

NEWS RELEASE

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NEW REPORT: AFFORDABLE CARE ACT POLICIES WILL EQUALIZE PAYMENTS FOR TRADITIONAL MEDICARE AND MEDICARE ADVANTAGE PLANS, ENDING MORE THAN \$12.7 BILLION IN ANNUAL EXCESS PAYMENTS TO PLANS

For the First Time, Medicare Advantage Plans Will Be Rewarded for Higher Performance

New York, NY, October 16, 2012—New policies enacted as part of the Affordable Care Act will reduce costs and improve quality of care for Medicare beneficiaries, while rewarding high-performing Medicare Advantage plans, according to a new Commonwealth Fund report. The policies reward 4- and 5-star plans and cut \$12.7 billion in annual overpayments to private plans. The Medicare Advantage program, created as part of the Medicare Modernization Act of 2003, allows Medicare beneficiaries to receive Medicare benefits through private insurance plans. Medicare Advantage plans have consistently been more costly than traditional Medicare, averaging 14 percent more than traditional Medicare in 2009. Under the Affordable Care Act the excess payments to private plans will be reduced to 2 percent, saving \$132 billion over 10 years, according to the Congressional Budget Office.

In *The Impact of Health Reform on the Medicare Advantage Program: Realignment Payment with Performance*, lead author Brian Biles, professor of Health Policy at George Washington University, and colleagues apply the Affordable Care Act policies affecting Medicare Advantage to the program's enrollment and spending levels from 2009. They find that substantial savings will be achieved as the law's new rules roll out between now and 2017.

"Since its creation in 2003, Medicare Advantage has been costing the Medicare program billions of dollars every year while providing care that isn't any better than what is offered by traditional Medicare," said Stuart Guterman, Vice President and Executive Director of the Commonwealth Fund Commission on a High Performance Health System, a coauthor of the report. "The Affordable Care Act's changes will bring Medicare Advantage payments closer to traditional Medicare payments, while also providing incentives for plans to focus on providing high-quality care to enrollees."

Changes to Medicare Advantage

The report details how three major changes to the way Medicare Advantage plans are paid will help achieve cost savings:

- **Rewards for quality:** For the first time, plans that earn a four-star out of five or higher rating on the Centers for Medicare and Medicaid Services' (CMS') quality rating system will receive higher payments through increased benchmark and rebate payments. The CMS system rates how plans perform on measures including how many members are up-to-date on screenings, vaccines, and check-ups; how well chronic conditions are being managed; members' satisfaction with the plan; member complaints; and customer service. The Affordable Care Act has allotted \$2.1 billion for these payments, which will provide a strong incentive for plans to perform at the highest level.
- **New benchmark rates:** The bulk of the savings will come from changing the way the benchmark rates for the payments private plans receive from Medicare are set. Under the Affordable Care Act, the nation's 3,140 counties will be ranked based on their per capita health care spending for traditional Medicare, and divided into four groups with the benchmark rates for each group increasing as per capita costs decrease. For example, in the most-costly counties, plans will receive a benchmark rate of 95 percent of traditional Medicare costs for their county, while in the lowest-spending counties, plans will receive a benchmark rate that is 115 percent of the cost for traditional Medicare.

in their area. According to the report, based on 2009 expenditures, this will yield an estimated \$12.7 billion in savings annually.

- **Reduced rebates to plans:** Medicare Advantage plans are currently paid a rebate that amounts to 75 percent of the difference between the set benchmark rate and the plan's bid to provide coverage to Medicare enrollees. The Affordable Care Act will reduce the rebate rate from 75 percent to 50 percent, yielding an estimated \$640 million in savings per year.

"Medicare is a successful program for millions of beneficiaries who rely on it for access to quality, affordable health care, and prescription drugs," said Commonwealth Fund President Karen Davis. "The Medicare Advantage program must work just as well as traditional Medicare without costing more. The Affordable Care Act will make that possible, while also protecting traditional Medicare, by eliminating excess payments to private plans while maintaining fair payments and rewarding plans for high quality. Over the long term, these measures will improve care for Medicare beneficiaries, protect the Medicare trust fund, and reduce the federal budget deficit by lowering Medicare costs."

The authors say that in addition to the cost savings, the changes in Medicare Advantage will likely lead to increased efforts by participating private plans to track and improve performance as they strive to receive bonus payments. The reward-based payments not only have the potential to improve the care enrollees receive but also to make Medicare participation an attractive option for health plans that provide high-quality care.

This report uses data from the National Survey of Hospitals' Readiness for Population-Based Accountable Care. The survey was conducted by the Health Research Educational Trust from May to September 2011. The survey was mailed to 4,937 short-term, acute-care hospitals identified by the American Hospital Association Annual Survey. A total of 1,672 hospitals responded (34% response rate). The response rate for hospitals with more than 300 beds was 47 percent and 42 percent for hospitals with more than 400 beds.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.