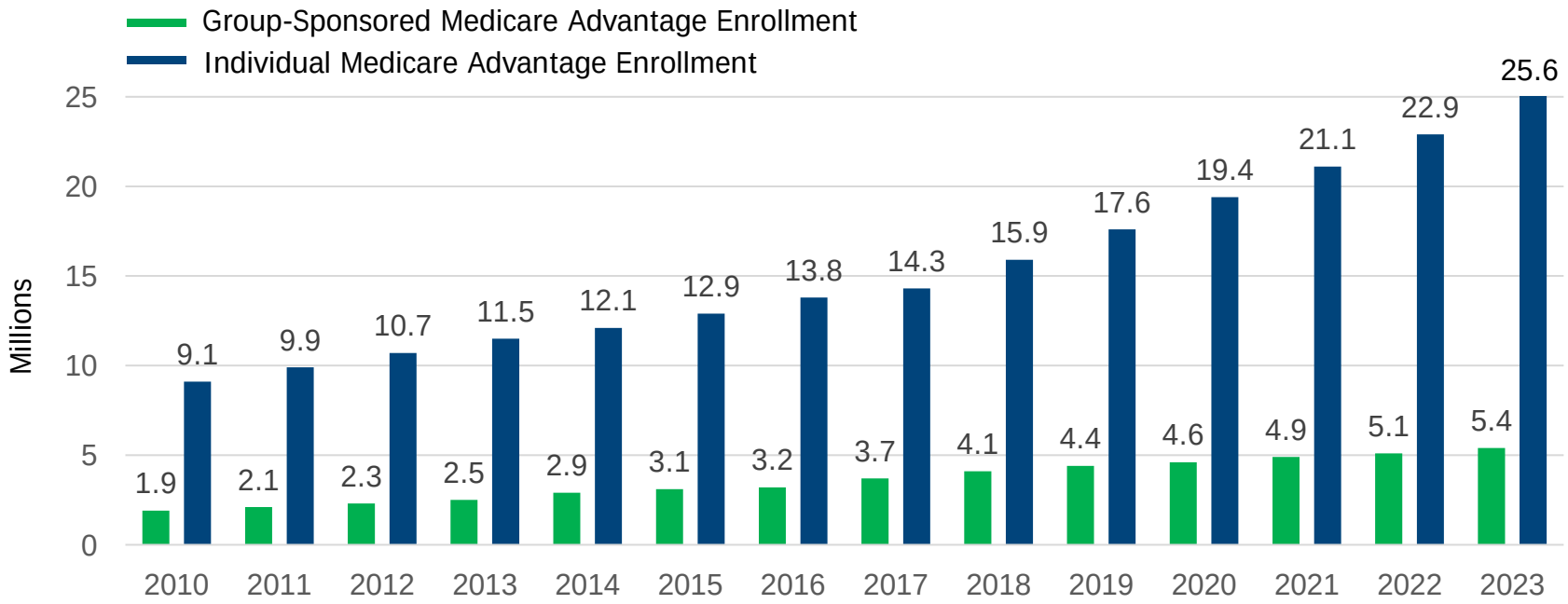
Public health marketplaces; reduced payments to Medicare Advantage plans; eliminated 'Donut Hole'

2020-Present

Inflation Reduction Act

Eliminated Part D catastrophic phase of coverage; negotiate Rx prices; enhanced marketplace subsidies

More Than 50% of Eligible Beneficiaries Are Enrolled in Medicare Advantage Plans—Over 33 Million in 2024 (ATI Advisory)

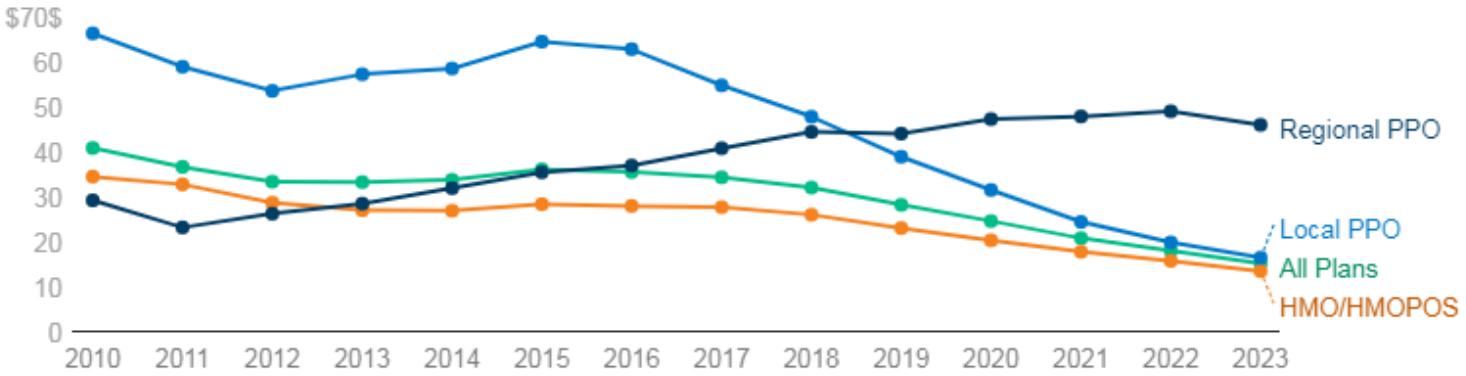


Kaiser Family Foundation

Premiums Paid by Medicare Advantage Enrollees Have Declined

Figure 2

Average Monthly Medicare Advantage Prescription Drug Plan Premiums, Weighted by Plan Enrollment, 2010-2023



NOTE: Includes only Medicare Advantage plans that offer Part D benefits (MA-PDs) as they comprise the majority of Medicare Advantage plans. Excludes SNPs, employer group health plans, cost plans, HCPPs, PACE plans, MMPs, and plans for special populations. All data shown include plans with zero premiums. The premiums for a subset of sanctioned plans were not available in 2011, and were excluded from this analysis.
SOURCE: KFF analysis of CMS Medicare Advantage Landscape and Enrollment Files, 2010-2023. • PNG

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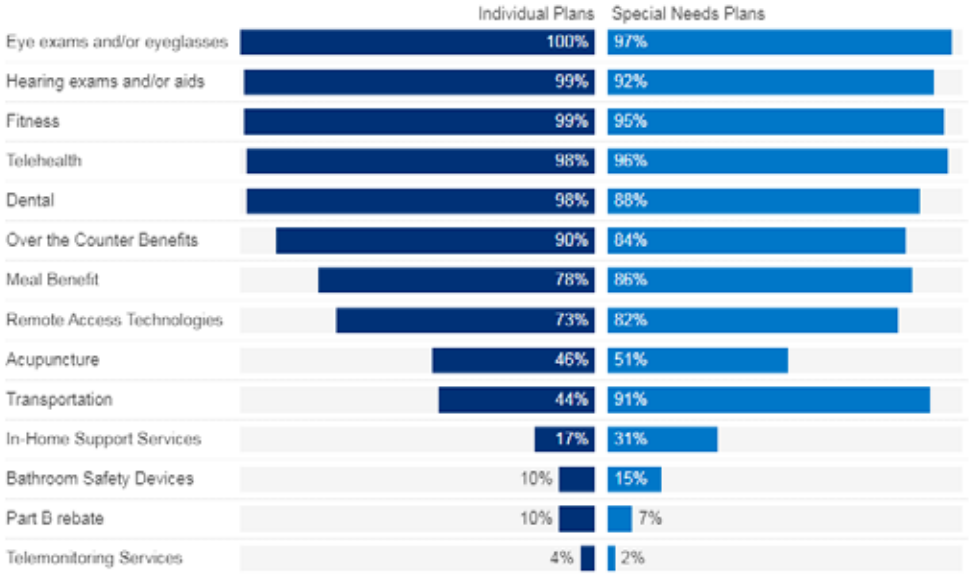
Most Medicare Advantage Enrollees Have Benefits Supplemental to Medicare

Figure 4

Share of Medicare Advantage Enrollees in Plans with Extra Benefits by Benefit and Plan Type, 2023



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SOURCE: KFF analysis of CMS Medicare Advantage Enrollment and Benefit Files, 2023. • PNG

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Average total value added grew about $20 per member per month (PMPM) each year from 2021 to 2023 but grew just under $3 from 2023 to 2024.
From 2021 to 2023, the total value added of general enrollment MA plans grew by about 10% to 12% per year, due to enhancements in Part C (medical) and Part D (drug) benefits, coupled with reductions in member premiums. From 2023 to 2024, however, average growth in total value added is about 1%, significantly less than previous years.

Source: Milliman WHITE PAPER State of the 2024 Medicare Advantage Industry: General enrollment plan valuation and benefit offerings
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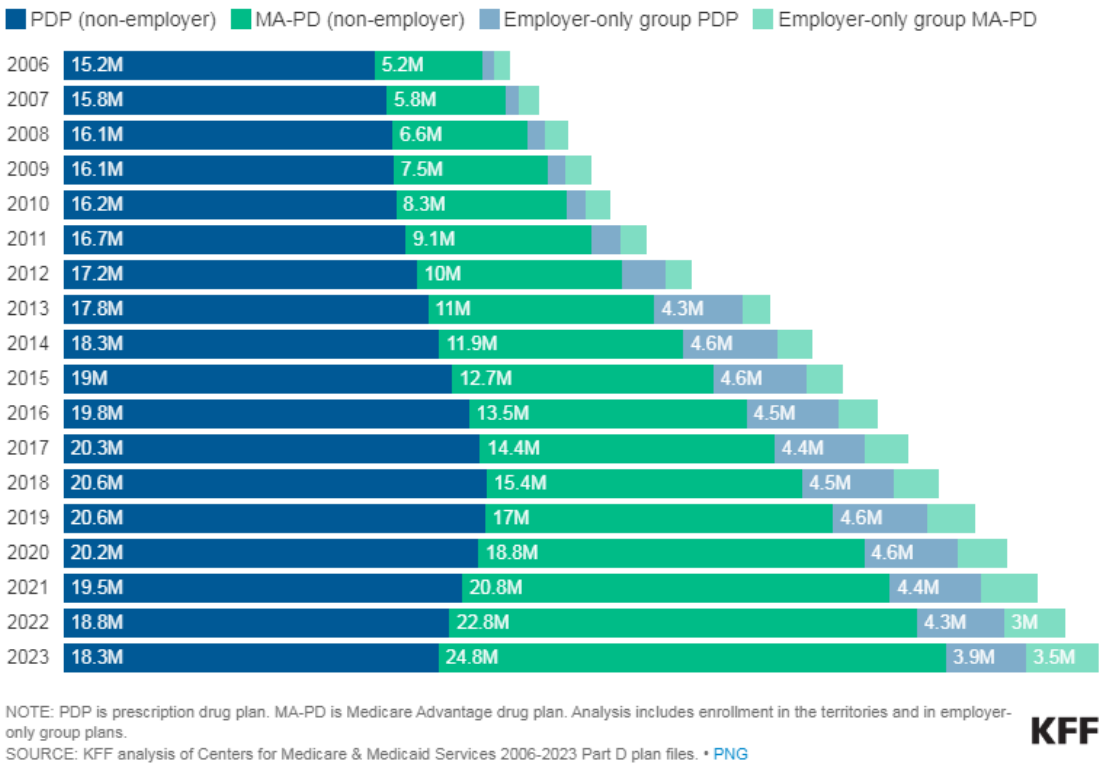
Part D Enrollment: 50.5 million in 2023



NOTE: PDP is prescription drug plan. MA-PD is Medicare Advantage drug plan. Analysis includes enrollment in the territories and in employer-only group plans.
SOURCE: KFF analysis of Centers for Medicare & Medicaid Services 2006-2023 Part D plan files. • PNG

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56% are enrolled through Medicare Advantage

Prescription Drug Plan Premiums

Table 2

Weighted Average Medicare Part D Monthly Premiums and Annual Deductibles, by Plan Type, 2006-2023

Year	Weighted average monthly Part D premium				Weighted average annual Part D deductible		
	PDP premium	MA-PD overall premium - Part D portion only	MA-PD premium among non-zero premium plans - Part D portion only	Part D premium overall	PDP deductible	MA-PD deductible	Part D deductible overall
2006	$26	$10	$28	$22	$107	$21	$87
2007	$27	$10	$24	$23	$121	$10	$94
2008	$30	$12	$26	$25	$133	$14	$103
2009	$35	$14	$29	$29	$149	$14	$111
2010	$37	$13	$28	$30	$169	$12	$121
2011	$38	$12	$29	$30	$153	$13	$108
2012	$38	$12	$32	$29	$173	$17	$121
2013	$38	$13	$33	$30	$174	$18	$120
2014	$38	$14	$37	$29	$171	$25	$119
2015	$37	$17	$36	$30	$157	$96	$135
2016	$39	$17	$34	$31	$181	$127	$161
2017	$40	$18	$37	$32	$204	$130	$176
2018	$41	$17	$36	$32	$213	$131	$181
2019	$40	$14	$33	$29	$234	$121	$188
2020	$38	$13	$32	$27	$340	$117	$244
2021	$38	$12	$34	$26	$350	$104	$235
2022	$40	$11	$35	$26	$398	$90	$247
2023	**$40**	**$10**	**$38**	**$25**	**$411**	**$58**	**$231**

NOTE: PDP is stand-alone prescription drug plan. MA-PD is Medicare Advantage drug plan. Estimates exclude employer plans and Special Needs Plans; also excludes other Medicare private plans, including Medicare-Medicaid plans. Cost- and PACE. The average premium for MA-PDs is for Part D coverage only, excluding any applicable premium charged for medical (Part A and B) benefits.
SOURCE: KFF analysis of Centers for Medicare & Medicaid Services Part D enrollment and landscape files. • PNG

KFF

The average monthly premium for Part D drug coverage is 4 times more in PDPs than in MA-PDs

Year	PDP premium	MA-PD overall premium-Part D portion
2023	$40	$10

Medicare Advantage sponsors can use rebate dollars from Medicare payments to lower or eliminate their Part D premiums. Rebates to Medicare Advantage plans are at historically high levels, having more than doubled between 2018 and 2023.

Source: Key Facts About Medicare Part D Enrollment and Costs in 2023, Jul 26, 2023.

Poll Question #1

What is your top challenge with your retiree health plan?

A. Rising costs to plan sponsor (including unknown future cost increase)
B. Rising costs to retirees (*e.g.* the plan costs are capped)
C. Administratively burdensome (including servicing retirees)
D. Retiree satisfaction
E. We don’t offer a plan

The Challenges That Plan Sponsors Manage With Medicare-Eligible Retiree Programs

- Rising cost of retiree health care and associated liabilities
- Resource constraints to support retiree medical programs AND active employee programs
- Subsidies are limited and/or capped
- Litigated/Bargained retiree populations
- Legacy retiree obligations—Group medical plan required

Retiree Medical Design Options for Plan Sponsors

Medicare Supplement With Retiree Drug Subsidy

- Medicare supplement plan pays part of cost not paid by Medicare; no CMS $$
- Employer sponsored group Rx plan qualifies for RDS
- Administration remains with the plan sponsor

Medicare Supplement With EGWP

- Medicare supplement plan pays part of cost not paid by Medicare; no CMS $$
- Group Medicare Part D plan with 3rd party $$
- EGWP typically self insured
- Employer sets plan design
- Administration remains with the plan sponsor

Group Medicare Advantage

- Insured group Medicare Advantage plan with cost largely paid by CMS
- Employer sets plan design
- Future rates reflect employer claim experience and CMS funding levels
- Typically includes Rx although can be structured as MA-PD plan with MA and Rx provided through the same insurer
- Administration remains with the plan sponsor

Individual Marketplace

- Plan sponsorship limited to employer subsidy
- Access to federal government subsidies
- Expanded plan choice for retirees
- Reduced administrative burden
- Marketplace provides communications, enrollment and ongoing advocacy

Annuity Purchase

- Individual marketplace delivery model
- Funding sponsorship assumed by annuity
- Guarantee benefit for retirees
- Eliminate cash and liability financial burden on plan sponsorship

Inflation Reduction Act Impact on Medicare Part D (Prescription Drug)

Key Part D Provisions of the Inflation Reduction Act

2022-23

- $35 monthly insulin OOP cost cap on Parts B/D
- Inflation rebates on Part B and D drugs payable to Medicare based on comparison to 2021 cost
- No changes to standard Part D design (other than indexing) and funding arrangements

2024

- Elimination of 5% catastrophic coinsurance for members reaching TrOOP (other Part D provisions essentially unchanged)
- Increase to "base beneficiary premium" capped at 6% for years 2024-2029 (BBP indirectly affects actual member premium)
- Full low-income subsidy threshold raised from 135% of FPL to 150%

2025

- **Part D totally restructured in terms of benefits (with $2,000 OOP max) and funding sources**
- Enhanced EGWP benefits count toward new OOPM
- Coverage Gap Discount Program (CGDP) becomes Manufacturer Discount Program (MDP)
- Member option to spread annual OOPM by month (Medicare Prescription Payment Plan – M3P)

Later

- Government price negotiations begin on select high-cost Part D drugs (2026) and Part B drugs (2028)
- Lower negotiated prices should reduce beneficiary premium and OOP costs
- CMS to set new floor on base beneficiary premium (BBP) at no less than 20% in 2030 (25.5% in 2023)

2025 Standard Medicare Part D Revised Under the Inflation Reduction Act

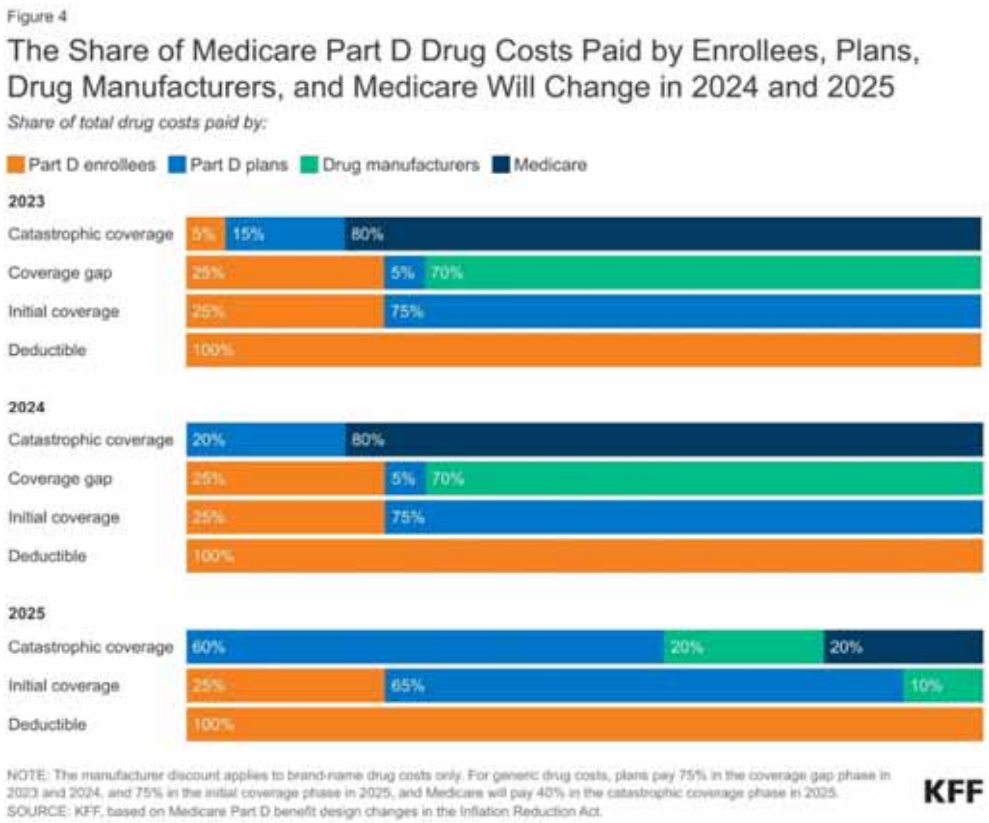

Illustration from Kaiser Family Foundation, assuming 100% brand utilization

IRA Affects Part D EGWP Design and Funding in 2025

Known Changes
$2,000 out-of-pocket maximum Benefit increase for most plans
Pharma manufacturer discounts Possible reduction in funding
Catastrophic Reinsurance Substantial reduction in funding

Unknown Changes
2025 CMS direct subsidy payment formula to be release in July 2024
Impact on net plan costs for EGWP sponsors (the richer the benefit, the less the subsidy)

All else equal, richer benefits and reduced third-party funding may result in higher net plan cost for EGWP sponsors

Poll Question #2

What impact do you expect the IRA to have on your plan?

A. Cost savings
B. Negligible impact
C. Cost increase under $750 PMPY
D. Cost increase over $750 PMPY

Example of EGWP Benefit Under New $2,000 OOPM

The following example illustrates how the $2,000 OOPM will work under an EGWP:

Item	Amount
Cost for member's first Rx of year (specialty drug)	$6,230 (or higher)
EGWP copay	$200
EGWP payment	$6,030
Benefit under 2025 standard Part D ($6,230-$590 deductible) x 75%	$4,230
Value of EGWP enhancement ($6,030-$4,230)	$1,800
Portion of OOPM paid by member ($2,000-$1,800)	$200
Share of OOPM paid by EGWP	90%

Utilization likely to increase once members reach the new OOPM, driving further rise in plan cost

Illustrative Example—
Large Public Sector Plan Sponsor

Per member per year	2024 (pre-IRA)	2025 (IRA)	Change
EGWP premium rate	$2,967	$3,210	$243
Actuarial value	87.13%	88.93%	1.79%
Third-party Funding			
Risk score	0.749 (actual)	0.637 (estimated)	(0.11)
CMS Direct Subsidy	$161	$552	$390
Pharma Discounts	$613	$561	($52)
CMS Reinsurance	$951	$431	($520)
Total claim related funding	$1,564	$992	($572)
Total third-party funding	$1,725	$1,543	($182)
Increase to net plan cost: value of benefit enhancement plus trend **($243)** plus loss in third-party funding **($182)**			**$424 (34%)**
If net employer subsidy is held constant, retiree contributions must rise considerably to offset net plan cost increase			
Net plan cost	**$1,242**	**$1,666**	**$424 (34%)**

More Examples—
Other Public Sector Plan Sponsors

Increase to net plan cost: value of benefit enhancement plus trend ($433) plus loss in third-party funding ($775)			$1,207 (45%)
If net employer subsidy is held constant, retiree contributions must rise considerably to offset net plan cost increase			
Net plan cost	**$2,654**	**$3,861**	**$1,207 (45%)**

Increase to net plan cost: value of benefit enhancement plus trend ($412) plus loss in third-party funding ($524)			$936 (31%)
If net employer subsidy is held constant, retiree contributions must rise considerably to offset net plan cost increase			
Net plan cost	**$3,005**	**$3,941**	**$936 (31%)**

Net plan cost increase may exceed **$1,000 PMPY** for many plans

Plan Sponsor Actions to Manage the Increase in EGWP Plan Cost

- Plan Sponsor options to manage this cost
  - **Absorb cost:** Do not pass onto retirees via contribution increases or benefit cuts
    - Increase to plan sponsor liability; may not be feasible for plans with capped subsidy
  - **Redesign EGWP**
    - Under plans with capped subsidies, all cost increases will need to be passed onto retirees to avoid an increase in net plan cost
    - For plans with uncapped subsidies: Changes to plan design or increases in retiree contributions can help compensate for mandated enhancements and loss of third-party funding
  - **Transition** from group plan sponsorship to a Medicare marketplace
    - Convert subsidy to HRA with value equivalent to or lower than current (pre-IRA) level; no increase to plan sponsor liability
- Plan sponsors should begin to assess the impact of the IRA on their EGWP sooner rather than later . . . if major changes are needed, allow sufficient time for review, decision making and implementation of changes

A Look at Other IRA Provisions

Member OOP Cost Smoothing (Medicare Prescription Payment Plan—M3P)

- Starting in 2025, concurrent with the new $2,000 OOPM provision, members will have the option to spread their annual OOP costs over a monthly basis, thus avoiding the need to pay full annual OOPM early in the plan year
- Must be offered to all Part D enrollees, including EGWP members
- Plans will apply a rolling monthly calculation based on the amount of unpaid OOPM (after considering member payments made in a current month or carried over from amounts unpaid in a prior month) divided by the number of months left in the year
- This provision will increase plan cost based on extra administration fees, potential bad debt, and a possible increase in utilization

Expect PMPY cost ~$100 to administer program

Medicare Advantage Review

Medicare Advantage News
2023: $454 Billion of Federal Spending (KFF 8/9/23)

The New York Times

TheUpshot

'The Cash Monster Was Insatiable': How Insurers Exploited Medicare for Billions

By next year, half of Medicare beneficiaries will have a private Medicare Advantage plan. Most large insurers in the program have been accused in court of fraud.

The New York Times 10-8-2022

Payments to MA plans far exceed FFS spending due to favorable selection into MA plans and higher MA coding Intensity

MedPac report March, 2024

EDITORS' PICK

CMS' Medicare Advantage Payment Cuts Come With Risks

Avik Roy Forbes Staff
The Apothecary Contributor Group

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Forbes 3/1/24

Why are seniors voting with their feet—and their pocketbooks—to enroll in private MA plans? It's because those MA plans provide a more generous insurance benefit, with higher quality health outcomes, at a lower price.

Headlines From 2025 CMS Final Notice (4/1/24)

- CMS release an Advance Notice and Final Notice on payment and risk adjustment policies related to Medicare Advantage every year
- CMS payments to Medicare Advantage plans expected to decrease slightly in 2025 after continuing phase-in of new risk scoring methodology
  - No change in payment rates from Advance Notice to Final Notice—Payment rate below insurer expectations
  - Major Medicare Advantage insurer stock prices dropped upon release
- Also included detailed information on changes to Part D resulting from the Inflation Reduction Act

Summary of Impact of Final Rule

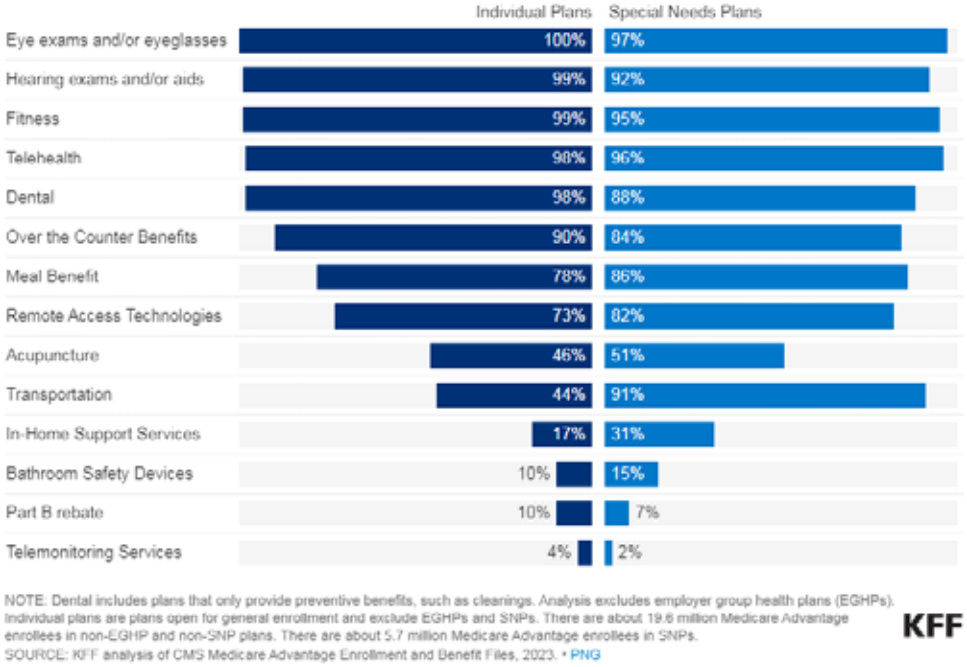
- 2025 is the second consecutive year for an overall decrease in payment when excluding risk score trend
- Some Medicare Advantage plans have reported increasing claim costs and have stated the proposed 2025 payment changes are inadequate to cover projected cost increases

Individual Market Impact	Group Plan Market Impact
• CMS expects stable premiums and benefits in 2025 • Plans may seek to maintain $0 premium and by reducing benefits or provider payments	• Typically based on actual group experience • Rising claim trend with constrained payment increases may drive rate increases • Rate guarantees may be revised with material changes to law / regulations

Most Medicare Advantage Enrollees Have Benefits Supplemental to Medicare

Figure 4

Share of Medicare Advantage Enrollees in Plans with Extra Benefits by Benefit and Plan Type, 2023



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Other Items Impacting Medicare Advantage

- Prior Authorization rule—Streamlines process (API and expedited decisions) and adds continuity of care requirements, requires prior authorization metrics in 2026
  - American Medical Association president: Win for physicians (and patients) that AMA advocated; savings for physician practices and reducing delays for patients
- CMS Claw-back Program—Government audit of Medicare Advantage plans expected to recover $4.7B
- Changes to Star Ratings—New health equity index and de-emphasis on member experience measures may pressure carriers to expand services to low income and dual eligible populations

Key Takeaways

- Medicare has evolved to comprehensive medical and prescription drug coverage
- Over half of Medicare beneficiaries are enrolled in private plans
- The Part D changes under the Inflation Reduction Act will increase plan costs
- Increased government scrutiny on Medicare Advantage cost and delivery

Your Feedback Is Important. Please Scan This QR Code.

Session Evaluation

Appendix

Funding Source	2023/2024	2025+
CMS Direct Subsidies	Monthly capitation paid by CMS to Part D plans to cover cost of plan after premiums, coverage gap discounts and reinsurance	Higher payments expected to offset cost of enhanced benefits and reduced reinsurance
	Set at (risk score x national average bid) *less* base beneficiary premium	Formula unchanged, but new direct subsidy amounts for 2025 will not be known until August 2024
Pharmaceutical Manufacturer Discounts	Coverage Gap Discount Program (CGDP) pays 70% of brand formulary spend in coverage gap	New Manufacturer Discount Program (MDP) replaces CGDP with discounts of 10% on brand spend before $2,000 OOPM; 20% on brand spend after OOPM
	Claim-based payments made by pharmas to CMS quarterly, then distributed to Part D plans (and then to plan sponsors of self-insured EGWPs)	
CMS Catastrophic Reinsurance	80% of all spend once TrOOP reached	20% of brand spend and 40% of generic spend once OOPM reached
	Claim-based reimbursement by CMS to Part D plans at 80% of all drug spend once TrOOP reached. Portion paid monthly in advance with balance paid after year-end reconciliation.	A portion of reinsurance will still be paid in advance; amount to be determined
Low Income Subsidies	Lower premiums and richer benefits for LIS-eligible enrollees. CMS reimburses plans for LIS (premiums monthly; benefit enhancements after year end). IRA moves income threshold for full LIS from 135% of FPL to 150%.	
Total	These payments reduce cost of Part D premiums and increase value of benefits. plan sponsors of self-insured EGWPs can retain these payments to offset retiree medical subsidy.	

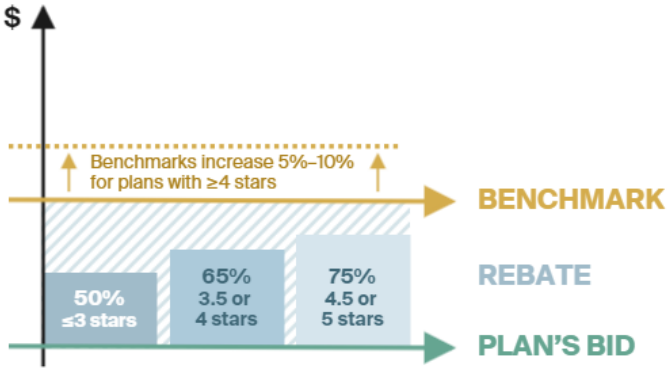
Basic Components of Medicare Advantage Plan Payments

1

CMS sets a **benchmark**, the maximum amount the federal government will pay plans per enrollee per county.

2

A plan submits a **bid**, its estimated costs of covering the Medicare Parts A and B services for the average enrollee in each county.



3

If a plan bids below the benchmark, it receives a portion of the difference in the form of a **rebate**. This can range from 50 percent to 70 percent, depending on the plan's quality star rating.

Plans must use the rebate to lower out-of-pocket costs for enrollees or finance extra benefits.

Data: Centers for Medicare and Medicaid Services.

Source: Christina Ramsay and Gretchen Jacobson, "How the Government Updates Payment Rates for Medicare Advantage Plans" (explainer), Commonwealth Fund, Mar. 4, 2024. https://doi.org/10.26099/009r-2t15