March 24, 2023

The Honorable Elizabeth Warren
United States Senate

Dear Senator Warren,

As was described in a recent comment letter to CMS[1] regarding the Calendar Year 2024 Advance Notice of Methodological Changes for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies (the Advance Notice), approximately 15% of any increased payments to MA plans will be paid for by Medicare beneficiaries through increased Part B premiums.[2] We are writing to explain in more detail how that happens, the components of those increased payments and the magnitude of additional Part B premiums that Part B beneficiaries will pay over the next 8 years.

Traditional Medicare (TM) coverage includes Part A for inpatient hospital care, skilled nursing care and hospice care; and Part B to cover physician and other outpatient services. Part D provides drug coverage. Medicare Part C, also known as MA, is a privatized coverage program that beneficiaries can choose as a replacement for Part A and B. Medicare eligible individuals are automatically enrolled in Medicare Part A upon turning 65. However, Part B is not automatic; beneficiaries must choose to enroll and pay a premium every year. In 2023, that premium is approximately $165 per month.[3] Beneficiaries selecting privatized coverage through MA must first enroll in Part B by paying their Part B premiums to Medicare every year.

The Part B premium is set by law to equal 25% of all Medicare expenditures for Part B services. These include all the Part B services TM beneficiaries receive and the portion of MA spending that is allocated to Part B. Medicare pays a fixed amount called capitation of about $13,000 per beneficiary per year to MA Plans. Medicare's actuaries apportion that into Parts A and B expenditures each year. Over the period of 2023 to 2031, they project that about 60% of expenditures will be apportioned to Part B.[4] Therefore, roughly 60% of every dollar paid to MA Plans will be included in the calculation of the Part B premium for all beneficiaries.

MedPAC has noted three main reasons Medicare pays more for MA members that it would if those beneficiaries were in TM: first, because CMS does not adequately adjust for patterns of differential coding between MA and TM, resulting in higher risk scores in MA; second, because the MA quality bonus program results in additional payments to MA plans; and third, because the benchmarks in counties with relatively low levels of fee-for-service (FFS) spending are set, by statute, above average FFS

[1] Letter from Scott Armstrong et al. to HHS Secretary Xavier Becerra and CMS Administrator Chiquita Brooks LaSure, March 6, 2023, https://thecapitolforum.com/wp-content/uploads/2023/03/MA-Advance-Notice-gp19-Comment-final-9-030923.pdf.

[2] Centers for Medicare and Medicaid Services, "Advance Notice of Methodological Changes for Calendar Year (CY) 2024 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies," February 1, 2023, https://www.cms.gov/files/document/2024-advance-notice.pdf.

[3] Centers for Medicare and Medicaid Services, "2023 Medicare Parts A & B Premiums and Deductibles 2023 Medicare Part D Income-Related Monthly Adjustment Amounts," September 27, 2022, https://www.cms.gov/newsroom/fact-sheets/2023-medicare-parts-b-premiums-and-deductibles-2023-medicare-part-d-income-related-monthly.

[4] The Boards of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, "The 2022 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds," June 2, 2022, p. 161, https://www.cms.gov/files/document/2022-medicare-trustees-report.pdf.

spending levels. In 2023 MedPAC estimates that these extra quality and county payments will add approximately 9% to the FFS-based benchmarks. Using population, cost and coverage trends from the 2022 Medicare Trustees report we project that these bonuses will add approximately $361 billion to MA payments from 2023 to 2031; $219 billion will be apportioned to Part B, with 25% of that, $55 billion being paid for by beneficiaries through increased part B premiums.

A 2021 study entitled "Industry-Wide and Sponsor-Specific Estimates of Medicare Advantage Coding Intensity" projected that the difference in coding patterns between TM and MA plans would create a total of $600 billion in overpayments over the period from 2023 to 2031.[5] This estimate would likely be higher if redone today because the rate of coding increase has accelerated in the past several years. 60% of this increased spending, $360 billion, will be included in Part B expenditures. 75% of that cost, $270 billion, will become the responsibility of taxpayers. 25%, or $90 billion, will be paid for by Medicare beneficiaries through increased Part B premiums.

Without changes to the way Medicare pays MA plans like those proposed in the 2024 MA Advance Notice by CMS, over the next 8 years MA plans will be paid approximately $960 billion, almost $1 trillion, more than Medicare would pay if beneficiaries remained in TM. Taxpayers will be responsible for 85% of this amount. Medicare beneficiaries will pay for 15% or $145 billion of this through increased Part B premiums. This constitutes a major transfer of wealth from the Nation's seniors to the owners of MA plans who will then decide how it will be used by their firms. 45%, or $65 billion, of this will be paid by TM beneficiaries. Please feel free to contact us at any time if you have any questions regarding these estimates.

Sincerely,

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[5] "Industry-Wide and Sponsor-Specific Estimates of Medicare Advantage Coding Intensity," Richard Kronick and F. Michael Chua, November 11, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3959446.