

Health Care Policy Update

CMS Releases Preliminary 2025 Medicare Advantage Rate Notice

Government Regulations

Advance Notice for 2025 Medicare Advantage Rates – Includes a Reduction of -0.16%, Before Risk Score Trend

On January 31, Centers for Medicare & Medicaid Services (CMS) released its Advance Notice 2025 Medicare Advantage (MA) and Medicare Part D policy and rate update. CMS estimates a preliminary MA rate update of -0.16%, after adding an additional 3.86% in MA risk score trend yields a 3.7% increase in MA plan revenues for 2025. These proposed rates for 2025 are in-line with expectations, as CMS included a 2.44% effective growth rate estimate for 2025, and a -0.15% reduction from changes in Star ratings. CMS also includes a -2.45% reduction related to the second year of phase-in of risk model revisions and normalization. CMS also will continue to apply only the statutory minimum 5.9% coding pattern adjustment in 2025, with no changes.

CMS also included draft CY2025 Medicare Part D redesign instructions, outlining a \$2,000 out-of-pocket cap in 2025 as well as revisions to the structure of the Part D drug benefit. These revisions include new discounts for brand name manufacturers of 10% of cost in the initial coverage phase and 20% of cost in the catastrophic phase. Part D plans also see revisions in liability in the initial coverage phase from the current 75% to 65% and increased liability from 15% to 60% in the catastrophic phase. In addition, federal reinsurance in the catastrophic phase will decline from 80% currently down to 20% for applicable drugs or 40% for non-applicable drugs in 2025.

Overall, the preliminary rate update of -0.16% is in-line with expectations.

However, CMS estimates that with an additional 3.86% MA risk score trend that **plans will see a net 3.7% increase in revenues in 2025**. CMS asked for comments by March 1 and will release its final rate notice by April 1. MA rate components include:

- **MA Growth Rate** – For 2025, CMS estimates the effective MA growth rate at 2.44%, and is the result of a National Per Capita MA Growth Percentage estimate of 1.98%, and a National FFS USPPC growth percentage estimate of 2.57%. CMS estimates an underlying trend of 3.5% for 2025 with adjustments for prior years.
- **Rebasing / Re-pricing** – This adjustment is still to be determined and will be included in the final rate notice released in April.
- **Star Quality Bonus Payments for Plans** – CMS estimates that the revised star rating bonuses will result in decreased MA payments of -0.15% in 2025.
- **MA Coding Pattern Adjustment** – CMS has not included any recent changes in the coding pattern adjustment over the last several years, and once again, CMS did not propose any additional adjustments for 2025, maintaining its 5.9% coding pattern adjustment – which is the minimum adjustment required under statute, even as MedPAC and others suggest that a larger adjustment is more appropriate.
- **Risk Model Revision and Normalization** – CMS estimates that changes in its risk model will result in a -2.45% reduction in 2025. CMS also notes that it is considering a more sophisticated methodology for the FFS normalization factor to more accurately address impacts of the COVID-19 pandemic.

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12654169

Timestamp: 01 February 2024 12:07PM EST

01 February 2024

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Abbreviations

CMS: Centers for Medicare and Medicaid Services

HHS: Health and Human Services Department

MA: Medicare Advantage

FFS: Fee for Service

Exhibit 1: Year over Year Percentage Changes in MA Payments – Preliminary 2025 Rate Notice

Preliminary 2025 MA rate expected change in payments of -0.16%, before additional MA risk score trend

	2024 Final Rates	2025 Preliminary Rates
Medicare Advantage Effective Growth Rate	2.28%	2.44%
Rebasing / Re-pricing (1)	0.00%	TBD
Change in MA plan Star Ratings (2)	-1.24%	-0.15%
MA Coding Pattern Adjustment	0.00%	0.00%
Risk Model Revisions and Normalization (3)	-2.16%	-2.45%
Expected Change in Payments	-1.12%	-0.16%
Estimated FFS USPPC Cost Trend	2.45%	2.57%
Net Spread (above/below cost trend)	-3.57%	-2.73%
Additional MA Risk Score Trend (4)	4.44%	3.86%
Net Change in MA Revenues after MA Risk Score Trend	3.32%	3.70%

Source: CMS

(1) Rebasing/re-pricing impact is dependent on finalization of the average geographic adjustment index and will be available with the publication of the CY 2025 Rate Announcement

(2) Change in Star Ratings reflects the estimated effect of changes in the Quality Bonus Payments for the upcoming payment year

(3) The impact of the update to the Fee-for-Service (FFS) normalization factors for MA risk adjustment is not shown separately because there is considerable interaction between the impact of the MA risk adjustment model updates and the normalization factor update

(4) The MA risk score trend is the average increase in MA risk scores, not accounting for normalization and coding pattern adjustments to MA risk scores, which are shown in separate rows. The risk score trend is calculated by using MA risk scores from 2018 – 2020, calculated using the risk adjustment models, with the appropriate blend for CY 2025. The trend is an industry average and individual plans' experience will vary.

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