

# Medicare Advantage Plan Payments

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## 1. Introduction

Whether a Medicare Advantage (MA) plan is just beginning operations or has participated in the market for years, it is critically important to understand how MA plans are paid. This allows an MA plan to appropriately monitor and segment their financial performance, and identifies areas where the plan may potentially work to increase revenue. The following sections discuss various sources of revenue, how to appropriately separate Part C and Part D revenue, the timing of MA payments from the Federal government, levers that may increase MA revenue, how to calculate revenue payments by segment based on the Bid Pricing Tool (BPT) and Monthly Membership Reports (MMRs), and reconciliation payments for Part D.

## 2. Sources of Revenue

MA plans receive revenue for providing Part C and Part D benefits from two sources: the Federal government and their members. The Federal government pays MA plans an amount equal to the standardized Part C bid adjusted for risk score and ISAR, plus the total Part C rebate, plus the standardized Part D bid adjusted for risk score, less the basic Part D premium. Additionally, plans receive revenue amounts from their members equal to the sum of the Part C, basic Part D, and supplemental Part D member premiums.

Throughout the course of a calendar year, the per member per month (PMPM) revenue amounts plans receive from their members will typically not change<sup>1</sup>. However, the amounts plans receive from the Federal government may change. The Federal government revenue is dependent on the plan's average risk score and average ISAR factor. Both of these items may change as membership changes throughout the course of the year. Additionally, plans may receive additional payments for increases in risk scores due to moving the risk score diagnoses period forward<sup>2</sup> and run-out of diagnoses reporting. This is discussed in greater detail below.

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<sup>1</sup> If a member's low-income status changes during the calendar year, their member premium could change.

<sup>2</sup> It is possible that a plan's risk score could theoretically decrease when moving the risk score diagnoses period forward, resulting in the plan owing the Federal government. However, although possible, this generally does not happen. The remainder of the paper assumes that plans will increase their risk score as the diagnoses period rolls forward.

### 3. Importance of Separating Part C and Part D Revenue Appropriately

Plans may want to track the performance of their Part C and Part D experience separately, and should do this to effectively monitor and manage their business. In order to do this, the total MA revenue, and specifically the rebates developed in the Part C bid, will need to be separated into the Part C and Part D components. The revenue amounts reported in the Part C bid may include rebate amounts that are allocated to cover Part D benefits. These amounts should be treated as Part D revenue amounts.

The detailed calculations to determine the Part C and Part D revenue amounts based on the BPT and MMR files are contained in Sections 6 and 7 of this paper.

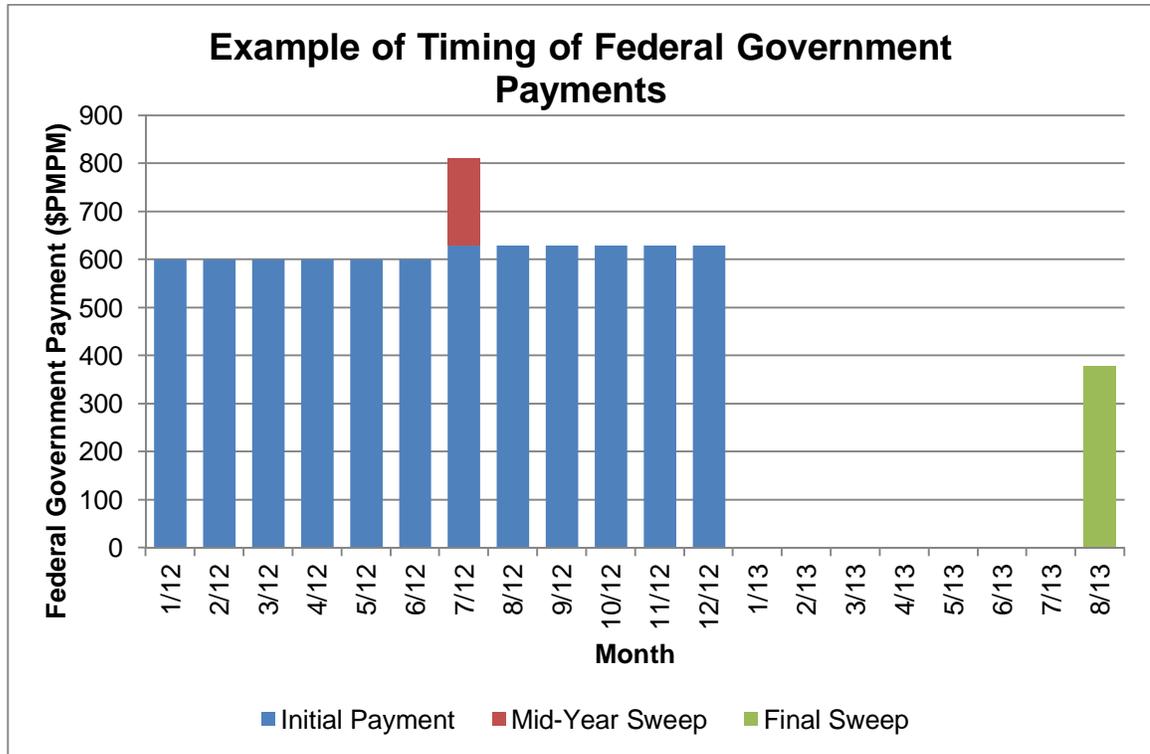
### 4. Timing of Revenue Payments

MA plans receive two sources of payment every month. First, plans receive an amount for member premiums each month equal to the member premium PMPM contained in the BPT times the number of members with coverage in that month. Second, plans receive an amount from the Federal government. This initial Federal government payment is based on the plan's risk scores at the time of the monthly payment.

Since the risk score for a given member will typically increase from the initial payment date, the Federal government pays MA plans two additional "true-up" or "sweep" amounts. MA plans will receive a mid-year sweep payment in July of the calendar year their members are covered. This mid-year sweep accounts for the increase in the plans' risk score due to the diagnoses period, upon which risk scores are based, being shifted forward by six months. MA plans will also receive a final sweep payment in August of the following calendar year. This final sweep payment accounts for the increase in risk scores due to the run-out of diagnoses reporting (i.e., the timing issue of when diagnoses are reported).

The following graphic provides an example of the timing of Federal government payments for a member with coverage in calendar year 2012. In this example, the initial payments for 1/12-6/12 utilize a risk score based on diagnoses for the period 7/10-6/11; initial payments for 7/12-12/12 utilize a risk score based on diagnoses for the period 1/11-12/11. The mid-year sweep provides a retroactive payment to account for the additional payments that should have been made during 1/1-6/12 had the more recent diagnoses period been used in the risk score calculation. The final sweep payment accounts for the increase in risk score due to run-out of diagnosis reporting for diagnoses in the

same 1/11-12/11 diagnoses period; it provides a retroactive payment for 1/12-12/12 coverage months.



## 5. Levers to Increase Revenue

MA plans have several levers available to them to increase the revenue they receive.

MA plans may increase the premiums they charge to their members. This may obviously have adverse sales and marketing impacts that plans should consider. Additionally, MA plans need to ensure that CMS' gain/loss and Total Beneficiary Cost (TBC) requirements and tests are met if BPTs are prepared with higher premiums.

Increasing a plan's star rating will increase the revenue a plan receives from the Federal government. A plan's star rating impacts the revenue in two ways. The Part C benchmark value and Part C rebate percentage both increase with the star rating. The following example illustrates the increase in revenue due to an increase in star rating.

	3.0 Stars	4.0 Stars
(a) Bid	\$700	\$700
(b) Benchmark	\$800	\$816
(c) Rebate Percentage	50%	65%
(d) Savings (b)-(a)	\$100	\$116
(e) Rebate (d)*(c)	\$50	\$75
(f) Bid Plus Rebate (a)+(e)	\$750	\$775

As shown in the above table, the revenue amount provided by the Federal government (bid plus rebate) increases as the star rating increases. This will always be the case. Therefore, it is important for plans to work to improve their star rating, as this is what the competition will be doing.

The third lever to increase an MA plan’s revenue is to increase the Part C and Part D risk scores of its members. It is possible to increase a plan’s risk score by attracting less healthy members with higher risk scores – this is not recommended as claims costs will most likely be higher on these less healthy members. However, plans can significantly improve both their revenue and profitability by working to increase the risk scores of their existing members by ensuring that all appropriate diagnoses are captured and reported. In this scenario, claims remain the same, but revenue will increase if a plan is able to capture additional diagnoses codes that are used in the risk score calculation, which impacts the calculated revenue from the Federal government.

Risk score coding improvement is extremely important. Other MA plans are constantly working to improve their risk score coding, so much so, that CMS assumes that MA plans will increase their coding efforts by a certain percentage each year. If an MA plan falls behind CMS’ annual risk score coding improvement expectation, the plan is essentially penalized and receives a lower normalized risk score, which directly reduces their revenue, all else equal. However, if a plan increases their risk score coding improvement faster than CMS’ expectations, the plan will essentially benefit from a higher normalized risk score and revenue payment, all else equal.

There are a number of ways plans can improve their risk score coding such as: encouraging/incenting members to have at least one primary care visit per year, providing incentives to providers to code all diagnoses, performing chart reviews to identify any additional diagnoses that should have been coded during a visit, etc. Additionally, risk score management companies are available to provide further expertise.

## 6. How to Calculate Revenue from the BPTs

Formulas to calculate the Part C and Part D revenue amounts from both the Federal government and the member are shown below. These calculations will result in projected revenue amounts based on the projected risk scores and Medicare secondary payer (MSP) adjustment assumed in the BPTs (i.e., the Part C Conversion Factor and Part D Risk Score). However, the actual risk scores and MSP adjustment may be different than the projections in the BPTs. The formulas below may still be used to calculate the “actual” payments by replacing the projected Part C Conversion Factor and Part D Risk Score in the formulas below with the actual amounts from the MMRs.

### Part C Payment from Government

= [Standardized Part C Bid (MA-WS5.II.8) \* Part C Conversion Factor (MA-WS5.II.5) \* ISAR (MA-WS5.VI.2.(j))]  
 + Total Rebate (MA-WS5.III.2)  
 – Part C Rebate Allocated to Part B (MA-WS6.III.B.4)  
 – Part C Rebate Allocated to Basic Part D (MA-WS6.III.B.5)  
 – Part C Rebate Allocated to Supplemental Part D (MA-WS6.III.B.6)

### Part C Payment from Member

= Part C Premium (MA-WS6.III.C.6)

### Part D Payment from Government

= [Standardized Part D Bid (PD-WS7.III.1) \* Part D Risk Score (PD-WS5.II.2)]  
 – Basic Part D Premium (PD-WS7.III.5)  
 + Part C Rebate Allocated to Basic Part D (MA-WS6.III.B.5)  
 + Part C Rebate Allocated to Supplemental Part D (MA-WS6.III.B.6)

### Part D Payment from Member

= Basic Part D Premium (MA-WS6.III.C.7d)  
 + Supplemental Part D Premium (MA-WS6.III.C.8d)

## 7. How to Calculate Revenue from the MMRs

Formulas to calculate the Part C and Part D revenue amounts based on information provided in the MMRs are shown below<sup>3</sup>. Note, since these calculations are based on actual risk scores, MSP factors, and ISAR factors, they may result in different revenue amounts than those contained in the BPTs, which are projections of future revenue payments.

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<sup>3</sup> MMR layout and character positions are as of December 2013.

Part C Payment from Government

= (Total MA Payment Amount) – (Rebate for Part D Supplemental Benefits – Part A Amount) – (Rebate for Part D Supplemental Benefits – Part B Amount) – (Rebate for Part B Premium Reduction – Part A Amount) – (Rebate for Part B Premium Reduction – Part B Amount)  
= MMR Character Positions (299-309) – (263-270) – (271-278) – (247-254) – (255-262)

Part C Payment from Member

(Not captured in MMRs; need to pull from BPT)  
= Part C Premium (MA-WS6.III.C.6)

Part D Payment from Government

= (Total PD Payment) + (Rebate for Part D Supplemental Benefits – Part A Amount) + (Rebate for Part D Supplemental Benefits – Part B Amount)  
= MMR Character Positions (379-389) + (263-270) + (271-278)

Part D Payment from Member

(Not captured in MMRs; need to pull from BPT)  
= Basic Part D Premium (MA-WS6.III.C.7d)  
+ Supplemental Part D Premium (MA-WS6.III.C.8d)

## 8. Additional Part D Payable/Receivable Amounts

MA plans offering Part D coverage may be required to pay the federal government or may receive additional amounts from the federal government for Part D reconciliation items, Part D risk sharing, and Part D net plan-to-plan adjustments. A brief discussion of these amounts is presented in this section.

Part D Reconciliation

At the time the Part D BPT is prepared, the MA plan must project the amounts for low-income cost sharing (LICS) subsidies, Federal reinsurance, and the Gap discount program. The Federal government pays MA plans monthly revenue payments equal to the projected amounts. However, actual amounts may differ from the projections. Typically, the reconciliation payments are paid/due in December of the year following the year of coverage.

When preparing a financial analysis that is on an accrual basis, the reported claims should reflect the plan's liability after the LICS subsidies, Federal reinsurance program, and Gap discount program have been accounted for. Therefore, the reconciliation payable/receivable amounts discussed above should not be included in the profit margin calculation, as the claims have already been adjusted. For example, the claims reported should only include

the amount of claims that are the plan's responsibility – For the Federal reinsurance program, the claims reported should include the claims below the reinsurance threshold plus 20% of the claims above the reinsurance threshold. Since the portion of the claims that will be paid by the Federal reinsurance program are not included, the projected Federal reinsurance program revenue payments and any Federal reinsurance program reconciliation payments should also be excluded.

#### Part D Risk Sharing

The Federal government provides risk sharing protection if actual claims are significantly higher than those projected in the BPT. However, if actual claims are significantly lower than projected, the MA plan will owe the Federal government a payment. The risk sharing provisions for 2012 are shown in the following table.

Risk Corridor*	Government's Share	Plan's Share
0% to 5%	0%	100%
5% to 10%	50%	50%
10% or more	80%	20%

\*Risk Corridor is defined as the absolute value of [the ratio of actual claims to projected claims less 1]

#### Part D Net Plan-to-Plan Adjustments

Members may move from one MA plan to another throughout the course of the year. Because of this, it may be necessary to true-up Federal government payments between MA plans. This is done through the Part D plan-to-plan adjustments.

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