

# Issue Brief

FEDERAL ISSUE BRIEF



Analysis provided for MHA by Larry Goldberg, Goldberg Consulting

April 2, 2023

## CMS Issues Calendar Year (CY) 2024 Medicare Advantage and Part D Rate Announcement

The Centers for Medicare & Medicaid Services (CMS) released the Calendar Year (CY) 2024 Medicare Advantage (MA) and Part D Rate Announcement that finalizes payment policies for the annual capitation rate for each Medicare Advantage (MA) payment area and the risk and other factors to be used in adjusting such rates.

The capitation rate tables for 2024 and supporting data are posted on the CMS website at: <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvvtgSpecRateStats/Ratebooks-andSupporting-Data.html>. The statutory component of the regional benchmarks, qualifying counties, and each county's applicable percentage are also posted on this section of the CMS website.

CMS will phase-in certain updates, and on average, CMS anticipates a payment increase for MA plans of 3.32 percent from 2023 to 2024, which is approximately a \$13.8 billion increase in MA payments for next year.

A copy of the 200-page document is available at: <https://www.cms.gov/files/document/2024-advance-notice.pdf> and selecting "2024 Advance Notice."

### Net Payment Impact

The chart below indicates the expected impact of the policy changes and updates on MA plan payments relative to 2023. The chart is from CMS' fact sheet accompanying the notice.

**Year-to-Year Percentage Change in Payment**

Impact	2024 Advance Notice	2024 Rate Announcement
Effective Growth Rate	2.09%	2.28%
Rebasing/Re-pricing	NA	0.00%
Change in Star Ratings	-1.24%	-1.24%
MA Coding Pattern Adjustment	0.00%	0.00%
Risk Model Revision and Normalization	-3.12%	-2.16%
MA risk score trend	3.30%	4.44%
<b>Expected Average Change in Revenue</b>	<b>1.03%</b>	<b>3.32%</b>

### Key Updates from the Advance Notice

#### Growth Percentages

CMS notes that the change in growth rates from the Advance Notice to the Rate Announcement is due to several key factors, including; additional CY 2022 experience data that was lower than previously

---

projected, updated modeling to account for the effects of COVID-19 and other programmatic and demographic changes, lower morbidity from excess COVID-related deaths, lower total spending by explicitly modeling the shift of hip and knee replacements from inpatient to outpatient setting, and updated modeling of the effect of a greater share of dual beneficiaries enrolling in MA.

### ***CMS-Hierarchical Condition Categories (CMS-HCC) Risk Adjustment Model (Non-PACE)***

CMS is finalizing an updated risk adjustment model proposed in the CY 2024 Advance Notice, but will phase it in over 3 years. For CY 2024, risk scores will be calculated as a blend of 67 percent of the risk scores calculated with the current model (the 2020 model) and 33 percent of the risk scores calculated with the updated model (the 2024 model). For CY 2025, CMS says it expects risk scores to be calculated as a blend of 33 percent of the risk scores calculated with the 2020 model and 67 percent of the risk scores calculated with the 2024 model, and for CY 2026, CMS says it expects 100 percent of the risk scores to be calculated with the 2024 model.

### ***Frailty Adjustment for Fully Integrated Dual Eligible Special Needs Plans (FIDE SNPs)***

CMS is finalizing frailty factors that do not include the Consumer Assessment of Healthcare Providers and Systems (CAHPS) survey weight, which is an adjustment that can be used to account for potential non-response bias.

### ***Location of Network Areas for Private Fee-for-Service (PFFS) Plans in Plan Year 2025***

The list of network areas for plan year 2025 is available on the CMS website at: <https://www.cms.gov/Medicare/Health-Plans/PrivateFeeforServicePlans/NetworkRequirements.html>.

### ***Direct Graduate Medical Education (DGME) Carve-out Applied to Average Geographic Adjustments (AGAs)***

As in past years, CMS will continue carving out FFS DGME amounts from the MA capitation rates. (This is different than the technical update related to medical education payments on behalf of MA enrollees in the Non-ESRD USPCC baseline.)

### ***Organ Acquisition Costs for Kidney Transplants***

CMS will continue carving out Kidney Acquisition Costs (KAC) from the MA capitation rates.

### ***Indirect Medical Education (IME) Phase Out Applied to AGAs***

CMS will continue phasing out FFS IME amounts from the MA capitation rates.

### ***MA End Stage Renal Disease (ESRD) Rates***

CMS will continue to set MA ESRD rates on a state basis.

---

### **MA Employer Group Waiver Plans (EGWPs)**

CMS will continue to use the payment methodology as described in the Advance Notice, but with the finalized bid-to-benchmark ratios for 2024 MA EGWP Payment rates.

### **CMS-HCC Risk Adjustment Model (PACE)**

For CY 2024, CMS will continue to use the 2017 CMS-HCC risk adjustment model and associated frailty factors to calculate risk scores for participants in PACE organizations.

### **CMS-HCC ESRD Risk Adjustment Models**

- For Non-PACE Organizations: For CY 2024, CMS will continue to use the 2023 CSMHCC ESRD risk adjustment models to calculate risk scores for beneficiaries in dialysis, transplant, and post-graft status.
- For PACE Organizations: For CY 2024, CMS will continue to use the 2019 CMS-HCC ESRD risk adjustment models to calculate risk scores for participants in PACE organizations with ESRD.

### **Frailty Adjustment for PACE Organizations**

For CY 2024, CMS will continue to use the frailty factors associated with the 2017 CMS-HCC model (as displayed in Table II-6 of the CY 2024 Advance Notice) to calculate frailty scores for PACE organizations.

### **Medicare Advantage Coding Pattern Difference Adjustment**

For CY 2024, CMS will continue to apply the statutory minimum MA coding pattern difference adjustment factor of 5.90 percent.

### **Final 2024 Normalization Factors**

CMS will finalize the 2024 Normalization Factor methodologies as proposed in the Advance Notice.

For the three CMS-HCC risk adjustment models with a 2019 or 2020 denominator listed below, CMS will calculate the normalization factors using a five-year linear slope methodology and updated average FFS risk scores for 2018 through 2022, but continuing to exclude the 2021 risk score.

- 2024 CMS-HCC model (for non-PACE organizations), for blended risk score calculations: 1.015
- 2023 CMS-HCC ESRD dialysis model (for non-PACE organizations): 1.022
- 2023 CMS-HCC ESRD functioning graft model (for non-PACE organizations): 1.028

For the four CMS-HCC risk adjustment models with a 2015 denominator listed below and the RxHCC models, CMS will calculate the normalization factors using a five-year linear slope methodology and historical FFS risk scores (2016 through 2020), without including the 2021 and 2022 risk scores.

- 2020 CMS-HCC model (for non-PACE organizations), for blended risk score calculations: 1.146

- 2017 CMS-HCC model (for PACE organizations): 1.159
- 2019 CMS-HCC ESRD dialysis model (for PACE organizations): 1.100
- 2019 CMS-HCC ESRD functioning graft model (for PACE organizations): 1.159
- 2023 RxHCC model (for non-PACE organizations): 1.063
- 2020 RxHCC model (for PACE organizations): 1.084

### ***Sources of Diagnoses for Risk Scores Calculated with CMS-HCC and CMS-HCC ESRD Risk Adjustment Models***

- For Non-PACE organizations: CMS will continue the policy adopted in the CY 2023 Rate Announcement to calculate risk scores for payment to MA organizations and certain demonstrations using only risk adjustment-eligible diagnoses from encounter data and FFS claims.
- For PACE organizations: CMS will continue using the same method of calculating risk scores that it has been using since CY 2015, which is to pool risk adjustment-eligible diagnoses from the following sources to calculate a single risk score (with no weighting) (1) encounter data, (2) Risk Adjustment Processing System (RAPS) data, and (3) FFS claims.

### ***RxHCC Risk Adjustment Models***

- For Non-PACE Organizations: For CY 2024, we will continue to use the 2023 RxHCC risk adjustment model to adjust direct subsidy payments for Part D benefits offered by stand-alone Prescription Drug Plans (PDPs) and Medicare Advantage-Prescription Drug Plans (MA-PDs).
- For PACE Organizations: For CY 2024, CMS will continue to use the 2020 RxHCC risk adjustment model to calculate Part D risk scores.

### ***Source of Diagnoses for Risk Scores Calculated with the RxHCC Risk Adjustment Models***

- For Non-PACE organizations: CMS will continue the policy adopted in the CY 2023 Rate Announcement to calculate Part D risk scores using only risk adjustment-eligible diagnoses from encounter data and FFS claims.
- For PACE organizations: CMS will continue using the same method of calculating risk scores that it has been using since CY 2015, which is to pool risk adjustment-eligible diagnoses from the following sources to calculate a single risk score (with no weighting): (1) encounter data, (2) RAPS data, and (3) FFS claims.

### ***Inflation Reduction Act of 2022 (IRA) Updates for 2024***

The IRA made several amendments and additions to the standard Part D drug benefit . The Part D benefit-related IRA updates that will be in place for CY 2024 include the following:

- Beginning in CY 2024, cost-sharing for Part D drugs will be eliminated for beneficiaries in the catastrophic phase of coverage.
- Beginning in CY 2024, the Low-Income Subsidy program (LIS) under Part D will be expanded so that beneficiaries who earn between 135 and 150 percent of the federal poverty level and meet statutory resource limit requirements will receive the full LIS subsidies that, prior to 2024, were available only to

---

beneficiaries earning less than 135 percent of the federal poverty level; these subsidies provide for \$0 premiums and low-cost, fixed copayments for covered prescription drugs.

- During CY 2024, Part D plans must not apply the deductible to any Part D covered insulin product and must charge no more than \$35 per month's supply of a covered insulin product in the initial coverage phase and the coverage gap phase.
- During CY 2024, Part D plans must not apply the deductible to an adult vaccine recommended by the Advisory Committee on Immunization Practices and must charge no cost-sharing at any point in the benefit for such vaccines.
- Beginning in CY 2024, the annual growth in the Base Beneficiary Premium will be capped at 6 percent. The Base Beneficiary Premium for Part D is limited to the lesser of a 6 percent annual increase, or the amount that would otherwise apply under the prior methodology had the IRA not been enacted.

### ***Annual Adjustments to Medicare Part D Benefit Parameters in 2024***

CMS will update the defined standard benefit deductible amount, initial coverage limit, and out-of-pocket (OOP) threshold, by multiplying the CY 2023 amounts by the CY 2024 Annual Percentage Increase (API) and rounding as specified by the statute.

### ***Part D Calendar Year Employer Group Waiver Plans Prospective Reinsurance Amount***

CMS is maintaining the Part D Calendar Year EGWP prospective reinsurance policy as discussed in the CY 2024 Advance Notice. The average per member per month (PMPM) actual reinsurance amount paid to Part D Calendar Year EGWPs for the most recently reconciled payment year, which for purposes of CY 2024 is CY 2021, was \$71.09.

### ***Part D Risk Sharing***

CMS will apply no changes to the current threshold risk percentages for CY 2024.

### ***Retiree Drug Subsidy Amounts***

CMS will use the same methodology as in prior years to update the cost threshold and cost limit for qualified retiree prescription drug plans.

### **Comment**

The Announcement is highly technical and detailed. Most of the above is contained in the introductory section of the Announcement. The Announcement contains the following extensive attachments;

- Attachment I of the Rate Announcement shows the final estimates of the National Per Capita MA Growth Percentage for 2024 and the National Medicare Fee-for-Service (FFS) Growth Percentage for 2024, used to calculate the 2024 capitation rates.
- Attachment II details the key assumptions and financial information behind the growth percentages presented in Attachment I.
- Attachment III presents responses to Part C payment-related comments on the CY 2024 Advance Notice.

- 
- Attachment IV presents responses to Part D payment-related comments on the Advance Notice.
  - Attachment V provides the final Part D benefit parameters and details how they are updated.
  - Attachment VI presents responses to comments on updates for MA and Part D Star Ratings.
  - Attachment VII contains economic information for significant provisions in the CY 2024 Rate Announcement.
  - Attachment VIII contains the CMS-HCC Risk Adjustment Factor and Predictive Ratio tables.

*Questions? Contact Andrew Wheeler, MHA's Vice President of Federal Finance,  
at 573-893-3700 | ext. 1336 or [awheeler@mhanet.com](mailto:awheeler@mhanet.com).*

4712 Country Club Drive, Jefferson City, Mo. 65109  
P.O. Box 60, Jefferson City, Mo. 65102  
573/893-3700 | [www.mhanet.com](http://www.mhanet.com)

