MILLIMAN WHITE PAPER

So you want to start a Medicare Advantage plan…

Benefits and member premiums offered in the first five years

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How do plans grow enrollment in year 1?

Past research supports that, on average, approximately 10%[1] of members voluntarily switch Medicare Advantage (MA) plans from one year to the next—MA members tend to stick with their current plan. This "stickiness" can make it difficult for a new Medicare Advantage organization (MAO) to attract meaningful membership in its first year, especially if the MAO has little brand recognition. Because it is critical for a startup to entice members to choose its plan, MAOs often look to attract new membership by offering more enhanced benefits or a lower premium than their local competitors. This can be a successful strategy to try to attract members from other MA organizations, as well as to entice members to transition from traditional Medicare fee-for-service (FFS) or those members aging into Medicare eligibility.

In this article we focus on some of the tactics frequently taken by new entrants to design an attractive benefit plan with competitive premiums in their first five years in the Medicare Advantage market. This is the fourth article in this white paper series on Medicare Advantage startups. The first three articles focused on enrollment, service area expansion, and star ratings achieved over the first five years of an MAO's operation.[2,3,4] In this article we continue to focus on a subset of new entrants to track the benefit and premium changes made throughout their first five years in the market.

Which MAOs are included in our study?

As discussed in earlier articles in this series, we identified 28 Medicare Advantage organizations (MAOs) that entered the MA market in either 2015 or 2016. For our study, we identified an MA startup organization as a health plan that first entered the MA individual market in 2015 or 2016, regardless of whether it provided health insurance for another line of business prior to 2015 or 2016. As part of this study, we tracked the journey of new MAOs over their first five years based on publicly available information published by the Centers for Medicare and Medicaid Services (CMS).

For the purposes of analyzing benefits and premium for this article, we excluded any special needs plans (SNPs), because these plans typically enroll a high percentage of dual eligible members (members eligible for both Medicare and Medicaid) who receive assistance from Medicaid for cost sharing and premiums. Of the 28 MAOs in our study, eight offered only SNPs during the five years so we removed these organizations from the analyses discussed in this article.

What percentage of MA plans enter the market with a $0 premium plan?

In recent years, $0 premium plans in the Medicare Advantage market have become more and more common. In several areas of the country, organizations find it hard to compete without offering a $0 premium plan option. As of 2020, approximately half of general enrollment MA plans across the country offered a $0 premium plan, which enrolled approximately 57% of total MA members.[5]

[1] A 2019 article says the switcher rate is between 6% to 11% from 2007 to 2016. See https://www.healthcaredive.com/news/medicare-advantage-members-rarely-review-or-switch-plans/568406/.

[2] Kramer, A., Piper, B., & Vandermause, E. (January 2021). So You Want to Start a Medicare Advantage Plan... What to Expect for Enrollment in the First Five Years. Milliman White Paper. Retrieved May 5, 2021, from https://www.milliman.com/en/insight/so-you-want-to-start-a-medicare-advantage-plan-what-to-expect-for-enrollment-in-the-first-five-years.

[3] Kramer, A., Piper, B., & Vandermause, E. (January 2021). So You Want to Start a Medicare Advantage Plan… Service Area and Product Portfolio Expansions in the First Five Years. Milliman White Paper. Retrieved May 5, 2021, from https://www.milliman.com/en/insight/so-you-want-to-start-a-medicare-advantage-plan-service-area-and-product-portfolio-expansions.

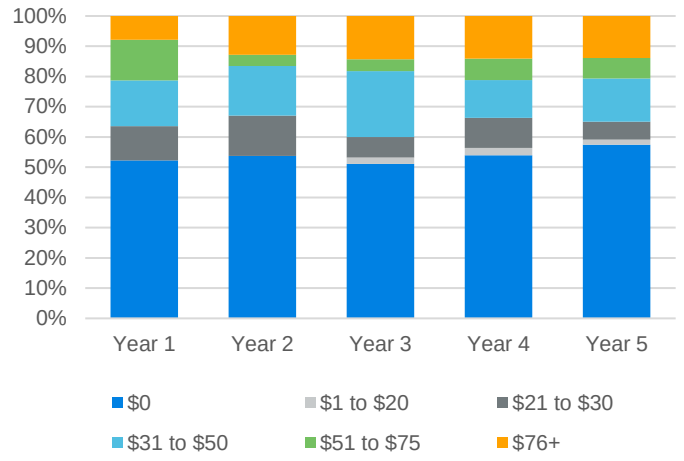
[4] Piper, B. & Vandermause, E. (April 2021). So You Want to Start a Medicare Advantage Plan… What to Expect for a Star Rating in the First Five Years. Milliman White Paper. Retrieved May 5, 2021, from https://www.milliman.com/en/insight/so-you-want-to-start-a-medicare-advantage-plan-what-to-expect-for-a-star-rating.

[5] Friedman, J.M., Swanson, B.L., Yeh, M.G., & Cates, J.J. (February 2020). State of the 2020 Medicare Advantage Industry: As Strong as Ever. Milliman Research Report. Retrieved May 5, 2021, from https://us.milliman.com/-/media/milliman/pdfs/articles/state_of_the_2020_medicare_advantage_industry.ashx.

Of the 20 organizations offering non-SNPs in our study, 11 offered at least one $0 premium plan in year 1. There were 46 total non-SNP plans offered in year 1 by these organizations, 18 of which were $0 premium plans (39% of the plan offerings). By year 5, these organizations offered 75 total non-SNP plans, of which 30 had a $0 premium (40% of total plan offerings). Across all these MAOs, enrollment in $0 premium plans as a percentage of total plan enrollment grew from 52% in year 1 to 57% in year 5.

Figure 1 shows the percentage of members enrolled in plans of varying premium levels over the first five years of an MAO entering the market. As discussed, over half of plan enrollment was in $0 premium plans in year 1 and this trend continued each year of the five-year time period analyzed.

FIGURE 1: MONTHLY MEMBER PREMIUM IN YEARS 1 THROUGH 5 BASED ON ENROLLMENT



Approximately half of the plans offered in year 1 had member premiums of $30 or less per month. However, it is clear members are attracted to low premium plans, because about 65% of the year 1 membership of the MAOs in our study was in a plan with a premium of $30 or less per month.

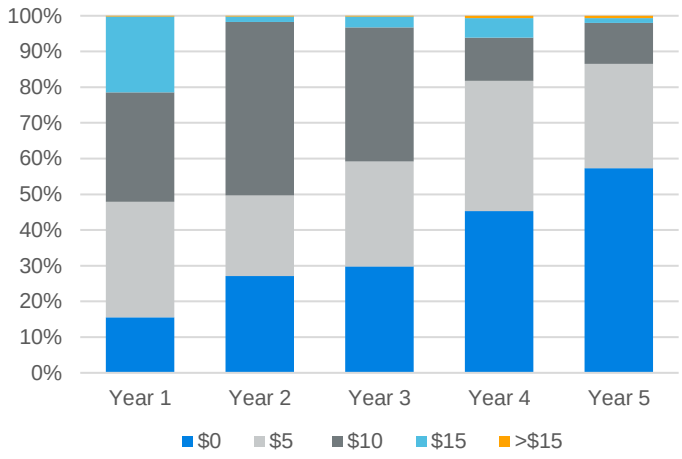
What percentage of MA startups enrich their benefits after year 1?

For the purposes of our study, we focused on two very visible medical benefits that members frequently use to quickly compare plan designs: the primary care provider (PCP) copay and the maximum out-of-pocket (MOOP) limit.

Of the non-SNPs offered, 28% offered a $0 PCP copay benefit in year 1 with only about 15% of the plans offering a $15 or higher PCP copay. The percentage of plans with a $0 PCP copay benefit increased from 28% in year 1 to 65% in year 5, reflecting a growing trend of $0 PCP cost sharing to encourage members to receive routine checkups and primary care as a way to encourage early detection and prevention of poor healthcare outcomes and costly services in the future. Further, by eliminating the PCP copayment, PCP utilization may, in theory, increase, which offers PCPs more opportunity to better understand the health histories and conditions of their patients. Because MA revenue is adjusted by a risk score (which is derived from member-specific diagnoses), a benefit design that encourages PCP visits can also assist with risk score efforts. The trend of low PCP copays is not limited to new entrants, as it is consistent with the trend observed across all plans in the MA market, where average PCP cost sharing has decreased every year from 2016 through 2020.[6] Many organizations focus on offering a competitive PCP copay, knowing that members have a tendency to compare plan options based on the benefits they expect to most likely use.

Figure 2 shows the increase in the percentage of the membership enrolled in plans with a $0 PCP copay from year 1 to year 5 of our study. While a little over 20% of enrollment was in the 15% of plans with a $15 or higher PCP copay in year 1, this percentage decreased significantly in year 2 and remained low in years 3 through 5 of our study.

FIGURE 2: PCP COPAY IN YEARS 1 THROUGH 5 BASED ON ENROLLMENT

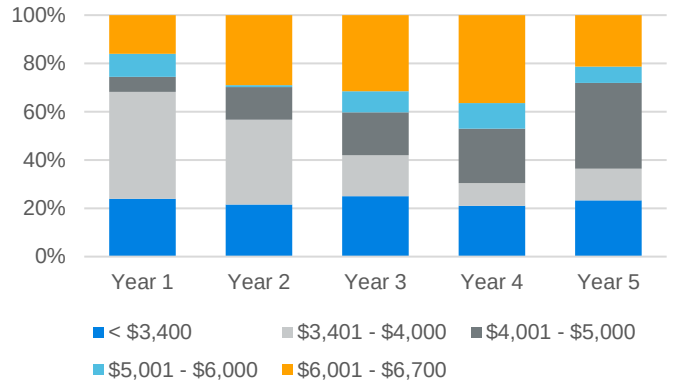


[6] Ibid.

CMS requires all MA plans to have an annual MOOP no higher than $7,550 as of 2021. Note that this limit increased in 2021 from the previous maximum limit of $6,700, which was in effect for a number of years. If a plan offers a lower MOOP at the voluntary level ($3,400 prior to 2021), the plan is allowed to charge slightly higher copays for some services (although all cost-sharing amounts are still subject to CMS-published maximums). Approximately 25% of plans offered a MOOP at the $3,400 or lower limit in year 1, and this percentage was relatively stable throughout our five-year study. Thus, unlike our PCP observation, it does not appear many MAO startups reduced their MOOPs over the first five years of operation.

Figure 3 shows that the percentage of enrollment in plans with MOOPs of $3,400 or lower remained fairly similar throughout the five-year time period. In particular, in year 1 approximately 68% of the membership was enrolled in a plan with a MOOP at or below $4,000. This decreased throughout the time period, whereas enrollment in plans with MOOPs between $4,000 and $5,000 increased during the five years.

FIGURE 3: MOOP LEVEL IN YEARS 1 THROUGH 5 BASED ON ENROLLMENT



How can TBC affect benefit and premium strategy?

Beginning in a plan's second year of operation, CMS publishes a total beneficiary cost (TBC) limit for each plan. The TBC limit is the maximum amount, on a per member per month (PMPM) basis, that the plan can increase overall member cost sharing and member premium (combined).[7] For reference, the 2021 TBC limit begins at $39 PMPM, but it is adjusted for each plan's specific situation (for example, if a plan improved its star rating, and thus will receive more revenue than the prior year, CMS will decrease the TBC limit). Because of the TBC limit, plans are unable to offer rich benefits and low premiums in year 1 to achieve enrollment goals with the intention of significantly raising copayments and premiums in year 2. Startups should be aware of the TBC requirements when structuring year 1 benefits and premiums, recognizing that if significant benefit reductions are anticipated in future years it may take multiple years to fully implement such changes to stay compliant with TBC limits.

What are the key takeaways?

Benefit design is one of many components that can drive enrollment growth. Competitive benefits can help an MA startup compete with existing MA carriers, and popular benefits such as $0 member premiums and $0 PCP copayments can be very attractive to members. MAOs should consider TBC requirements when designing and refining benefits and premiums, as it may require a multiyear strategy. A competitive benefit design, along with other key components, such as effective marketing activities and a robust provider network, are key ingredients to launching a successful MA product.

What are these results based on?

In performing the analysis described in this paper, we relied on MA plan offerings in 2014 through 2020, as published by CMS. We summarized information from Milliman's Medicare Advantage Competitive Value Added Tool (Milliman MACVAT®), which uses publicly available MA information from CMS, including enrollment information from February of each year, star ratings, and plan details (e.g., plan type, special needs plan type, parent organization, etc.). The values presented reflect organizations available in each respective contract year. We identified new MAOs in 2015 and 2016 by identifying MA contracts and parent organizations that were not in the prior year's database. We excluded from this analysis Medicare-Medicaid Plans (MMP), Medicare Cost plans, Prescription Drug Plans (PDPs), Program of All-Inclusive Care of the Elderly (PACE) plans, and Employer Group Waiver Plans (EGWPs). We also did not include any organizations that acquired contracts with previously established plans.

[7] Girod, C. & Kolli, S. (April 2018). Medicare Advantage and Part D: Compliance for Actuaries. Milliman White Paper. Retrieved May 5, 2021, from https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2018/medicare-advantage-part-d-actuaries.ashx.

We relied on the Public Use Files (PUFs) from CMS for the February enrollment in each year (downloaded as of January 2021). The MAO enrollment is at a county/plan level and, as such, could be missing small enrollee counts as CMS does not publish enrollment if the count is under 10 enrollees.

Caveats, limitations, and qualifications

This paper was developed to analyze the benefits and premiums offered by new entrants during their first five years in the MA market. This information may not be appropriate, and should not be used, for other purposes. We do not intend this information to benefit, and assume no duty or liability to, any third party that receives this work product. Any third-party recipient of this paper that desires professional guidance should not rely upon Milliman's work product but should engage qualified professionals for advice appropriate to its specific needs. This paper should be read in its entirety.

In preparing our analysis, we relied upon public information released by CMS and other publications listed and footnoted above. The credibility of certain comparisons provided in this report may be limited, particularly where the number of plans in certain groupings is low.

We are not attorneys and do not intend to provide any legal advice or expertise related to the topics discussed here. The opinions included here are ours alone and not necessarily those of Milliman.

We are actuaries for Milliman, members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of our knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

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