

By Brian Weible, FSA, MAAA and Kirk L. Shanks

The Centers for Medicare and Medicaid Services (CMS) currently bases Medicare Advantage payments on county benchmarks. The benchmarks are determined as the greatest of three values:

1. The national growth percentage in per capita Medicare spending (multiplied by previous year's per capita Medicare spending)
2. A minimum percentage increase from the prior year's payment rate of 2%
3. 100% of projected fee-for-service (FFS) Medicare costs, with direct medical costs excluded and including a VA/DOD adjustment

Congress has been debating a revision to Medicare Advantage payments including limiting payments to the Medicare Fee-For-Service (FFS) cost. Wakely has performed a county-specific impact study to the benchmark payment rates for each county in Florida, California, Pennsylvania and New York based on the FFS limitation criteria.

The charts in Table 1 on page 24 show the estimated reduction in the 2008 Benchmark per member per month if limited to the 2008 projected FFS costs.

The following table shows the percentage of counties and MA enrollees that would be affected by this change.

State	% of Counties Affected*	% of MA Enrollees Affected*
California	98%	100%
Florida	84%	64%
New York	94%	63%
Pennsylvania	97%	98%

*2007 Profile of Medicare Advantage, CMS

The maps in Table 2 on page 25 summarize the county specific impact from Table 1.

The legislation would significantly impact the total revenue Medicare Advantage plans receive. The impact of this legislation, if approved, would have two primary impacts in the marketplace:

1. Fewer managed care choices for beneficiaries in counties where the updated payment rate was below Medicare Advantage Plans' costs for offering the standard benefit with reasonable enhancements to attract members.
2. Less rich benefits for members in counties where Medicare Advantage plans would continue to operate.

While it can be argued (and is being argued) that the current payment calculations result in a windfall to Medicare Advantage plans, the primary results of the higher payment rates under the current methodology are increased choice and benefits to Medicare beneficiaries. Competition among Medicare Advantage plans and the structure of the Medicare Advantage bidding and enrollment process limit the relative profit that Medicare Advantage plans can realize.

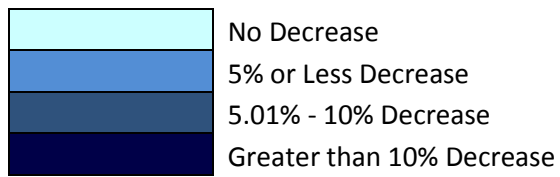
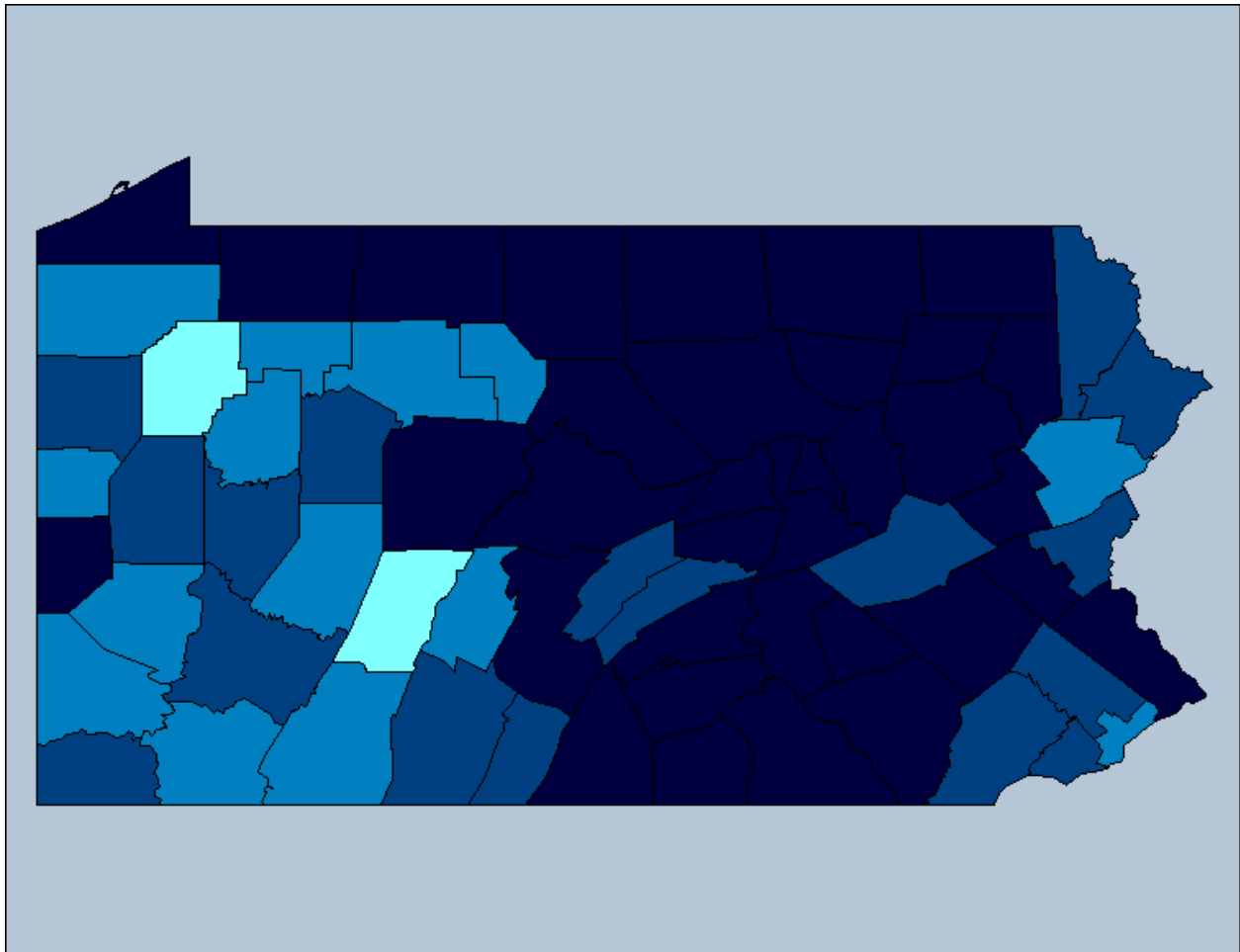
Data sources and assumptions include –

1. 2008 Medicare Advantage Ratebook.
2. 2007 Fee-For-Service costs reported by CMS (normalized to a 1.000 risk score).
3. National Medicare growth percentage for 2007 to 2008 of 5.71% as calculated by CMS.
4. Budget neutrality adjustment of 1.0169.

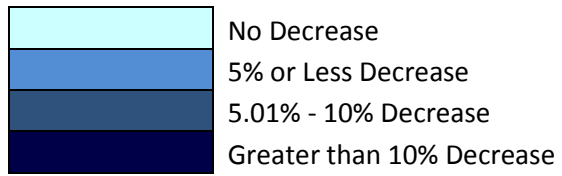
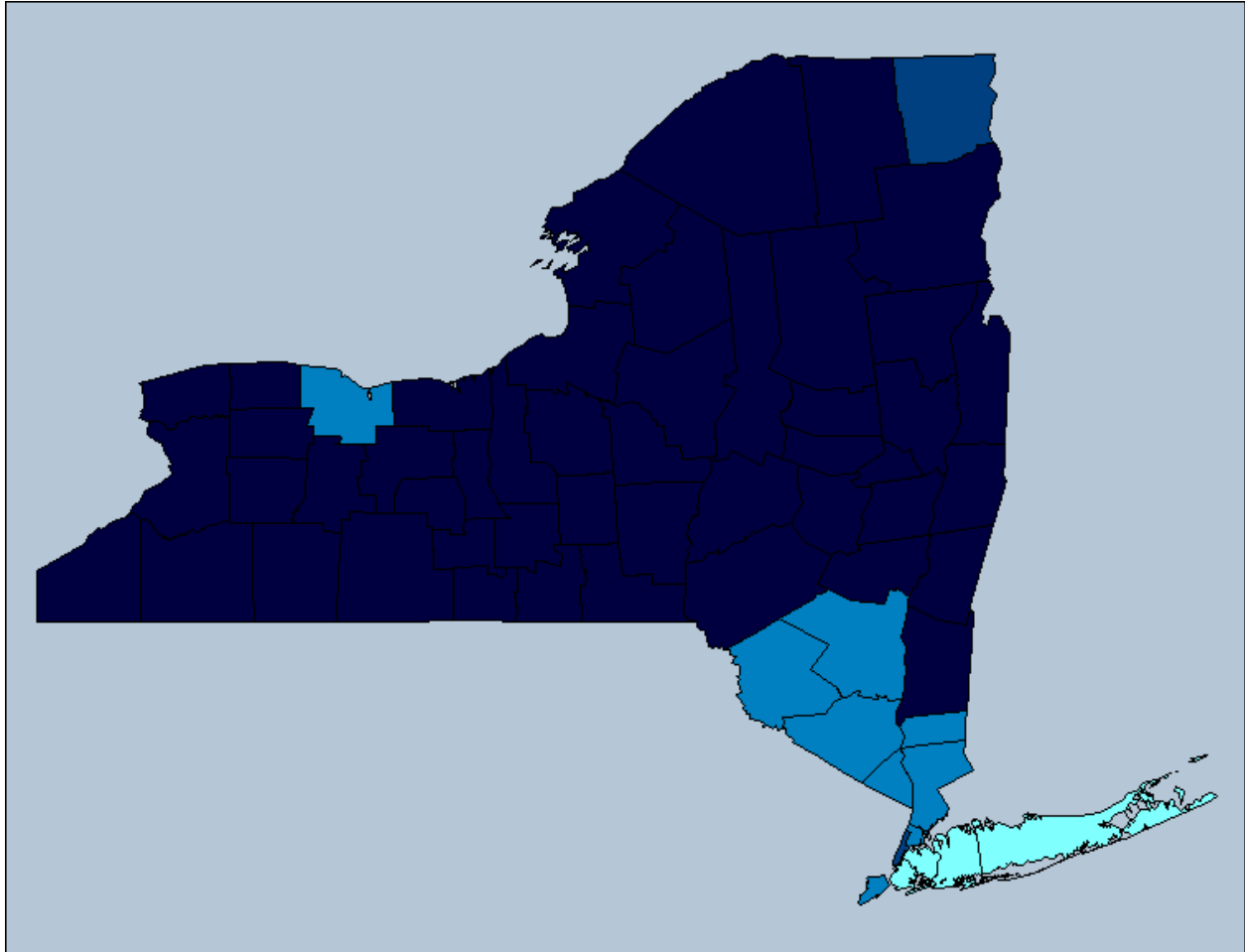
Results for additional states can be found at:

<http://www.wakelyconsulting.com/research.htm>

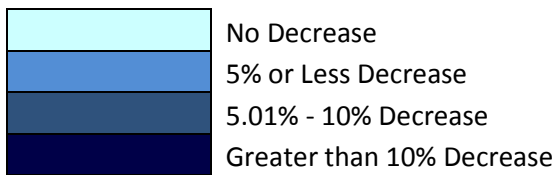
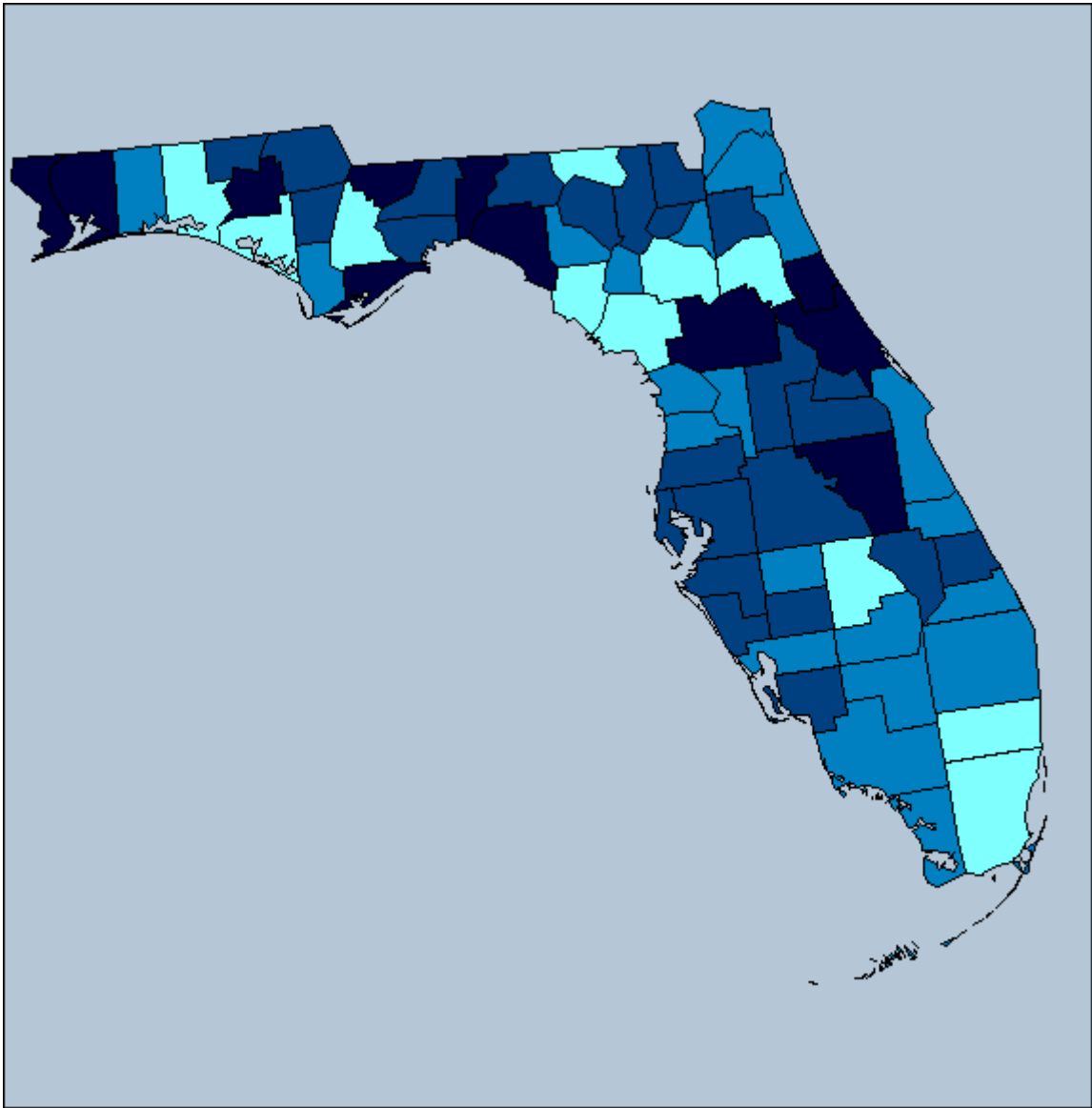
Decrease in Benchmark PMPM 2008 for Pennsylvania



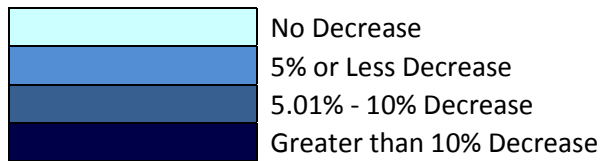
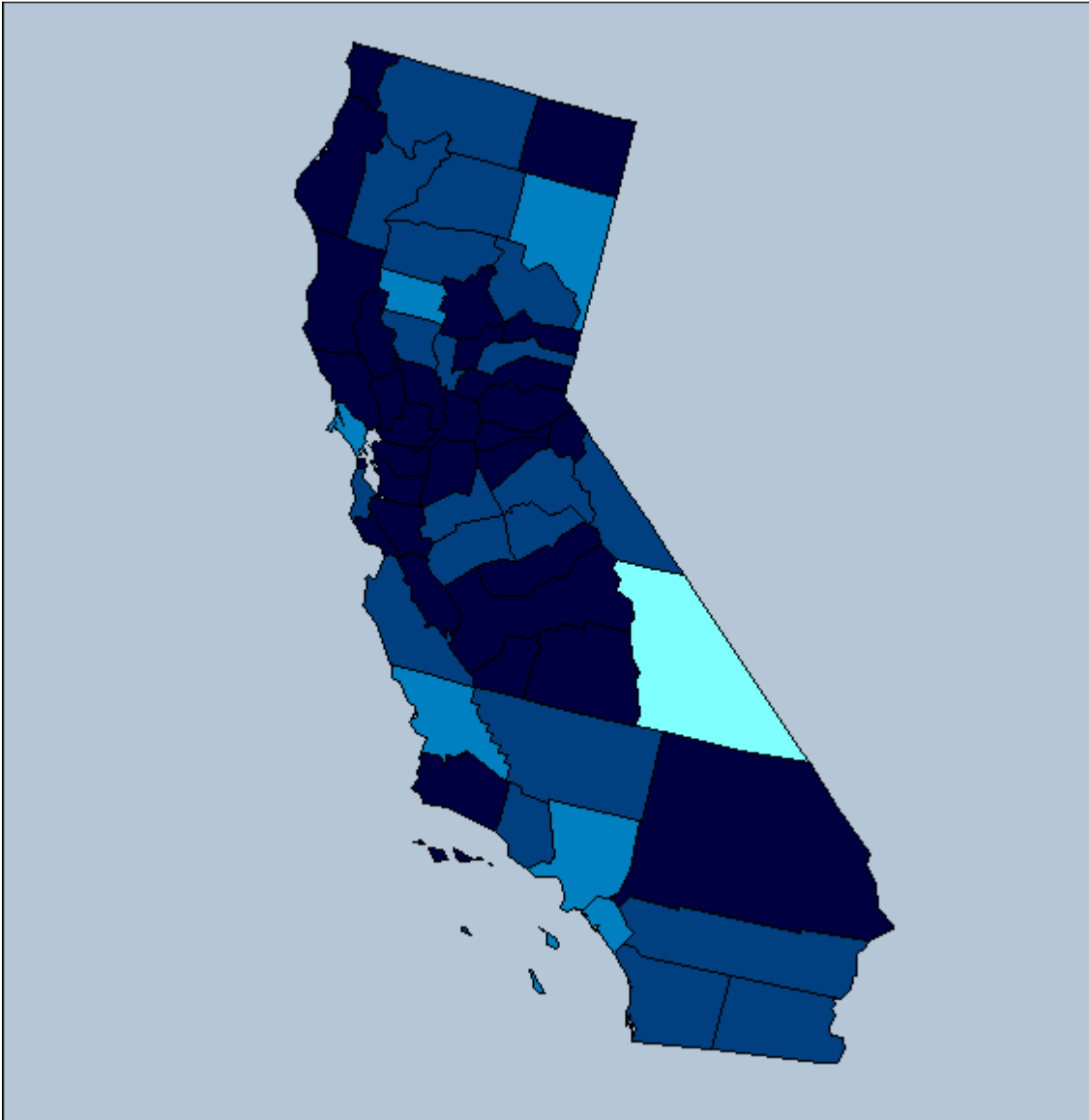
Decrease in Benchmark PMPM 2008 for New York



Decrease in Benchmark PMPM 2008 for Florida



Decrease in Benchmark PMPM 2008 for California



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