



Advance Payment Notice Continues to Shift Plans from Growth to Performance

THE PRESSURE IS ON TO PROTECT EXISTING ENROLLMENT WHILE DEMONSTRATING BETTER VALUE FOR BENEFICIARIES IN MEDICARE ADVANTAGE PLANS.

The Centers for Medicare & Medicaid Services (CMS) released the [2025 Advance Notice](#) on January 31, 2024, prompting Medicare Advantage organizations (MAOs) to closely examine the degree to which supplemental benefits can help maintain or improve beneficiary health status. The proposed changes emphasize the shift for MAOs to go beyond simply attracting enrollees, a topic we discuss in greater detail in our recent [Medicare Advantage \(MA\) enrollment report](#).

This Advance Notice also comes on the heels of [specific proposed regulatory changes](#) in measurement and reporting of supplemental benefit utilization.

In partnership with our consulting actuaries, we conducted a detailed review of the Advance Notice. We summarize below the critical impacts for 2025 bids and benefit tradeoffs under consideration. Note: These are subject to change based on publication of the Final Notice.

2025 Advance Notice Fact Sheet¹

Impact	2024 Rate Announcement	2025 Advance Notice
Effective Growth Rate	2.28%	2.44%
Rebasing/Re-pricing	0.0%	TBD
Change in Star Ratings	-1.24%	-0.15%
MA Coding Pattern Adjustment	0%	0%
Risk Model Revision and Normalization	-2.16%	-2.45%
MA Risk Score Trend ²	4.44%	3.86%
Expected Average Change in Revenue	3.32%	3.70%

(1) The above table is subject to change based on CMS' Final Notice which is set to release around April 1, 2024

(2) The underlying risk score trend is the average projected increase in risk scores, not accounting for normalization and MA coding adjustments, which are shown in separate rows. Individual plan experience will vary.

What are the impacts for Medicare Advantage plans?



Growth Rate

Individual MA growth rates in the 2025 Advance Notice are lower than the historical average, due in part to a technical update pertaining to the impact of indirect and direct medical education costs on the development of United States per capita costs (USPCC).



Technical Update

CMS is phasing in over three years a technical change to remove MA-related indirect medical education and direct graduate medical education costs paid to hospitals from the expenditures supporting the fee-for-service (FFS) USPCC estimates. 2025 is the second year of the three-year phase-in. The impact is about a 1% reduction in 2025 trend.



Rebasing

CMS is expected to rebase benchmark rates for 2025 based on county-specific experience. However, the change is not yet known and will not be uniform across all counties.



Star Ratings

CMS expects the cumulative impact of all star rating changes to decrease MA plan revenue 0.15%.



Part C & D Risk Scores

Part C risk scores will be developed using a recalibrated hierarchical condition category (HCC) model, weighted 2/3 (new V28 model) and 1/3 (current V24 model) for 2025. CMS projects MA risk score coding trend to increase MA plan revenue 3.86%. The Part D HCC risk model is changing due to IRA changes. Revenue is projected to increase by 3.7% including the risk coding trend assumption.



Bid-To-Benchmark Ratios and EGWP Impact

Bid-to-Benchmark (B2B) ratios have steadily declined over the last five years. A 100% quartile county's B2B ratio has decreased for EGWP rate development for 2021 through 2025 as follows: 85.1%, 82.6%, 79.8%, 77.2%, 76.8%. The impact of this rising competitiveness on the part of individual plans puts downward pressure on Employer Group Waiver Plan (EGWP) rates.

What should MA plans do now?

These changes highlight several strategic implications for MAOs. To navigate critical decisions and potential trade-offs during the Annual Enrollment Period (AEP) and 2025 contract development, MAOs may consider the following strategies:

1

Conduct a quantitative value proposition analysis of all supplemental benefits

Generate tactical, data-driven insights on the impact of supplemental benefits to inform future state benefits program design.

2

Develop a long-term product strategy

Establish longer-term strategic objectives for overall MA product strategy. Align this strategy with enterprise growth and go-to-market objectives on developing product capabilities for member engagement, clinical integration, and home and virtual care beyond the annual market cycle.

3

Optimize channel mix and acquisition costs

Optimize current channel mix and acquisition costs through a careful study of long-term member value by sales channel. This study should identify how each sales channel contributes to longer-term growth, retention, member health status management, and business performance.

HealthScape Can Help

As the healthcare landscape evolves, so too do the regulatory requirements for health plans. We partner with plans across the nation to stay agile and adapt swiftly to market shifts, address the unique challenges of the MA market, and optimize MA performance.

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