

How Bonus Payments are Calculated: An Illustrative Example

To illustrate how the bonus payments are calculated, take the example of a 5 star plan in County X. First, the plan submits to CMS its bid – the plan’s cost for providing Medicare Part A and B benefits in County X.⁸ Most plans submit bids that are lower than the county benchmark – the maximum amount Medicare will pay the plan to provide Part A and B benefits in the county. Few plans submit bids that are above the county benchmark. If the bid is below the county benchmark, then the plan receives a share of the difference between the bid and the benchmark. The amount the plan receives is called the rebate, which must be used to provide extra benefits to enrollees, and varies by the plan’s star rating. The rebate for 5 star plans will be 73 percent of the difference between the plan bid and the benchmark in 2012.

Five-star plans will have 5 percent added to their benchmark in County X in 2012 (**Exhibit 3**). The plan then receives 73 percent of the difference between the plan bid and the new, bonus-adjusted benchmark. The additional amount the plan receives in rebates, as a result of the health reform law and the demonstration, is the bonus payment.

For a 3-star plan, 3 percent added to their benchmark in County X in 2012 – a smaller increase than for higher rated plans (**Exhibit 4**). The rebate for a 3-star plan will be 67 percent of the difference between the plan bid and the new, bonus-adjusted benchmark in 2012. The additional amount the plan receives in rebates, as a result of the health reform law and the demonstration, is the bonus payment. As a result, 3-star plans receive smaller bonus payments per enrollee than higher rated plans in the same county.

