

Medicare Advantage Startups: opportunities, challenges and considerations

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Starting a Medicare Advantage organization can be a daunting prospect; however, the rewards can be significant for organizations that set themselves up for success. This paper highlights opportunities, challenges, and considerations for new MAOs.

Medicare Advantage organizations (MAOs) are private insurance companies that contract with Medicare to offer Medicare benefits through a Medicare Advantage (MA) plan. In 2020, approximately 25 million Medicare beneficiaries were enrolled in MA plans,¹ and this number is projected to continue to increase.

Why enter Medicare Advantage?

Medicare Advantage plans, also known as Part C plans, provide Medicare Part A (hospital services) and Part B (doctor's visits and outpatient medical care) benefits. Most MA plans also provide Part D (prescription drug) benefits to enrollees. Compared to traditional Medicare fee-for-service (FFS), MA plans limit enrollees' out-of-pocket spending for Medicare-covered services, and often provide additional benefits beyond what traditional Medicare covers. The Congressional Budget Office projects that, by 2030, MA penetration will rise to about 51%² of all Medicare beneficiaries (compared to about 41% MA penetration in 2020).³ In addition to higher MA penetration, the number of Medicare beneficiaries is projected to increase over time. Today, about 16% of the U.S. population is age 65 or older.⁴ The U.S. Census Bureau predicts that, as the Baby Boomer generation ages, 20% of the U.S. population will be older than age 65 by 2029.⁵

In addition to expansion through population growth, the MA program has also been expanded through legislation such as the 21st Century Cures Act, which allows Medicare-eligible beneficiaries with an end-stage renal disease (ESRD) diagnosis to enroll in MA plans starting in 2021.

Starting an MA plan can be attractive to many types of organizations for a variety of reasons. For example, health plans and insurers may begin offering MA plans to expand and diversify their product offerings. Other types of organizations may look to leverage their existing expertise for their own MA enrollees. They include:

- *Providers (integrated delivery systems, physicians, and pharmacies)* may seek to become an MA plan to attract new patients and mitigate the risk of current patients seeking services from other providers. Some providers may be motivated to start an MA plan to directly receive and control revenue associated with Medicare Advantage beneficiaries.
- *Long-term care (LTC) providers* may seek to become an MA institutional special needs plan (I-SNP) to attract and better manage institutionalized individuals.
- *Tech-focused organizations* may believe they can better individualize an enrollee's experience and improve care by leveraging their technical solutions.

These and other types of organizations may be able to better manage and service MA enrollees in their own MA plans by leveraging their existing expertise. However, as MAOs they will need to abide by strict rules and regulations when administering the plan (including rules regarding the relationship with any related parties), and they may have no expertise in a large portion of the areas needed to operate a health plan.

¹ CMS. MA State/County Penetration 2020 10. Retrieved December 20, 2020, from <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/mcradvpartdenrolldata/ma-state-county/ma-state-county-penetration-2020-10>.

² Freed, M. et al. (April 22, 2020). A Dozen Facts About Medicare Advantage in 2020. Kaiser Family Foundation. Retrieved December 20, 2020, from <https://www.kff.org/medicare/issue-brief/a-dozen-facts-about-medicare-advantage-in-2020/>.

³ CMS, MA State/County Penetration 2020 10, op cit.

⁴ U.S. Census Bureau. Age and Sex Composition in the United States: 2019. Retrieved December 20, 2020, from <https://www.census.gov/data/tables/2019/demo/age-and-sex/2019-age-sex-composition.html>.

⁵ Gaudette, E. et al. (November 28, 2015). Health and health care of Medicare beneficiaries in 2030. *Forum Health Econ Policy*. Retrieved December 20, 2020, from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4845680/>.

Types of Medicare Advantage plans

MAOs must determine the type of MA plan that aligns with their organization's objectives and best serves their target population.

HEALTH MAINTENANCE ORGANIZATION

In 2020, approximately 70% of the MA plans offered were health maintenance organization (HMO) plans.⁶ HMO plans typically have the most restrictive provider networks and offer only minimal out-of-network coverage as required (largely emergency care). On average, HMOs can be more affordable MA plans, and the more restrictive network can help manage healthcare costs. Some MAOs may offer an HMO with a point-of-service (POS) option. HMO-POS plans give enrollees additional network flexibility compared to an HMO, by allowing them to seek care outside of the contracted HMO network for certain situations or treatments. HMO-POS plans can have higher premiums relative to HMO plans, all else equal.⁷

LOCAL AND REGIONAL PREFERRED PROVIDER ORGANIZATIONS

In 2020, MA preferred provider organizations (PPOs) make up about 29% of MA plans.⁸ Regional PPOs (RPPOs) may cover statewide or multistate regions, whereas local PPOs (LPPOs) typically cover a subset of counties. LPPOs cover more members nationwide than RPPOs. PPOs provide more coverage for out-of-network care compared to HMOs (although enrollees typically pay more for out-of-network services). On average, PPOs can have higher premiums relative to HMO plans, all else equal.⁹

SPECIAL NEEDS PLANS

Approximately 4 million beneficiaries were enrolled in special needs plans (SNPs) in 2020. SNPs may be PPOs or HMOs, but are typically HMO plans restricted to beneficiaries with certain chronic conditions (C-SNPs), beneficiaries who are institutionalized (I-SNPs), or beneficiaries who are dually eligible for Medicare and Medicaid (D-SNPs).¹⁰ There are 15 SNP-specific chronic conditions currently approved by the Centers for Medicare and Medicaid Services (CMS).¹¹ The majority of C-SNPs are for enrollees with diabetes or cardiovascular disorders.¹² Approximately 87% of SNP enrollees are in D-SNPs.¹³

⁶ Friedman, J. et al. (February 2020). State of the 2020 Medicare Advantage Industry: As Strong as Ever. Milliman Research Report. Retrieved December 20, 2020, from https://us.milliman.com/-/media/milliman/pdfs/articles/state_of_the_2020_medicare_advantage_industry.ashx.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ CMS, Medicare Advantage/Part D Contract and Enrollment Data, op cit.

¹¹ CMS. Chronic Condition Special Needs Plans (C-SNPs). Retrieved December 20, 2020, from <https://www.cms.gov/Medicare/Health-Plans/SpecialNeedsPlans/C-SNPs>.

¹² CMS. SNP Comprehensive Report 2020 04. Retrieved December 20, 2020, from <https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/mcradvpartdenrolldataspecial-needs/snp-comprehensive-report-2020-04>.

¹³ CMS, Medicare Advantage/Part D Contract and Enrollment Data, op cit.

¹⁴ Neuman, P. & Jacobson, G.A. (November 29, 2018). Medicare Advantage Checkup. New England Journal of Medicine. Retrieved December 20, 2020, from <https://www.nejm.org/doi/pdf/10.1056/NEJMhpr1804089?articleTools=true> (registration required).

Medicare Advantage dynamics

Risk scores, Part C rebates, and star ratings are key MA dynamics which directly impact the profitability and success of MA plans.

RISK SCORES

Payments made to MA plans are risk-adjusted based on enrollee health status. An MA plan's risk score is based on the demographics of its enrollees and the diagnoses submitted to CMS on claims and/or encounter records. An enrollee's risk score must be substantiated in medical record documentation.

PART C REBATES

In addition to a risk-adjusted base payment per enrollee, MA plans often receive what is known as a Part C "rebate" payment. MA plans use the Part C rebate dollars to enhance the value of benefits to plan enrollees beyond traditional Medicare. MA plans may reduce cost sharing on traditional Medicare benefits, reduce Part D cost sharing, offer non-Medicare-covered benefits, or offer lower premiums (including Part D, Part B, and/or MA premiums). Plans may also keep a portion of the Part C rebate dollars to cover administrative expenses and profits, subject to CMS requirements. MA plans that enhance the value of benefits can provide richer coverage for enrollees, which may attract more Medicare beneficiaries to the plan.

STAR RATINGS

CMS assigns a "star rating" to MA plans as a measure of Medicare beneficiaries' experience with their health plans and healthcare systems. An MA plan's star rating is derived from metrics mostly relating to preventive care, managing chronic conditions, enrollee experience, and customer service. Most of the metrics are associated with care delivery. MA plans can earn more Part C rebate dollars by achieving higher star ratings. Additionally, plans with higher star ratings are eligible for bonus payments. These bonuses are estimated to have exceeded \$6 billion in 2018 with an average per member per month (PMPM) payment of \$27.¹⁴

Key drivers of Medicare Advantage startup success

MAOs will need to understand and implement best practices to meet quality metric goals, achieve accurate risk score coding and medical record documentation, establish effective claim cost management, and meet target enrollment goals from the beginning of plan operation.

CLAIM COST MANAGEMENT

Claim cost management is a key lever that new MAOs can use to affect profitability in the first year of operation and thereafter. Care management programs help lower medical costs by requiring prior authorization for select services and facilitating healthcare management and planning. These programs also help to ensure enrollees are receiving appropriate care and may contribute to higher star ratings. The mechanisms put in place to help manage costs and care should complement provider-based programs and reimbursement arrangements and include integrated strategies that span the continuum from preventive care through end-of-life care.

RISK ADJUSTMENT PROGRAMS

Even though a new plan's risk score coding activities will not affect revenue until the following year, MAOs should implement a risk adjustment management plan upon startup to evaluate, promote, and ensure that documentation and coding provide a risk score that reflects the enrolled population. Risk adjustment data maintenance is also important as MAOs can be subject to Risk Adjustment Data Validation (RADV) audits.

OPTIMIZED STAR RATINGS

The Medicare star rating can provide a significant source of MAO revenue with a 5% bonus typically provided to plans meeting the threshold of 4.0 stars out of 5. Higher Part C rebates are earned by plans with higher star ratings. For a new MAO's first three years of operation, it receives a 3.5 star rating and a 3.5% revenue bonus. MAOs are generally eligible to receive their own star ratings beginning in the fourth year of operation, subject to enrollment and measurement requirements. Because the star rating is based on historical data, it is essential for new plans to start a star improvement program in the first year of operation.¹⁵

ALIGNED INCENTIVES WITH PROVIDERS

Successful MA plans manage healthcare costs and utilization, obtain high star ratings based on quality metrics, and obtain correct risk scores based on accurate and complete documentation and coding by their provider networks. These key competencies are driven primarily by the MA plan's provider network. Therefore, MA startups that partner with medical groups may be able to achieve higher star ratings, more effectively manage utilization, and achieve risk scores that more closely aligns with required revenue. Once established, MA plans may consider implementing risk-sharing arrangements to more effectively align incentives with providers.

ENROLLMENT AND ENROLLMENT GROWTH

New MAOs must develop achievable enrollment projections to support their feasibility studies, bids, vendor contracting, and operational planning. In early years, sufficient enrollment is key to cover the large initial fixed expenses and capital required to start an MA plan (especially for organizations that have no other lines of business with which to share these costs). The plan's enrollment growth is a key factor to achieving profitability in a reasonable period of time.

Applications and other approvals

MAOs must submit various applications and other information to CMS to procure a CMS contract and offer MA benefits to beneficiaries.

APPLICATIONS

The CMS MA application process is relatively consistent year over year, but can be very challenging to new MA entrants. For the 2022 contract year, plans newly entering the Medicare market are required to submit a nonbinding Notice of Intent to Apply by January 22, 2021, and Medicare applications are due to CMS by February 10, 2021. The Part C Medicare application contains attestations to verify the MAO is operationally prepared to meet CMS regulatory requirements. Applications also require plans to designate the counties they will serve as part of the MAO's service area (which must ultimately meet CMS's provider network adequacy requirements) and to identify any operations delegated to first-tier, downstream, or related entities (FDRs). Applicants submit evidence that the MAO is licensed under state law and in good standing with the state at the time of application.¹⁶

¹⁵ Backes, K. et al. (February 2018). Medicare Advantage Star Ratings: Expectations for New Organizations. Milliman Research Report. Retrieved December 20, 2020, from <https://au.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2018/medicare-advantage-star-ratings.ashx>.

¹⁶ CMS 2021 Part C Application. Retrieved December 20, 2020, from <https://www.cms.gov/files/document/cy-2021-medicare-part-c-application.pdf>.

MA startups offering Part D coverage or SNPs submit additional applications and must meet other requirements. For example, in addition to attestations, the Part D application requires a signed pharmacy benefit manager (PBM) contract and Part D compliance plan. SNPs must have the National Committee for Quality Assurance (NCQA) approve a Model of Care (MOC) that provides the basic framework under which SNPs will meet enrollees' needs.¹⁷ D-SNPs also need to have executed contracts with applicable state Medicaid agencies.¹⁸ MAOs must consider the different requirements that plans are subject to, and plan their timelines accordingly, as the various applications and deadlines are inflexible and depend upon one another (e.g., MA and Part D applications require a state license and signed PBM contract).

PLAN BENEFIT PACKAGE AND ACTUARIAL BIDS

In addition to the required applications outlined above, MAOs must also submit a plan benefit package (PBP) and Medicare bid to CMS by the first Monday in June each year for each plan they will be offering in the upcoming year. The PBP contains the benefits each plan intends to offer for the upcoming contract year, and the actuarial bid is comprised of a comprehensive pricing and documentation package outlining the projected costs, benefits, and revenue for said plans in the upcoming contract year.¹⁹

Concluding remarks

The Medicare Advantage industry is primed for growth. New entrants, particularly those with unique core capabilities, may be considering entering the market. However, significant regulatory, competitive, and logistical hurdles face MA startups. This Milliman brief outlines many important factors that MA startups must consider as they prepare to enter the Medicare Advantage market. Plans that seek industry expertise, comply with CMS requirements, and effectively manage enrollees, providers, and vendors from day one will be better positioned for success.

¹⁷ CMS. Model of Care (MOC). Retrieved December 20, 2020, from <https://www.cms.gov/Medicare/Health-Plans/SpecialNeedsPlans/SNP-MOC>.

¹⁸ CMS (October 7, 2019). CY 2021 Medicare-Medicaid Integration and Unified Appeals and Grievance Requirements for Dual Eligible Special Needs Plans (D-SNPs). Retrieved December 20, 2020, from <https://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/Downloads/DSNPsIntegrationUnifiedAppealsGrievancesMemorandumCY202110072019.pdf>.

¹⁹ CMS 2021 Part C Application, op cit.



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