

# Issue Brief

FEDERAL ISSUE BRIEF



Analysis provided for MHA by Larry Goldberg, Goldberg Consulting

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## Announcement of Calendar Year (CY) 2025 Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies; Final Part D Redesign

Very late on Monday, April 1, the Centers for Medicare & Medicaid Services (CMS) released the Calendar Year (CY), 2025 Medicare Advantage (MA), Capitation Rates and Part C Policies announcement.

Also included is the Final Calendar Year (CY) 2025 Part D Redesign Program Instructions (the Final Program Instructions).

A copy of the 194-page document is available at: <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents/2025>.

The capitation rate tables for CY 2025 and supporting data are posted on the CMS website at:

<https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtdgSpecRateStats/Ratebooks-and-Supporting-Data.html>.

### Net Payment Impact

Under this CY 2025 Rate Announcement, payments from the government to MA plans are expected to increase on average by 3.70 percent, or over \$16 billion, from 2024 to 2025. The federal government is projected to pay between \$500 and \$600 billion in Medicare Advantage payments to private health plans in 2025.

The chart below indicates the impact of the policy changes on MA plan payments relative to last year.

### Year-to-Year Percentage Change in Payment

Impact	2025 Advance Notice	2025 Rate Announcement
Effective Growth Rate	2.44%	2.33%
Rebasing/Re-pricing	TBD	0.07%
Change in Star Ratings	-0.15%	-0.11%
MA Coding Pattern Adjustment	0.00%	0.00%
Risk Model Revision and FFS Normalization	-2.45%	-2.45%
MA risk score trend	3.86%	3.86%
<b>Expected Average Change in Revenue</b>	<b>3.70%</b>	<b>3.70%</b>



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Attachment I of the Rate Announcement shows the final estimates of the National Per Capita MA Growth Percentage for CY 2025 and the National Medicare Fee-for-Service (FFS) Growth Percentage for CY 2025. As discussed the final estimate of the National Per Capita MA Growth Percentage for combined aged and disabled beneficiaries is 2.31 percent, and the final estimate of the FFS Growth Percentage is 2.33 percent.

Attachment II provides a set of tables that summarizes many of the key Medicare assumptions used in the calculation of the growth percentages.

Attachment III presents responses to Part C payment-related comments on the CY 2025 Advance Notice.

Attachment IV presents responses to Part D payment-related comments on the CY 2025 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 2025 Rate Announcement.

Attachment VIII contains the RxHCC model risk adjustment factors and predictive ratio tables.

Attachment IX contains the 2024 CMS-HCC model predictive ratio tables.

### **Comment**

There was significant discussion last year about the size of the Medicare risk adjustment. Much concerned it was too low and MA plans were being paid too much.

The notice contains a very detailed table of contents. The table is duplicated at the end of this analysis.

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CMS' has issued a 17-page fact sheet. Most of the material below is excerpted from the fact sheet.

## **Expected Average Change in Revenue**

### ***Growth Rates***

The growth rates are largely driven by the growth in Medicare Fee-For-Service (FFS) per capita costs, as estimated by the CMS Office of the Actuary. The CY 2025 Rate Announcement Medicare FFS baseline includes FFS payments through the fourth quarter of 2023, an additional quarter of FFS program spending as compared to the CY 2025 Advance Notice. The 2025 growth rate estimates include a technical adjustment to the per capita cost calculations related to indirect and direct medical education costs associated with services furnished to MA enrollees. In CY 2025, CMS will continue the phase-in of the technical adjustment described in the CY 2024 Rate Announcement, and apply 52 percent of the technical adjustment in CY 2025.

### ***Part C Risk Adjustment Model***

CMS finalized an updated Part C Risk Adjustment Model in the CY 2024 Rate Announcement and began a three-year phase-in of the use of that model, referred to as the 2024 CMS-HCC (Hierarchical Condition Categories) model, starting with CY 2024.

For CY 2025, CMS will continue to phase in the updated risk adjustment model as proposed by blending 67% of the risk score calculated using the updated 2024 MA risk adjustment model with 33% of the risk score calculated using the 2020 MA risk adjustment model.

### ***MA Risk Score Trend***

The MA risk score trend is the average increase across plans in MA risk scores, not accounting for normalization and coding pattern adjustments to MA risk scores. The trend reflects increases in MA risk scores, which can be due to several factors, including changes in demographics and coding patterns.

The risk score trend is 3.30 percent under the 2024 CMS-HCC model and 5.00 percent under the 2020 CMS-HCC model. CMS blended the MA risk score trends using the same blend that will be used to determine CY 2025 risk scores (i.e., 67 percent of the MA risk score trend under the 2024 CMS-HCC model and 33.0 percent under the 2020 CMS-HCC model). This blended MA risk score trend for CY 2025 is 3.86 percent.

## **Part D Redesign Program Instructions**

### ***Inflation Reduction Act (IRA) Updates for 2025***

Part D benefit-related IRA updates will be in place for CY 2025 and are described in the Rate Announcement and related Final CY 2025 Part D Redesign Program Instructions. These updates include the elimination of the coverage gap phase to effect a three-phase benefit (deductible, initial coverage, and catastrophic) and the cap on out-of-pocket costs at \$2,000 for CY 2025. Other previously

implemented IRA benefits will continue, including no cost sharing for enrollees in the catastrophic phase, a \$35 month supply cap on enrollee cost sharing for each covered insulin product, and no cost-sharing for adult vaccines recommended by the Advisory Committee on Immunization Practices that are covered under Part D.

For more details, please see the Fact Sheet for the Final CY 2025 Part D Redesign Program Instructions available at: <https://www.cms.gov/files/document/final-cy-2025-part-d-redesign-program-instructions.pdf>.

## **2025 Rate Announcement Table of Contents**

<b>Announcement of Calendar Year (CY) 2025 Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies</b>	1
<b>Key Updates from the Advance Notice</b>	2
<b>Policies Adopted as Described</b>	3
<b>Attachment I. Final Estimates of the National Per Capita Growth Percentage and the National Medicare Fee-for-Service Growth Percentage for CY 2025</b>	12
<b>Attachment II. Key Assumptions and Financial Information</b>	14
<b>Attachment III. Responses to Public Comments on Part C Payment Policy</b>	32
Section A. General Comments	32
Section B. Estimates of the MA and FFS Growth Percentages for CY 2025	35
Section C. MA Benchmark, Quality Bonus Payments, and Rebate	49
Section D. Calculation of Fee-for-Service Costs	52
Section E. Direct Graduate Medical Education	64
Section F. Organ Acquisition Costs for Kidney Transplants	66
Section G. IME Phase Out .	67
Section H. MA ESRD Rates	67
Section I. MA EGWPs.	69
Section J. CMS-HCC Risk Adjustment Model for CY 2025	72
Section K. ESRD Risk Adjustment Models for CY 2025	83
Section L. Frailty Adjustment for PACE Organizations and FIDE SNPs	84
Section M. MA Coding Pattern Difference Adjustment.	88
Section N. Normalization Factors for the CMS-HCC Risk Adjustment Models	91

<b>Attachment IV. Responses to Public Comments on Part D Payment Policy</b>	103
Section A. Annual Adjustments to Medicare Part D Benefit Parameters in 2025	103
Section B. Sunset of the Coverage Gap Discount Program and Establishment of the Manufacturer Discount Program	104
Section C. Part D Premium Stabilization	104
Section D. Part D Calendar Year EGWP Prospective Reinsurance Amount	104
Section E. Part D Risk Sharing	105
Section F. Retiree Drug Subsidy Amounts	105
Section G. RxHCC Risk Adjustment Model	106
Section H. Normalization for the RxHCC Risk Adjustment Models	112
<b>Attachment V. Final Updated Benefit Parameters for the Defined Standard Benefit and Changes in the Payment Methodology for Medicare Part D for CY 2025</b>	121
Section A. Annual Percentage Increase in Consumer Price Index (CPI)	123
Section B. Calculation Methodology	123
Section C. Annual Percentage Increase in Average Expenditures for Part D Drugs Per Eligible Beneficiary	125
Section D. Retiree Drug Subsidy Amounts	126
<b>Attachment VI. Updates for Part C and D Star Ratings</b>	128
Part C and D Star Ratings and Future Measurement Concepts	128
Reminders for 2025 Star Ratings	128
Measure Updates for 2025 Star Ratings	129
Extreme and Uncontrollable Circumstances Policy for the 2025 Star Ratings	134
Changes to Existing Star Ratings Measures for the 2025 Measurement Year and Beyond	136
Retirement of Star Ratings Measures	147
Display Measures	148
Retirement of Display Measures	153
Potential New Measure Concepts and Methodological Enhancements for Future Years	154

<b>Attachment VII. Economic Information for the CY 2025 Rate Announcement</b>	162
Section A. Changes in the Payment Methodology for Medicare Advantage and PACE for CY 2025	162
A1. Medicare Advantage and PACE non-ESRD Ratebook .	162
A2. Medicare Advantage and PACE ESRD Ratebooks	162
A3. CMS-HCC Risk Adjustment Model	163
A4. ESRD Risk Adjustment Model	163
A5. Frailty Adjustment for FIDE SNPs	163
A6. MA Coding Pattern Difference Adjustment	164
A7. Part C Normalization	164
Section B. Changes in the Payment Methodology for Medicare Part D for CY 2025	164
B1. Annual Percentage Increase for Part D Parameters	164
B2. Part D Risk Adjustment Model	164
B3. Part D Normalization	165
<b>Attachment VIII. RxHCC Risk Adjustment Factors and Predictive Ratio Tables</b>	166
Table VIII-1. 2025 RxHCC Model Relative Factors for Continuing Enrollees (2021/2022 calibration, HCPCS-based filtering logic)	166
Table VIII-2. 2025 RxHCC Model Relative Factors for New Enrollees, Non-Low Income (2021/2022 calibration, HCPCS-based filtering logic)	171
Table VIII-3. 2025 RxHCC Model Relative Factors for New Enrollees, Low Income (2021/2022 calibration, HCPCS-based filtering logic)	173
Table VIII-4. 2025 RxHCC Model Relative Factors for New Enrollees, Institutional (2021/2022 calibration, HCPCS-based filtering logic)	175
Table VIII-5. 2025 RxHCC Model Relative Factors for Continuing Enrollees (2018/2019 calibration, specialty-based filtering logic)	176
Table VIII-6. 2025 RxHCC Model Relative Factors for New Enrollees, Non-Low Income (2018/2019 calibration, specialty-based filtering logic)	181
Table VIII-7. 2025 RxHCC Model Relative Factors for New Enrollees, Low Income (2018/2019 calibration, specialty-based filtering logic)	182



Table VIII-8. 2025 RxHCC Model Relative Factors for New Enrollees, Institutional (2018/2019 calibration, specialty-based filtering logic) 183

Table VIII-9. 2025 RxHCC Model with Disease Hierarchies (previously published in the 2023 Rate Announcement) 184

Table VIII-10. 2025 RxHCC Model Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Continuing Enrollee Model Segments, 2021/2022 calibration sample (HCPCS-filtered diagnoses) 186

Table VIII-11. 2025 RxHCC Model Predictive Ratios by Deciles of Predicted Risk (sorted low to high): New Enrollee Model Segments, 2021/2022 calibration sample (HCPCS-filtered diagnoses) 187

**Attachment IX. 2024 CMS-HCC Model Predictive Ratio Tables** 188

Table IX-1. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Non-Dual, Aged (Age >=65) Continuing Enrollee 188

Table IX-2. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Non-Dual, Disabled (Age <65) Continuing Enrollee 189

Table IX-3. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Full Benefit Dual, Aged (Age >=65) Continuing Enrollee 190

Table IX-4. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Full Benefit Dual, Disabled (Age <65) Continuing Enrollee 191

Table IX-5. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Partial Benefit Dual, Aged (Age >=65) Continuing Enrollee 192

Table IX-6. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Partial Benefit Dual, Disabled (Age <65) Continuing Enrollee 193

Table IX-7. Predictive Ratios by Deciles of Predicted Risk (sorted low to high): Institutional Continuing Enrollee 194

**Comment**

The rate of increase for MA plans at 3.7 percent appears higher than those proposed updates for the fee-for-service PPS FY 2025 changes.

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Questions? Contact Andrew Wheeler, MHA's Vice President of Federal Finance,  
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