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EXECUTIVE BRIEFING

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Health Care Reform and Its Impact on Medicare Advantage and Part D

The vision of Congressional Democrats for private health plans is to cut Medicare Advantage payment while increasing payment for Part D, rewarding quality, strengthening accountability and assuring consumer protections. If enacted, private plans will face many challenges, but will also have an opportunity to prove that the health plan model is best suited to accomplish the true goals of health care reform – *high-quality, accountable and coordinated care at an affordable price.*

With the Senate debate underway, private plans must prepare for the Medicare changes at center of negotiations. While Senate debate and conference committee negotiations will be difficult, there is surprising consistency in the Medicare Advantage (MA) and Part D provisions being proposed. This usually means that the provisions will be included in final legislation, expected to emerge in early 2010. With a few important differences, most of the Medicare Advantage and Part D provisions in the House bill are consistent with the provisions in the Senate bill.

Payment Reductions

Medicare Advantage plans should start preparing now to absorb reduced payment over the next few years. The Senate bill would reduce MA payment by $118 billion over the next decade by cutting payment three percent (3%) in 2011 and phasing in a competitive bidding process over three years starting in 2012. The House bill would reduce MA payment by $154 billion by phasing down county payment rates to one-hundred percent (100%) of Medicare fee for service by 2013. ***The impact of these payment cuts will affect every plan but will vary by county.*** Plans should be engaged in scenario planning for their specific service areas right now to better understand the outlook.

Both bills extend the coding intensity adjustment—the House bill for ten years and the Senate bill through 2013. The coding intensity adjustment for 2010 resulted in a 3.4 percent cut in MA rates. This means that if MA plans do not improve their Risk Adjustment Factor (RAF) scores by at least 3.4% annually, they will begin to fall behind their competitors. This calls for a continued focus on strategies to enhance revenue through improved risk adjustment and enrollment reconciliation. This also calls for an evaluation of medical management, with attention given to techniques to prevent hospital readmissions and medical errors, and to better manage patients with chronic conditions.

Pay For Performance

To offset planned payment cuts, both bills include quality bonuses for MA plans that achieve performance targets. Under the House bill, a plan with a 4-star rating in a county that ranked in the lowest third of FFS payment rates with a MA enrollment penetration of 20 percent can receive a five percent bonus in 2013. Under the Senate bill, beginning in 2014, a plan with a 4- or 5-star rating can qualify for a care coordination bonus of up to two percent and a quality performance bonus of four percent. ***Plans should act now to improve their HEDIS and CAHPS scores, as these are critical components of the current star rating system.*** Plans should be prepared for more stringent outcome performance measures over time.

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Part D Reimbursement and Rebates

Payment for Part D will be increased under both the House and Senate bills. The House bill would fill-in the coverage gap by 2019, starting with $500 in 2010. The Senate bill only includes $500 of gap coverage in 2010. Because financing health reform is so expensive, we expect final legislation to be closer to the Senate bill. But Congress clearly wants to send the signal that they are improving Part D coverage. A challenge for plans will be administering the new payment which is scheduled to begin January 1, 2010 and will involve retroactive payment adjustments.

A significant difference between the House and Senate bills is the treatment of rebates under Part D. Both bills include the PhARMA agreement to cover 50 percent of the cost of brand name drugs in the coverage gap (starting January 2010 under the House bill and July 2010 under the Senate bill). However, the House bill goes further by requiring Part D drug rebates for duals and low income beneficiaries to be equal to rebates under the Medicaid program.

In addition, the House bill provides the Secretary of HHS with the authority to negotiate drug prices under Part D beginning in 2011. If passed, plans will find it challenging to implement these provisions under the deadlines in the bills. We do not expect the controversial Part D negotiating authority to gain traction because the Congressional Budget Office scored this provision as providing no savings.

Special Needs Plans

Both the Senate and House bills extend the Special Needs Plan (SNPs) program. SNPs are extended through 2012 in the House bill and through 2013 in the Senate bill. Dual SNPs are extended through 2013 in the Senate bill, while the House bill would extend dual SNPs through 2015. Since both bills require dual SNPs to have contracts with Medicaid, plans staying in this market should begin negotiations with Medicaid state agencies now.

Marketing and Sales

Plan marketing is another area of focus. Both bills move the annual election period forward starting in 2011. The Senate changes the AEP to October 15-December 7, while the House moves the AEP to November 1-December 15. The House bill eliminates the January-March open enrollment period (OEP) while the bill Senate shortens the OEP to January 1-February 15 and extends the OEP to Part D plans.

Both bills increase penalties for MA and PDP marketing violations. The House bill also allows states to take enforcement actions against plans and brokers that violate marketing requirements. Plans should already be intensifying the training and monitoring of their brokers and agents.

Additionally, initiating preemptive audits and remedial action to identify and resolve marketing issues as soon as possible is strongly recommended.

Compliance, Compliance, Compliance

Increased compliance activities by CMS are authorized in both bills. The House bill adds risk adjustment data to annual financial audits for one third of plans and authorizes financial recoveries for deficiencies. The Senate bill requires the Secretary to develop a complaint tracking systems for MA and PDP enrollees from receipt through resolution.

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The Senate bill expands the Recovery Audit Contracts (RAC) used for FFS Medicare compliance to review compliance under Medicare Advantage and Part D. Review by RACs will include review of high-cost beneficiaries in Part D plans, Part D reinsurance claims, and review of the effectiveness of anti-fraud plans in Medicare Advantage and Part D plans. Another new provision that may be enacted is the House requirement that Medicare Advantage plans meet a minimum loss ratio (MLR) of 85 percent by 2014. If enacted, this provision would require plans to start reporting loss ratio data in 2012.

As stated in November's Gorman Health Group Executive Briefing *"Health Care Reform Is Real. And Luck Favors the Prepared,"* even if some components of the House and Senate bills are negotiated away, there are enough far-reaching changes to impact every health plan, especially Medicare Advantage plans. Now is the time to start evaluating and preparing your business with an eye toward the future. ***The Medicare Advantage and Part D "impact provisions" contained in the House and Senate bills that are likely to survive the health care reform debate are significant.***

To survive under the proposed payment reductions and to effectively manage under intensified regulatory scrutiny will require both foresight and operational reengineering. There is enough common ground in the proposed legislation to begin preparing today to ensure you build a sustainable business model for tomorrow.

To access GHG's previous Executive Briefing, *Health Care Reform Is Real. And Luck Favors the Prepared*, visit: http://www.gormanhealthgroup.com/white-papers/GHG_HCR111309.pdf.

Contact us at ghg@gormanhealthgroup.com for more information.

About Gorman Health Group (www.gormanhealthgroup.com)

The premier Medicare, health insurance and federal programs consultancy provides thought leadership, strategic insight and business solutions to the private sector. By leveraging extensive subject matter expertise and in-market learning, a team of former health plan executives and seasoned regulators brings clients the vision, technical acumen, and operational savvy to excel in competitive markets.

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