Weekly Checkup

MA, Pa(rt D), and the Whole Family Update

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This week, the Centers for Medicare and Medicaid Services (CMS) released its proposed Calendar Year 2025 Advanced Notice of Methodological Changes for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Polices, aka the 2025 MA rate and Part D payment update. Let's review what's in store for MA and Part D in 2025, and how that might affect those programs.

A bit of background: In the 2024 MA rate update, CMS updated its risk adjustment methodology, beginning a three-year phase-in of updates to the way CMS calculates its risk scores (essentially, how CMS determines the level of sickness in a plan's beneficiary population), as well as how it calculates risk adjustment (how much CMS adjusts the baseline payment to the plan based on those risk scores). The sicker the population, the higher the payment to the plan. There have been concerns around the coding intensity (how sick plans find average patients to be) of plans, as well as allegations of outright fraud in which plans were upcoding patients – making their beneficiaries appear to be sicker than they actually were. Because of these issues, CMS wanted to implement a new system that essentially reduces risk scores for plans automatically to keep MA's expenses more in line with traditional fee-for-service (FFS) Medicare. The 2024 model included technical updates, updates to more recent FFS data years that are used to help calculate risk adjustment, and an updated "denominator year" that helps predict average per capita expenditures, among other changes. The model is being phased in over three years, so risk scores are currently a blend of 67 percent of what risk scores would be under the 2024 model and 33 percent of what they would be under the 2020 model.

With that, here's what's in store for MA plans: a 0.16 percent cut to the baseline payment – but have no fear, because that's before an expected risk score trend adjustment of 3.86 percent. **Essentially, CMS expects MA plans to see their revenue increase by 3.70 percent, or more than $16 billion.** CMS also expects stable premiums and benefits for MA beneficiaries in 2025, with little to no increase in premiums.

Part D is receiving some updates as well, namely changes required due to the Inflation Reduction Act (IRA). The biggest of these for 2025 will be the elimination of the coverage gap phase (aka the "donut hole") in which beneficiaries who outspent their initial prescription drug coverage faced having to pay 100 percent of their drug costs until they hit the catastrophic phase. Now, Part D will have just three phases: a deductible phase before coverage kicks in, an initial coverage phase with a 25 percent co-pay, and a catastrophic phase where all costs are covered. Additionally, out-of-pocket costs for beneficiaries will be capped at $2,000 during the initial coverage phase. **Finally, CMS is proposing updates to the Part D risk adjustment model to reflect the IRA redesign.** CMS wants to use newer data years and updates to the normalization methodology (normalization essentially means ensuring that base-year risk scores are weighted to reflect changes to risk scores over time) to reflect differences in risk score trends between MA prescription drug plans and Part D stand-alone prescription drug plans.

Overall, MA plans can expect to see higher payments this year despite a slightly lower baseline rate, and Part D beneficiaries will see fewer out-of-pocket costs. Yet as American Action Forum President Douglas Holtz-Eakin has pointed out, less than 10 percent of Medicare beneficiaries will see lower drug spending because of the IRA. **The proposed rule seems to have largely ignored the controversial Medicare Payment Advisory Commission (MedPAC) report issued earlier in January, which attacked MA spending levels, but policymakers should be aware that the final rule may more fully consider MedPAC's suggestions for**

cuts to the program.