

# Medicare Advantage Payment Structure

FACT SHEET OCTOBER 2017

**BETTER MEDICARE**  
ALLIANCE

**Medicare Advantage is the option in Medicare that offers eligible beneficiaries the choice of private insurance plans to cover all Medicare benefits. Plans are paid a monthly fixed, per person amount to provide coverage and pay providers to care for beneficiaries.**

## **Medicare Advantage is Based on a Capitated Payment System**

- The Centers for Medicare & Medicaid Services (CMS) pays Medicare Advantage plans a capitated, or fixed, prospective amount to cover care for each beneficiary.
- Plans must cover the same benefits as Fee-For-Service (FFS) Medicare, including, Part A (hospital insurance) and Part B (medical insurance) benefits.
- CMS adjusts these payments to reflect the specific characteristics and anticipated cost of providing care to each beneficiary through a process called risk adjustment.
- In 2008, Congress set the goal to bring Medicare Advantage payments in line with FFS Medicare within 7 years. According to MedPAC, payments to Medicare Advantage plans in 2017 were 100% equivalent to FFS Medicare.

## **Medicare Advantage Payment Methodology**

- A bid-to-benchmark based approach is used to determine Medicare Advantage payment rates. Under this approach, CMS uses county-level FFS Medicare cost data to determine the benchmarks, or “base rate” for Medicare Advantage plans. The benchmark is the average cost of coverage for a FFS Medicare beneficiary. Benchmarks are based on FFS Medicare spending for beneficiaries who are enrolled in Medicare Part A and B, as well as individuals enrolled in Part A only.

- Benchmarks are then set at between 95% of FFS Medicare costs (typically urban and suburban areas) and 115% (typically rural areas), depending on geography.
- Plans submit bids every year, in each county of operation. The bids are an estimate of the cost to provide Part A and Part B benefits to beneficiaries of average health in that county.
- Each bid is compared to a payment area’s benchmark, which is the maximum amount that Medicare will pay Medicare Advantage plans in that county.
- If a plan bids below the benchmark, it is paid the base rate plus a rebate. The rebate must be used to lower out-of-pocket costs or provide enrollees extra benefits, such as dental or vision care. If a plan bids above the benchmark, it is paid the base rate, and enrollees pay the difference between the bid and the benchmark in the form of a premium.

## **Medicare Advantage Payment is Risk Adjusted**

- CMS adjusts the Medicare Advantage benchmark base rate payments for each enrollee to account for cost differences associated with various diseases and demographic factors through risk adjustment.
- Risk adjustment is critical to ensuring adequate, predictable, actuarially sound payments to Medicare Advantage plans to care for beneficiaries.

## **Medicare Advantage Incentivizes High Quality Care**

- Medicare Advantage plans are given bonus payments on rebates for quality performance, through the Star Ratings

System. CMS evaluates Medicare plans on a 1-5 scale, with a 5-star rating being the highest. Performance is based on certain clinical, operational, and patient satisfaction measures. Medicare Advantage plans with 4 or 5-star performance on quality measures receive bonus payments on their rebate, which must be used for enrollee benefits.

- Medicare Advantage plans have the option to combine Medicare Advantage plans with prescription drug coverage under Medicare Part D, which is paid for through a separate bidding and payment system.

## **Medicare Advantage Plans Need Adequate and Stable Payment to Care for Beneficiaries**

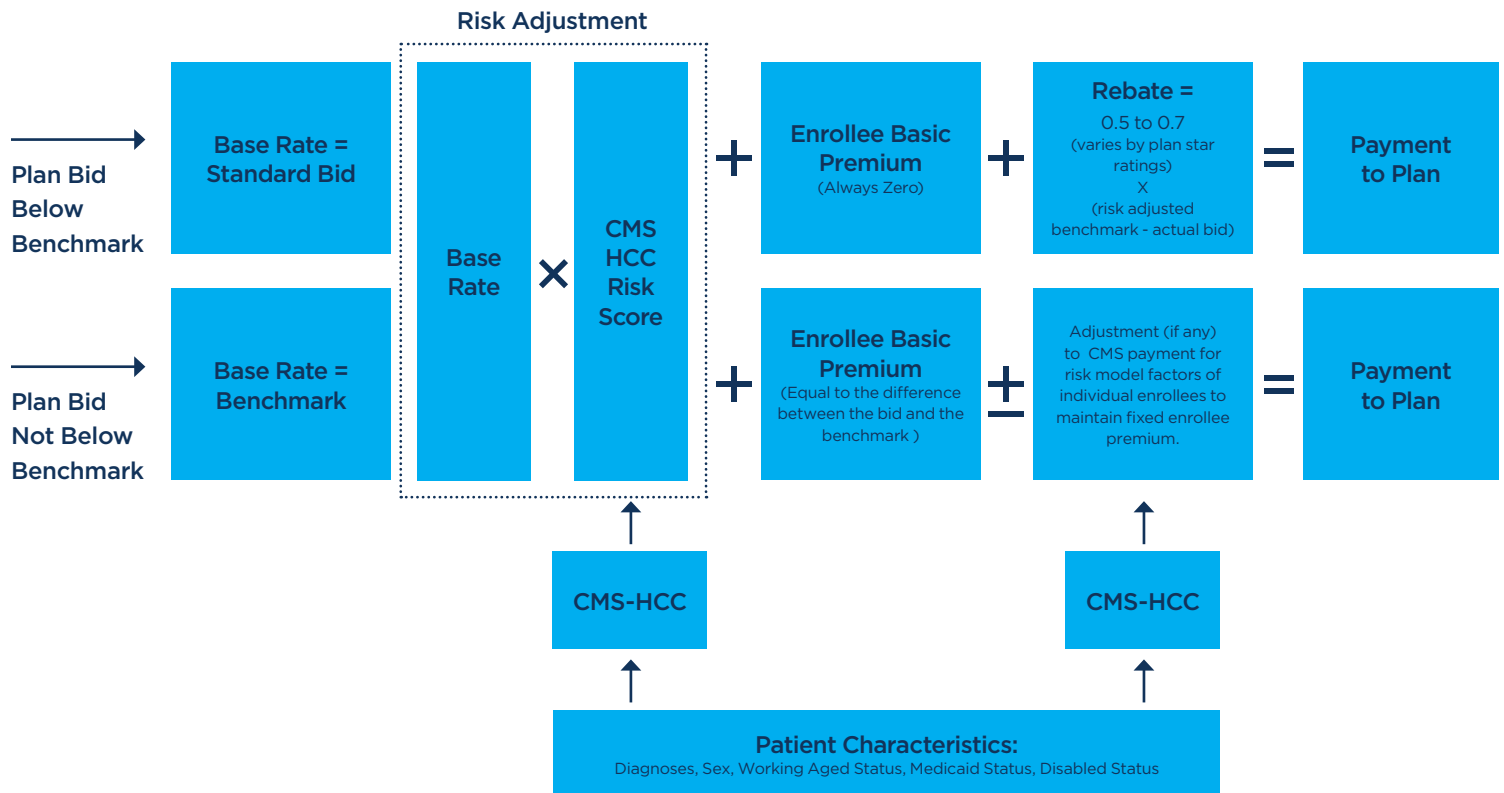
- Medicare Advantage plans are required to offer all benefits provided under both Medicare Part A and B. Yet, FFS Medicare benchmarks used for bidding and payment include beneficiaries enrolled in Part A only. This methodology reduces the accuracy of the benchmarks.
- Concerns have been raised about the adequacy of payment for high risk populations, including dual eligible enrollees, beneficiaries with multiple chronic conditions, and beneficiaries with social and cognitive impairments. This may result in insufficient payments for high need, high cost beneficiaries.
- Payment in some counties across the country are capped to contain costs. These counties are referred to as benchmark capped. As a result, some high-quality plans cannot receive quality bonuses they would receive in another location. Enrollees in these plans have limited access to additional benefits or reduced cost sharing.

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## Summary of Medicare Advantage Payment



## Key Facts

- Payment to Medicare Advantage plans are made based on bids at or below the average cost of FFS Medicare beneficiaries by county.
- CMS adjusts Medicare Advantage plan payments to reflect the health of each beneficiary.
- Plans that bid below the benchmark receive rebates to provide enrollees extra benefits. Enrollees in plans that bid above the benchmark pay the difference in the form of a premium.
- Plans with higher Star Ratings receive quality bonus payments.
- Adequate and stable payment is critical for Medicare Advantage plans to care for all eligible beneficiaries.

## Policy Recommendation

CMS should ensure payments are adequate, accurate and stable for Medicare Advantage to appropriately serve all beneficiaries. CMS should address the weaknesses in payment methodology, including benchmark payments based on FFS Medicare costs only for beneficiaries with both part A and B, lifting the benchmark cap, and ensuring payments are accurate and adequate for high-risk beneficiaries with multiple chronic conditions. Consistency and stability in payment enables plans and providers to invest and innovate to improve care delivery and contain costs.