Article from
Health Watch
October 2017
Issue 84

Medicare Advantage: Seven Considerations to Achieve August Resubmission Success

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Medicare Advantage organizations (MAOs) are required to submit initial bids to the Centers for Medicare and Medicaid Services (CMS) in early June each year. CMS releases Medicare Part D national average amounts and Medicare Advantage (MA) regional benchmarks in late July, and MAOs have the opportunity to resubmit final bids for Medicare Advantage Part D (MA-PD) plans in early August.

Why should an MAO consider August resubmissions when preparing its initial June submission? The bids are a projection of the future and clearly include some degree of estimation. One of the items MAOs need to estimate in June is the nationwide averages. These amounts are released by CMS typically in late July, and MAOs must rebid their plans in early August based on the published amounts. Because it is statistically likely that the Part D national average amounts and MA regional benchmarks projected in the initial June submissions will differ from the final amounts announced by CMS in late July, additional bid filings in August will be needed. However, it is important to consider the direction and magnitude of this difference and the resulting impact on an MAO's August resubmission. With proper planning in the weeks leading up to the June submission, initial bids can be developed in such a way that adverse impacts to the August resubmissions are minimized or even eliminated.

AUGUST RESUBMISSION OVERVIEW

Typically, in late July CMS releases the Part D national average bid amount (NABA), Part D national average member premium (NAMP), low-income premium subsidy amount (LIPSA) by state and MA regional benchmarks. Final benefits, member premiums and/or gain/loss margins are impacted if any of these amounts differ from the amounts projected in the initial June submission.

Who participates in August resubmissions?

REQUIRED PARTICIPATION

- Regional Preferred Provider Organization (RPPO) plans must resubmit to reflect the published MA regional benchmarks.
- MA-PD plans with Part D basic member premium below $0.

PROHIBITED PARTICIPATION

- Local MA-only plans.
- Local MA-PD plans without MA rebate dollars in the initial June submission.

OPTIONAL PARTICIPATION

- All other local MA-PD plans. MAOs have the option to not participate, in which case any changes in the direct subsidy since June are reflected in member premium.

What changes are permitted?

PART D BID FORM

- The Part D NABA and NAMP may be updated.

PART C BID FORM

- Part A/B mandatory supplemental benefits may be added or removed.
- Cost sharing on Part A/B mandatory supplemental benefits may be enhanced or reduced.

- Allocation of rebate dollars to buy down Part B premium, Part C premium and/or Part D basic premium may be shifted.
- Capitation arrangements and administrative expenses priced as a percentage of revenue may be rebalanced.
- Small changes to the Part C gain/loss margin resulting in no more than a $0.50 change in rebate dollars.

What changes are not permitted?

PART D BID FORM

- No changes other than updating the NABA and NAMP. Part D benefit design, formulary and Part D gain/loss margin changes are not permitted.

PART C BID FORM

- Large benefit changes, such as adding one benefit and reducing another. All benefit changes should be in the same direction, with very few exceptions.
- Removal of one supplemental benefit and addition of a different supplemental benefit.
- Benefit and/or member premium changes resulting in noncompliance with CMS total beneficiary cost (TBC) tests, meaningful difference tests and gain/loss margin tests.
- Any other changes not described in the earlier "permitted" section.

Please refer to the 2018 MA Bid Pricing Tool Instructions, Appendix E, for more information.[1]

JUNE SUBMISSION CONSIDERATIONS

Because of the limited flexibility in August, MAOs should consider the following items in the weeks leading up to the initial June submission to best position themselves for August resubmission.

Indicate the Target Premium Option That Best Aligns With the Plan's Premium Goal

The Part C bid form has two input options for an MA-PD plan's intention for the target premium: "Premium Amount Displayed in Line 7D" (Part D basic premium) or "Low Income Premium Subsidy Amount" (LIPSA). This input indicates the plan's premium strategy and defines the components that may change during August resubmission.

Incorrect population of this input in the June submission can lead to unintended final member premiums in August. For example, a plan targeting low-income members may target the LIPSA, such that the entire premium is paid by the government for low-income members. However, if the Part D basic premium target is incorrectly selected in the June submission and the final LIPSA is lower than the initial Part D basic premium, the plan will not be able to return to the final LIPSA in the August resubmission. Low-income members may be required to pay the difference between the Part D basic premium and final LIPSA, if the premium amount comes in higher than the final LIPSA. This may adversely impact marketing efforts and membership and could be catastrophic for any plans having to collect payments from low-income members if the difference in premium is greater than the de minimis amount prescribed by CMS.

Consider the Implications of the Direct Subsidy Estimate

MAOs are required to estimate the direct subsidy amount in the June submission. Ideally, the final direct subsidy amount is exactly equal to the MAO's estimate. However, it is statistically likely the final amount will differ from the estimate and there are implications of misestimating the amount in either direction.

- The final direct subsidy amount is lower than the MAO's estimate: The MAO will be required to reduce benefits or raise premiums. This scenario is often not popular because benefits have been decided and sales targets have been set.
- The final direct subsidy amount is higher than the MAO's estimate: The MAO will be required to enhance benefits or lower premiums. While this is generally a more favorable scenario, it still introduces post-June submission changes and additional work for the MAO. It can also produce unintended consequences in later years. For example, additional strain will be placed on the following year's TBC testing if the MAO wants to remove the benefits enhancements the following year and effect long-term profits based on whether TBC limits constrain future premium increases.

Consider the Implications of the LIPSA Estimate

Similar to the direct subsidy, MAOs are also required to estimate the LIPSA for the plan bids that target the low-income benchmark.

- If the final LIPSA is lower than the estimate, the MAO will be required to reduce benefits to ensure the LIPSA is achieved and low-income members do not pay any premium. Alternatively, if the difference is within the de minimis limit prescribed by CMS, the additional member premium may be waived, resulting in a lower profit margin.
- If the final LIPSA is higher than the estimate, the MAO may choose to add benefits or "forgo" the higher premium.

Think Through the Allocation of Rebates

Target premiums are often achieved by shifting rebates between Part C and Part D basic premium components, in conjunction with benefit changes during August resubmission. If the final Part D direct subsidy (i.e., the difference between the NABA and NAMP) is greater than the initial June submission projection, rebates may need to be shifted from Part D to Part C. If the final Part D direct subsidy is less than the initial June submission projection, rebates may need to be shifted from Part C to Part D. Therefore, it is important to allocate a sufficient amount of rebates to Part C and Part D basic components in the initial June submission to ensure target premiums can be achieved in August.

For example, if an MAO thinks its direct subsidy estimate may be up to $4 different from the final amount, it should allocate at least $4 of rebates to Part C and Part D basic components. The following examples illustrate potential impacts of not allocating enough rebates to Part C and Part D basic components.

Example 1
Direct subsidy is $4 lower than expected
$1 of rebates was allocated to Part C in June submission

The MAO could choose to partially return to the target premium by eliminating all supplemental Part C benefits, allowing $1 of rebates (only $1 is available in this example) to be shifted from Part C to Part D basic. The final premium would be $3 higher than the target because no further Part C rebates are available. Members may have to pay this additional $3 if the plan is targeting the LIPSA, as the amount may be higher than the allowable de minimis threshold prescribed by CMS.

Example 2
Direct subsidy is $4 higher than expected
$1 of rebates was allocated to Part D basic in June submission

The MAO could choose to partially return to the target premium by enhancing or adding supplemental Part C benefits, allowing $1 of rebates (only $1 is available in this example) to be shifted from Part D basic to Part C. The final premium would be $3 lower than the target because no further Part D basic rebates are available.

Include Part C Supplemental Benefits in the June Submission

It may be necessary to make benefit changes to achieve the target premium in August. For example, Part C benefits may need to be reduced or eliminated if the direct subsidy is lower than predicted in the June submission. However, this is only possible if the plan offered sufficient Part C supplemental benefits in its June submission.

The MAO should consider the benefits it would reduce or eliminate, as well as the benefits the plan would add or increase in August *before* the initial June submission. For example, it is often helpful to have benefits with annual limits, where the annual limit can be adjusted for the August resubmission to target the required premium change. A "priority list" of benefit changes will not only help the plan be prepared by ensuring sufficient Part C supplemental benefits are offered in the June submission, it will also speed up the decision process in August when plans have a limited time frame to make changes.

Leave Some "Cushion" in TBC and Meaningful Difference Testing

MAOs must pass CMS tests to ensure that the year-over-year change in premium and benefits does not exceed CMS's TBC limits and that plans are "meaningfully different" from each other. This testing is required in both the initial June submission and August resubmission.

Premium and/or benefits may be revised in the August resubmission, which could lead to TBC and/or meaningful difference test failures. In addition, formulary and benefit review occurs after June submission, which could result in changes in TBC and/or meaningful difference values in August. CMS provides no flexibility in failing these tests. Therefore, MAOs should include benefit designs and member premiums in the June submission resulting in meaningful difference and TBC testing with a sufficient amount of margin (e.g., an amount equal to the maximum amount the MAO expects the direct subsidy and LIPSA to be different from its estimates), such that MAOs are able to pass these tests in August.

Leave Some "Cushion" in Margin Testing

MAOs are allowed to change gain/loss margins by a small amount during August resubmissions to achieve target premiums (as long as the margin change results in no more than a $0.50 change in rebates). If an MAO is close to the gain/loss margin testing limits in its June submission (e.g., corporate margin requirements, maximum margin difference between dual special need plans and non–special need plans), it may not be able to make the margin changes to achieve target premiums during August resubmission. To maximize all options available in August, MAOs should leave some cushion in the allowable margin differentials filed in the June submission.

FINAL TAKEAWAYS

As with all bid work, MAOs that start early and are prepared will have more options than those organizations reacting to changes as they come. Taking time to consider the items discussed in this article beginning in January and through the weeks leading up to the June submission can help increase readiness for the release of national averages and regional benchmarks. Planning for possible benefit and margin changes prior to the release of national averages is also critical to a smooth August resubmission given the short time frame, especially for organizations with several plans.

If the initial June bids are prepared with these items in mind, there should be fewer potential pitfalls present in August, allowing MAOs a smoother and successful August resubmission. ■

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ENDNOTE

1 CMS, Instructions for Completing the Medicare Advantage Bid Pricing Tools for Contract Year 2018 (April 20, 2017), 121–137, *https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Bid-Pricing-Tools-and-Instructions-Items/BPT2018.html?DLPage=1&DLEntries=10&DLSort=0&DLSortDir=descending* (accessed April 25, 2017).