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MAPD TURNS 18

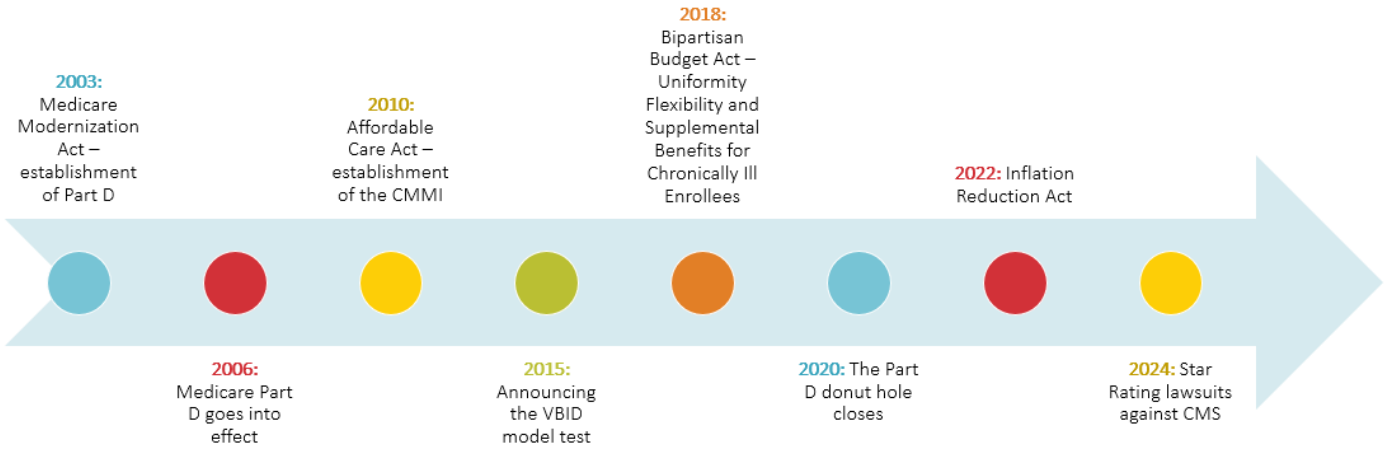
The Journey and A Glimpse of the Next Chapter for MAPD

Medicare Advantage and Prescription Drug (MAPD, or simply MA) plans have been in the market for nearly two decades when Medicare Part D coverage began in 2006 and have grown into viable options for Medicare beneficiaries. As we celebrate MAPD's 18th birthday in 2024, we are reflecting on its major achievements, as well as the growing pains has experienced since its inception. We are also looking forward with anticipation; is MAPD ready for adulthood?

MAPD Milestones

The landscape of MAPD has been shaped by various legislative milestones over the last two decades. The timeline below (Figure 1) captures some of the most important milestones that have had lasting impacts.

Figure 1: Major MAPD Milestones



Medicare Modernization Act (2003) – Largest overhaul of Medicare in the program's 38-year history. Established the prescription drug benefit under the Medicare program and created premium adjustments for low-income beneficiaries among other provisions.

Medicare Part D (2006) – Medicare Part D coverage began for Medicare beneficiaries; the benefit helps cover the cost of prescription drugs and beneficiaries can enroll in either a stand-alone prescription drug plan (PDP) or through a Medicare Advantage plan (MAPD).

Affordable Care Act (2010) – Introduced the Star rating system and significantly changed the way Medicare Advantage Organizations are funded by the government and created a standardized measurement of quality across Medicare Advantage plans. In addition, the ACA established the Centers for Medicare and Medicaid Innovation (CMMI), which eventually brought about numerous changes to the MA market.

Value-based Insurance Design (2015) – Also known as VBID. Allowed for non-uniform coverage on Part C and Part D for specific cohorts of population based on chronic conditions and socioeconomic statuses.

Bipartisan Budget Act (2018) – Established Uniform Flexibility (UF) and Supplemental Benefits for the Chronically Ill (SSBCI), allowing for tailoring health-related benefits based on specified health status.

Part D Gap Closure (2020) - Originally, beneficiaries had to pay 100% of the drug costs after reaching a certain spending threshold, referred to as the donut hole. The Affordable Care Act gradually reduced the gap over time. 2020 marked the complete elimination of the donut hole.

Inflation Reduction Act (2022) – Sweeping changes to the Part D benefit design and funding.

Star Rating Lawsuits Ruling (2024) – Led to the reopening of calendar year 2024 Stars calculation for all contracts during the payment year 2025 bidding period.

MAPD Growth Over the Years

MAPD membership kept its steady growing pace throughout these major changes, and now covers more than half of all Medicare beneficiaries. As shown in Figure 2, the total enrollment of MAPD plans has grown from 7 million in 2006, to nearly 35 million in 2024. At the same time, Medicare fee-for-service (FFS) growth has declined slightly (35.8 million in 2006, 33.3 million in 2024). MAPD penetration rate grew from 17% (2006) to over 50% (2024) and continue to grow relative to FFS Medicare enrollment in the years to come. Except for areas where population is sparse (Great Plains, Rocky Mountains, and Alaska, etc.), many counties' MA penetration rates are above 50%, and close to 90% in some areas as of 2024 (Figure 3).

Figure 2: Change of Medicare Enrollment

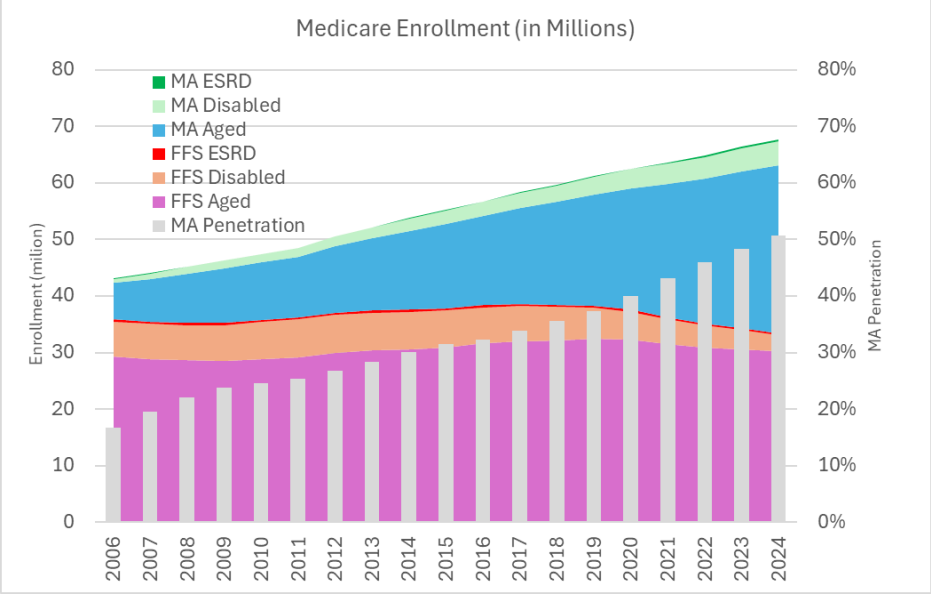
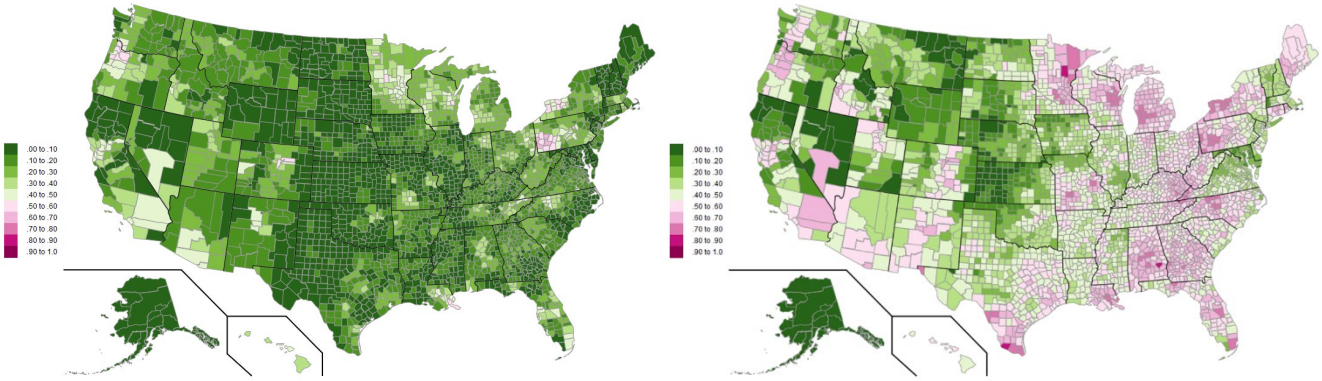
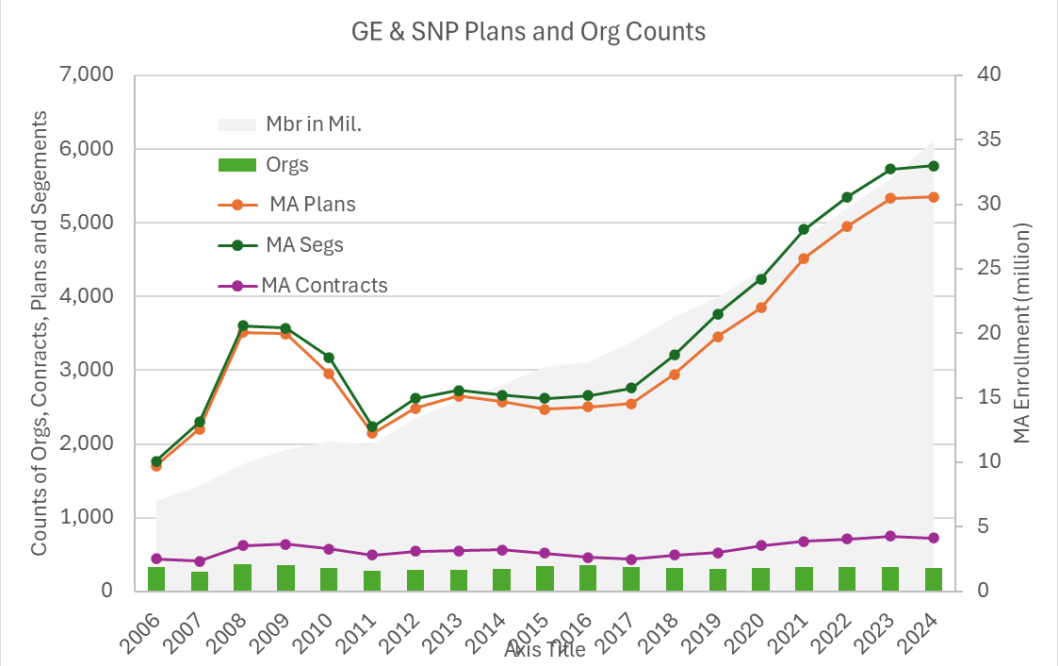


Figure 3: Medicare Advantage Penetration as of May 2009 (left) vs. May 2024 (right)



The growth of MAPD reflects the impacts from the milestones mentioned above, namely enhanced supplemental benefits as well as the demographic change as baby boomers have become eligible for Medicare since 2011. The last eighteen years' growth can be divided into the following three stages.

Figure 4: MAPD Offerings in the Market



"Early Childhood" (2006-2010) – Most of the current rules and milestones were not in place during this stage and the market was unsettled. Many organizations went through expansion and contraction cycles during this time to test the market. The differences in benefit offerings were mainly within Medicare covered categories, with varying copays, coinsurances, maximum out-of-pocket (MOOP) and member premiums. Supplemental benefits offerings were minimal. Large organizations (top 10) occupied less than 30% of the market share in the early years. Special Needs Plans (SNPs) were not popular.

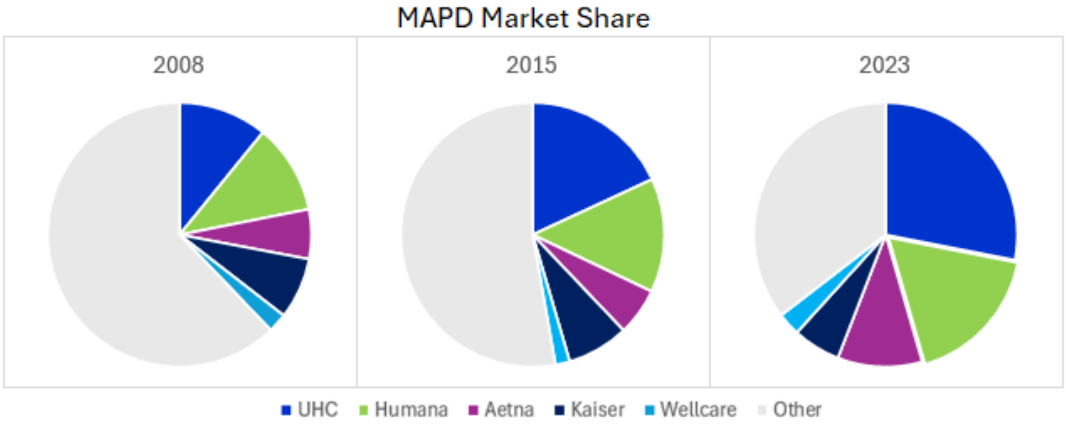
"Pre-teen" (2011-2018) – These years saw the steady growth of MAPD as baby boomers started to enter the Medicare market and more guidelines and rules (such as Stars and Total Beneficiary Cost) were put in place. Plan sponsors started to focus benefit differentiation on supplemental benefits when options to change the Medicare covered categories were limited. Most plans offered basic dental, vision, and hearing benefits. However, comprehensive dental coverage was still not common and considered an expensive offering. At the same time, the Part D coverage gap (the "donut hole") started to shrink at a steady pace year over year and the gap was finally closed in 2020. VBID started as a pilot program only in certain states.

"Adolescent" (2019-now) – MAPD growth has accelerated in this period. As provider risk sharing and global capitation became more popular, plan sponsors started to offer much richer and more flexible supplemental benefits to compete for membership. Comprehensive dental, vision, hearing aids, OTC/flex cards, etc. have become the market standards alongside other innovative supplemental benefits. In some states, Part B premium buydown is a must-have for general enrollment plans to be competitive. UF, SSBCI, and VBID also gained popularity. Recently, the Inflation Reduction Act (IRA), newer risk score

models, and the impact of the Covid-19 pandemic have brought disruptions to plans' profitability and market stability, forcing plan sponsors to adapt to these changes through new strategies.

As shown in Figure 4, throughout the last two decades, even though the numbers of plans (segments) grew along with the MA population, the numbers of H-contracts and parent organizations stayed relatively stable. Larger organizations have the advantages of broader provider networks, bargaining power that can exist over multiple lines of business, resources to acquire more membership through marketing efforts and underlying brand recognition, economics of scale that may lower administrative costs per member, and investment into analytics that may identify increased revenue opportunities such as inappropriately dropped diagnoses in encounter data (e.g., a beneficiary had claims with a diabetes record in one year and not in the next). In 2023, the top 5 organizations cover nearly two thirds of the MAPD market (Figure 5).

Figure 5: MAPD Market Share of the Top 5 Organizations



The Growing Pains -- Balancing Benefits with Controversies

Medicare Advantage has represented a significant evolution in healthcare delivery for seniors, offering a blend of comprehensive coverage, cost efficiency and value-based care. Over the last two decades, the milestones and market competition mentioned above have brought higher quality, more flexibility, richer benefits, and more specialized care to seniors than ever before. However, just as growth usually comes with growing pains, Medicare Advantage has not gone without criticisms and controversies. For stakeholders in the healthcare industry, understanding both the strengths and criticisms of Medicare Advantage is essential. Let's unpack a few of these concerns.

Enrollment: Selection Bias Via Benefit Designs

There is an ongoing debate about how Medicare Advantage impacts traditional Medicare. Some argue that MA plans tend to attract healthier individuals, leaving a more expensive population in traditional Medicare. If true, it could potentially drive-up FFS costs and MA benchmarks. However, others see Medicare Advantage as a complementary option that offers beneficiaries more choice and tailored care.

The competition between MA and traditional Medicare can drive innovation and improvements in both programs, ultimately benefiting beneficiaries.

Coding Concerns: Higher Risk Adjustment Factors (RAF)

MA plans are reimbursed with payments adjusted to reflect enrollees' relative health status or Risk Adjustment Factor (RAF) and have faced scrutiny over compliance with diagnosis coding rules. Some insurers have been accused of inflating diagnoses, a practice known as "upcoding," to receive higher payments. This practice not only increases costs but also skews the accuracy of health status reporting, undermining the RAF system's integrity.

Access to Care: Balancing Network Restrictions with Coordination

Medicare Advantage plans often feature network restrictions, requiring beneficiaries to use a specified network of doctors and hospitals. While this can limit access to certain providers, it also allows MA plans to negotiate better rates and manage care more effectively. For many enrollees, this trade-off is worth it, especially when considering the additional benefits MA plans offer. However, it is important to acknowledge that these network restrictions can be a limitation of beneficiaries, particularly for those with complex healthcare needs who may require specialized care outside of their plan’s network.

Complexity and Beneficiary Understanding: Education and Informed Choices

The structure of Medicare Advantage plans can be complex, with varying benefits, copayments, and coverage rules. This complexity can make it challenging for beneficiaries to choose the right plan and to fully understand their coverage. Additionally, aggressive marketing practices by some MA plan sponsors have also raised concerns. Both CMS and many MA organizations are working to improve education and transparency, helping seniors make more informed decisions.

A Glimpse into the Next Chapter

The 2025 Medicare Advantage bid submission season has just officially ended and open enrollment will start soon. This year, the submission process has been a bumpy ride, with the significant upcoming IRA changes to Part D, historically low 2025 MA benchmark rates, continued phasing-in of the revamped risk adjustment model, changes to the Part C fee-for-service normalization factor that reduce risk scores, increased complexity and restrictions for VBID filings, and the unprecedented recalculation of the Star ratings.

In addition to bidding complexity and legislative changes, the costs associated with providing care for an aging population have been rising. As the baby boomer generation ages, the prevalence of chronic conditions and the need for more intensive healthcare services have grown. This increase in medical costs is putting pressure on the profit margins of Medicare Advantage plans. Companies are finding it challenging to balance the need to provide comprehensive care and remain competitive while maintaining profitability.

For many years, MA has been a significant profit driver for many insurance companies. Some recent articles and publicly available financial outlooks indicate that the golden age of profitability for these plans may be slowing down, for now. Several national MA players have announced large market exits, citing the significant headwinds in rising costs and decreasing funding as the drivers. Whether this continues is unclear and depends on how insurers and CMS respond.

As MA continues to grow, thoughtful reforms and ongoing innovations will be key to addressing these concerns. By balancing market competitiveness with financial responsibility, the healthcare industry can ensure that Medicare Advantage remains a viable, effective option for millions of Americans, while maintaining attractiveness, fairness, transparency, and sustainability in the healthcare system.

Many questions remain unanswered regarding how the MA landscape will take shape in the next few years. Will CMS decrease MA payments through changes to Part C benchmarks or the coding pattern adjustment? How will plans' Star ratings be affected in the future with the lingering effect of the Tukey outlier rule? Will the IRA impact stabilize once the main Part D benefit redesign has been phased in? Is VBID here to stay? Will benefit innovations fueled by increased plan design flexibility continue? Will dual-eligible plans bloom under the Duals Act of 2024?

We have more questions than answers. We know one thing for sure – MAPD's adulthood will be anything but boring.

Please contact the authors with any questions or to follow up on any of the concepts presented here.

OUR STORY

Five decades. Wakely began in 1969 and eventually evolved into several successful divisions. In 1999, the actuarial arm became the current-day Wakely Consulting Group, LLC, which specializes in providing actuarial expertise in the healthcare industry. Today, there are few healthcare topics our actuaries cannot tackle.

Wakely is now a subsidiary of Health Management Associates. HMA is an independent, national research and consulting firm specializing in publicly funded healthcare and human services policy, programs, financing, and evaluation. We serve government, public and private providers, health systems, health plans, community-based organizations, institutional investors, foundations, and associations. Every client matters. Every client gets our best. With more than 20 offices and over 800 multidisciplinary consultants coast to coast, our expertise, our services, and our team are always within client reach.

Broad healthcare knowledge. Wakely is experienced in all facets of the healthcare industry, from carriers to providers to governmental agencies. Our employees excel at providing solutions to parties across the spectrum.

Your advocate. Our actuarial experts and policy analysts continually monitor and analyze potential changes to inform our clients' strategies – and propel your success.

Our Vision: To partner with clients to drive business growth, accelerate success, and move the health care industry forward.

Our Mission: We empower our unique team to serve as trusted advisors with a foundation of robust data, advanced analytics, and a comprehensive understanding of the health care industry.

Learn more about Wakely Consulting Group at www.wakely.com