

The Cost of Privatization: Extra Payments to Medicare Advantage Plans Updated Tables for 2007

February 2007 MA Plan Enrollment, 2007 MA and FFS Payment Rates

Brian Biles, MD, MPH and Emily Adrion, MSc
Department of Health Policy
George Washington University
202 530-2314
May 1, 2007

**Table 1. Extra Payments to Medicare Advantage Plans
Compared with Average Fee-for-Service Costs by County Payment Type, 2007¹**

County Payment Type	Medicare Beneficiaries ⁵	MA Plan Enrollees ⁴	Total Annual Extra Payments to MA Plans (millions)	Average MA Plan Payment Greater than FFS Costs ^{2,3,7}	
				Average Extra Amount per MA Plan Enrollee	Average Extra Payment to MA Plans Greater than FFS Costs
National	42,986,173	7,438,442	\$7,500	\$1,008	13.3%
Rural Floor	7,677,075	706,220	843	1,194	17.9%
Urban Floor	11,346,652	2,118,907	3,166	1,494	21.3%
Blend	1,404,844	314,983	398	1,262	16.3%
Minimum Update	2,471,241	525,816	535	1,017	11.8%
100% FFS 2004 ⁶	3,246,396	504,451	642	1,272	15.1%
100% FFS 2005 ⁶	14,037,766	2,665,393	1,762	661	7.7%
100% FFS 2007 ⁶	2,778,180	602,011	155	257	2.6%

¹ Calculations exclude payments to teaching hospitals for the IME expenses of both MA and FFS beneficiaries. Calculations include budget neutral risk adjustment of 1.039.

² Calculations at the county level, weighted by MA enrollment. Excludes MA enrollees in cost plans.

³ In 2006 and future years, the MMA provides that payments to MA plans change from a system based entirely on county benchmarks to one that combines county benchmarks with a bid by each individual MA plan. The new benchmark-based bidding system allocates 75 percent of the difference between the county benchmark and the MA plan bid to the plan and 25 percent to the Federal government. Analysts at MedPAC who have studied Medicare private plan payments and costs have found that the average MA plan bid falls approximately 16 percent less than the county benchmark. This would result in a 4% reduction in benchmark extra payment rates to MA plans. The above calculations account for average MA plan bids 16% below the 2007 MA benchmark rates. See Medicare Payment Advisory Commission (MedPAC), "Report to the Congress: Medicare Payment Policy" (Washington, D.C.: MedPAC, March 2007).

⁴ Medicare Advantage enrollment data as of February 2007.

⁵ Medicare beneficiary totals as of December 2005.

⁶ CMS decided to rebase the 100 percent of FFS rate at the county level in 2005 and 2007. Rebasing the

FFS rates means that CMS retabulated the per capita FFS expenditures for each county so that the FFS rates reflect more recent county growth trends in FFS expenditures. The MMA provides that the county level payment rate for MA plans in 2005 was the higher of the 2005 rebased 100 percent of FFS rate or the 2004 rate increased by 6.6 percent. See Centers for Medicare and Medicaid Services (CMS), "Note to Medicare Advantage Organizations and Other Interested Parties: Advance Notice of Methodological Changes for Calendar Year (CY) 2005 Medicare Advantage Payment Rates" (Washington, D.C.: CMS, March 26, 2004). Available at: <http://www.cms.hhs.gov/healthplans/rates/2005/45day.pdf>. Accessed September 15, 2004. For 2007, the county level payment rate for MA plans is the higher of the 2007 rebased 100 percent of FFS rate or the 2006 rate increased by 7.1%. See Centers for Medicare and Medicaid Services (CMS), "Announcement of Calendar Year (CY) 2007 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies Fact Sheet" (Washington, D.C.: CMS, April 3, 2006). Available at: <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/factsheet2007.pdf> Accessed May 30, 2006.

⁷ For the above calculations, FFS rates have been adjusted by 1.33 percent in accordance with the final estimates of the national per capita MA growth percentage released by CMS on April 2, 2007. See: Centers for Medicare and Medicaid Services (CMS), "Announcement of Calendar Year (CY) 2008 Medicare Advantage Capitation Rates and Payment Policies" (Washington, D.C.: CMS, April 2, 2007). Available at: <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/Announcement2008.pdf>
Source: George Washington University analysis of Centers for Medicare and Medicaid Services Medicare Managed Care State/County/Contract data file released February 2007; Medicare Managed Care Quarterly State, County Data File for the quarter ending December 2005, and the Medicare Advantage 2007 Rate Calculation Data Spreadsheet.

Table 2. Location of Medicare Beneficiaries and Medicare Advantage Plan Enrollees Compared with Location of Extra Payments to Medicare Advantage Plans by County Payment Type, 2007

County Payment Type	Distribution of Medicare Beneficiaries	Distribution of MA Plan Enrollees	MA Plan Enrollment Rate	Distribution of MA Plan Extra Payments
National	100.0%	100.0%	17.3%	100.0%
Rural Floor	17.9%	9.5%	9.2%	11.2%
Urban Floor	26.4%	28.5%	18.7%	42.2%
Blend	3.3%	4.2%	22.4%	5.3%
Minimum Update	5.8%	7.1%	21.3%	7.1%
100% FFS 2004 ¹	7.6%	6.8%	15.5%	8.6%
100% FFS 2005 ¹	32.7%	35.8%	19.0%	23.5%
100% FFS 2007 ¹	6.5%	8.1%	21.7%	2.1%

¹ CMS decided to rebase the 100 percent of FFS rate at the county level in 2005 and 2007. Rebasing the FFS rates means that CMS retabulated the per capita FFS expenditures for each county so that the FFS rates reflect more recent county growth trends in FFS expenditures. The MMA provides that the county level payment rate for MA plans in 2005 was the higher of the 2005 rebased 100 percent of FFS rate or the 2004 rate increased by 6.6 percent. See Centers for Medicare and Medicaid Services (CMS), "Note to Medicare Advantage Organizations and Other Interested Parties: Advance Notice of Methodological Changes for Calendar Year (CY) 2005 Medicare Advantage Payment Rates" (Washington, D.C.: CMS, March 26, 2004). Available at: <http://www.cms.hhs.gov/healthplans/rates/2005/45day.pdf>. Accessed September 15, 2004. For 2007, the county level payment rate for MA plans is the higher of the 2007 rebased 100 percent of FFS rate or the 2006 rate increased by 7.1%. See Centers for Medicare and Medicaid Services (CMS), "Announcement of Calendar Year (CY) 2007 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies Fact Sheet" (Washington, D.C.: CMS, April 3, 2006). Available at: <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/factsheet2007.pdf>. Accessed May 30, 2006.

Source: George Washington University analysis of Centers for Medicare and Medicaid Services Medicare Managed Care State/County/Contract data file for February 2007; Medicare Managed Care Quarterly State, County Data File for the quarter ending December 2005, and the Medicare Advantage 2007 Rate Calculation Data Spreadsheet.

**Table 3. Extra Payments to Medicare Advantage Plans
Compared with Average Fee-for-Service Costs by State, 2007¹**

State	Medicare Beneficiaries ⁵	MA Plan Enrollees ⁴	MA Plan Enrollment Rate	Average MA Plan Payment Greater than FFS Costs ^{2,3,6}		
				Average Extra Amount per MA Plan Enrollee	Total Extra Payments to MA Plans (millions)	Average Extra Payment to MA Plans Greater than FFS Costs
National	42,986,173	7,438,442	17.3%	\$1,008	\$7,500	13.3%
Rural	12,691,885	992,453	7.8%	941	934	13.7%
Urban	30,270,269	6,445,328	21.3%	1,019	6,565	13.3%
Alabama	781,601	103,944	13.3%	903	94	11.4%
Alaska	45,701	39	0.1%	827	0.03	10.2%
Arizona	818,639	282,799	34.5%	1,118	316	15.0%
Arkansas	489,388	32,160	6.6%	1,145	37	16.4%
California	4,386,037	1,400,708	31.9%	940	1,316	11.8%
Colorado	542,294	136,419	25.2%	1,071	146	13.9%
Connecticut	540,699	45,382	8.4%	469	21	5.7%
Delaware	132,269	2,224	1.7%	625	1	7.9%
D.C.	77,597	2,311	3.0%	1,483	3	17.2%
Florida	3,129,832	774,669	24.8%	343	265	4.2%
Georgia	1,076,986	102,282	9.5%	1,139	116	15.5%
Hawaii	189,271	27,832	14.7%	2,221	62	35.3%
Idaho	198,714	33,781	17.0%	1,365	46	19.6%
Illinois	1,749,064	136,087	7.8%	708	96	9.5%
Indiana	934,910	59,998	6.4%	1,370	82	19.6%
Iowa	502,547	36,102	7.2%	1,546	56	23.9%
Kansas	412,026	24,780	6.0%	1,031	26	13.6%
Kentucky	704,727	64,065	9.1%	951	61	13.0%
Louisiana	642,618	98,568	15.3%	1,349	133	14.4%
Maine	243,190	3,411	1.4%	1,628	6	24.3%
Maryland	718,389	35,333	4.9%	462	16	5.2%
Massachusetts	1,007,212	166,837	16.6%	917	153	11.0%
Michigan	1,537,840	200,419	13.0%	814	163	10.8%
Minnesota	721,521	129,702	18.0%	833	108	11.7%
Mississippi	471,940	41,901	8.9%	892	37	11.5%
Missouri	942,794	140,936	14.9%	1,089	154	14.6%
Montana	153,286	15,019	9.8%	977	15	14.3%
Nebraska	267,836	19,988	7.5%	982	20	13.4%
Nevada	308,802	90,983	29.5%	294	27	3.5%
New Hampshire	194,363	2,252	1.2%	1,158	3	15.5%
New Jersey	1,270,110	109,622	8.6%	433	47	4.9%
New Mexico	277,591	57,160	20.6%	2,289	131	36.7%

State	Medicare Beneficiaries ⁵	MA Plan Enrollees ⁴	MA Plan Enrollment Rate	Average MA Plan Payment Greater than FFS Costs ^{2,3,6}		
				Average Extra Amount per MA Plan Enrollee	Total Extra Payments to MA Plans (millions)	Average Extra Payment to MA Plans Greater than FFS Costs
New York	2,879,429	636,807	22.1%	1,113	709	14.3%
North Carolina	1,318,782	159,885	12.1%	1,553	248	22.4%
North Dakota	106,313	4,624	4.3%	1,199	6	18.1%
Ohio	1,811,669	273,284	15.1%	1,140	311	15.2%
Oklahoma	559,862	60,561	10.8%	741	45	9.1%
Oregon	557,661	181,645	32.6%	1,893	344	29.7%
Pennsylvania	2,189,492	700,092	32.0%	844	591	10.7%
Rhode Island	177,579	60,379	34.0%	1,456	88	20.0%
South Carolina	673,878	50,699	7.5%	1,170	59	16.1%
South Dakota	128,623	5,436	4.2%	1,213	7	18.5%
Tennessee	955,071	161,836	16.9%	1,057	171	14.4%
Texas	2,641,789	330,634	12.5%	1,541	510	17.3%
Utah	245,106	48,224	19.7%	1,431	69	20.4%
Vermont	100,351	487	0.5%	1,143	0.6	17.0%
Virginia	1,023,393	68,808	6.7%	1,633	112	24.4%
Washington	851,609	155,299	18.2%	1,503	233	21.5%
West Virginia	367,440	19,771	5.4%	1,099	22	15.4%
Wisconsin	854,772	140,339	16.4%	1,533	215	23.2%
Wyoming	73,560	1,919	2.6%	691	1	9.7%

¹ Calculations exclude payments to teaching hospitals for the IME expenses of both MA and FFS beneficiaries.

² Calculations at the county level, weighted by MA enrollment. Excludes MA enrollees in cost plans. Calculations include budget neutral risk adjustment of 1.039.

³ In 2006 and future years, the MMA provides that payments to MA plans change from a system based entirely on county benchmarks to one that combines county benchmarks with a bid by each individual MA plan. The new benchmark-based bidding system allocates 75 percent of the difference between the county benchmark and the MA plan bid to the plan and 25 percent to the Federal government. Analysts at MedPAC who have studied Medicare private plan payments and costs have found that the average MA plan bid falls approximately 16 percent less than the county benchmark. This would result in a 4% reduction in benchmark extra payment rates to MA plans. The above calculations account for average MA plan bids 16% below the 2007 MA benchmark rates. See Medicare Payment Advisory Commission (MedPAC), "Report to the Congress: Medicare Payment Policy" (Washington, D.C.: MedPAC, March 2007).

⁴ Medicare Advantage enrollment data as of February 2007.

⁵ Medicare beneficiary totals as of December 2005.

⁶ For the above calculations, FFS rates have been adjusted by 1.33 percent in accordance with the final estimates of the national per capita MA growth percentage released by CMS on April 2, 2007. See: Centers for Medicare and Medicaid Services (CMS), "Announcement of Calendar Year (CY) 2008 Medicare Advantage Capitation Rates and Payment Policies" (Washington, D.C.: CMS, April 2, 2007). Available at: <http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/Downloads/Announcement2008.pdf>

Source: George Washington University analysis of Centers for Medicare and Medicaid Services Medicare Managed Care State/County/Contract data file for February 2007; Medicare Managed Care Quarterly State, County Data File for the quarter ending December 2005, and the Medicare Advantage 2007 Rate Calculation Data Spreadsheet.