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On Healthcare

MEDICARE ADVANTAGE'S RISING STAR

Announcer: Welcome to Navigant On Healthcare, offering insights for healthcare leaders striving for success in an evolving industry.

Host: Welcome to Navigant On Healthcare. I'm your host, Alven Weil. Today, we are joined by Navigant Managing Director Jim Smith and Associate Director Janet Munroe.

Jim advises provider and payer executives and boards on operating health plans and high-performing provider networks. A nationally-recognized strategist, Jim has more than 30 years of experience building and leading provider organizations and health plans. He is founding president and CEO of the Greater Rochester Independent Practice Association, also known as GRIPA, which is one of the country's earliest clinically-integrated networks. Jim also is president of the Central New York Region of Excellus BlueCross BlueShield, helping grow its membership to more than 700,000 commercial Medicaid and Medicare Advantage lives.

Janet leads new revenue model, managed care, pricing, and payer strategy projects at Navigant. She previously served as VP of network contracting for Humana where she established a Humana Medicare Advantage network in the Greater New York City market, and expanded Humana networks in other northeast markets. Janet's background also includes serving as senior director of provider contracting at BlueCross BlueShield of Massachusetts and vice-president of Network Management at UnitedHealthcare.

Jim and Janet, welcome.

Janet Munroe: Thank you.

Jim Smith: Thank you, Alven.

SPEAKERS

JIM SMITH
Managing Director
james.smith@navigant.com

JANET MUNROE
Associate Director
janet.munroe@navigant.com

navigant.com

About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

Host: Today, we're discussing the rapidly growing Medicare Advantage marketplace. Ongoing uncertainty around the Affordable Care Act's individual market has contributed to financial losses for commercial payers and an exodus of some from that market. In response to this, and a growing baby boomer population, many private payers are expanding or shifting their focus to Medicare Advantage.

Now, Jim, if you could please provide us with some background on the history of Medicare Advantage, its recent growth, and why Medicare Advantage plans have become so popular.

Jim: Sure. The private version of federal Medicare program, or for short MA, has served beneficiaries since the 1970s and now, primarily, offers both HMO and PPO benefit plans to Medicare beneficiaries. As we all know, the federal government pays for Medicare benefits under traditional Medicare coverage, but Medicare Advantage plans are offered by private payers that contract with the federal government to prevent MA benefit plans.

What happens, of course, is Medicare then pays the contracted payer to cover and administer benefits. And in turn, the plans negotiate with local and regional healthcare providers to deliver services to these enrollees.

I think the reason that they've had such a phenomenal growth has been twofold. One is with the uncertainty around the Affordable Care Act's individual markets and the financial losses that many of the commercial payers suffer, there's been an exodus from that market as we well know in some states. And in response to this and the growing baby boomer population, many private payers are expanding or shifting their focus into MA.

MA plans are obviously increasing popular with the population. We see over 20 million Americans now insured in this group, and they're choosing these plans up from 13 percent in 2004. Many analysts are now predicting that they'll actually exceed 50 percent market penetration by the end of 2025.

In response to the market opportunity, the nation's largest commercial payers including UnitedHealthcare Group and Aetna, Anthem and Humana, plus many of the smaller Blues and other regional insurers, are aggressively expanding their MA offerings. You have to wonder why people are enrolling in these plans and the popularity that are associated with it.

Maybe, Janet, do you want to talk a little bit about the popularity and why people are going here?

Janet: Sure. There's a couple of things going on. One is that the baby boomer population is cresting, but the last segment of the baby boomer population has grown accustomed to being in managed care products, HMOs and PPOs. They're much more comfortable with being in a managed care environment. So, as our baby boomer generation ages into the over 65 population, much more comfortable in moving into a Medicare Advantage benefit plan, which has all the hallmarks and really is a managed care delivery system. So, that's one reason.

The other reason is affordability and enhanced benefits. Medicare Advantage plans can tend to provide a more affordable option for many Medicare beneficiaries to have the same level of benefits they received under traditional Medicare, but also some enhanced benefit for sometimes less cost than participating in traditional Medicare or less cost than if they were to purchase Medigap policies. So, there's an affordability item associated with Medicare Advantage that has really led to its growth.

Nowadays, since it has been around for several decades, Medicare Advantage has gained a lot more acceptance. It's better understood as a benefit plan and CMS really does a great job at releasing the grade on each and every health plan each year so consumers can look at those grades, sort of a report card, and make choices.

So, I think those are the major drivers: aging population, and relatively speaking, good benefit plan coverage for money. It's a value-add.

Jim: You really see a win-win-win for the Medicare enrollees and the payers and the providers. The enrollees get a less costly plan, more affordable, that they're used to. They've been in managed care plans before. The payers get a regular revenue stream. It's steady, it's paid by the federal government directly to them.

Then, of course, the providers enjoy a plan benefit design that strongly favors clinically-integrated networks and ACOs now, where the benefit design actually focuses them to utilize network resources and incents them to do that, and the clinical quality, of course, is monitored. And the revenue streams that we see here, both from a traditional Medicare and the commercial revenue sources, are well-spent as more and more we see the incentive of the five stars driving all three, both the enrollee and the payer as well as the provider, toward doing better and better along the lines of both quality and utilization.

Host: So, considering Medicare Advantage plan popularity, what can plans do to differentiate their value to beneficiaries and providers as well as preserve adequate enrollment?

Jim: Within the Stars program, there's really an incentive to become a four-star plan. It provides you a 5 percent bonus and if you move to a five-star plan, you not only get the 5 percent bonus, but you get to offer your plan throughout the year instead of just during the usual fall enrollment period.

So, there's a real market share reason, a real enrollment reason, for plans to search for that five-star, and that includes how they structure their benefit program, the incentives that they provide providers to do the things that are necessary to help members and to help themselves as well as the plans become five-star recognized. The more attractive they are as a plan, the more members that they'll accrue. The more satisfied members that they have, the higher the star rating will be.

The beauty of this is that we've become more and more transparent with the data, so that not only the plan and the providers understand the performance of the benefit plan that the member has bought, but the member does. And in many cases, members now cannot only go buy the overall star rating, but they can go down into the data and really understand how their providers are providing services within the benefit plan itself. It truly is a win-win-win.

Janet: And some of our research has borne that out. We did a study recently where we looked at several hundred health plans and tried to … We had a hypothesis of whether the star rating can lead to increased enrollment, and our analysis found that indeed it can. A one-star increase in the star rating equated to about an 8 percent to 12 percent increase in the payment that the health plan receives on average from CMS.

So, that really has a compounding effect. Meaning you get the 5 percent rate increase from CMS, but then you can compound that by having higher enrollment because you have enhanced benefits as a result of that 5 percent increase, or lower premiums, or both, or you can sell all year round. So, while that financial reward from CMS is 5 percent, a one-star bump can lead to a more than 5 percent revenue increase to a plan.

Like I said, our analysis shows that that's anywhere on the order of 8 percent to 12 percent. So, if you're looking at even a modest enrollment of say, 9,500 members, that 8 percent yield that you get through both the additional funding and the enrollment growth can lead to an increase of anywhere on the order of $12 million to $16 million for the plan.

So, there's tremendous incentive for plans to want to pursue the four and five-star rating on an annual basis. It definitely is proven out that it does lead to membership growth and greater revenue enhancement.

Host: So, what can Medicare Advantage plans do to not only increase their star ratings, but also their enrollment and the revenue? Jim, I'll start with you if we could.

Jim: Sure. The first thing that I would say is they must consider the role of providers now. Strong star ratings are certainly a result of contracting providers and networks that invest time and resources into closing the care gaps that are measured in the star ratings.

So, not only in positioning their plan well and doing right by members, the fact is as they proactively seek and receive some collaborative arrangements with the providers and take the incentives not only for themselves and the member, but also share the financial benefits of better quality and efficiency, the providers focus and the enrollees benefit from better care and more timely care. And being able to accrue that to the marketplace has certainly shown an advantage for those plans that have been able to accomplish that.

Recently, we've seen payers that were faced with really ambivalence from providers about joining MA networks because participation did not offer any really true additional revenue opportunities beyond the 100 percent of Medicare. But as we've seen value-based models starting to be negotiated broadly both in the commercial and now the MA areas, we've seen the shift of value in the comparative less attractive commercial revenue streams because they've flattened or eroded really over the last few years, providers are becoming more receptive to considering participating in MA networks, particularly under value-based arrangements.

It's a real positive here. MA plans rely on the sufficiencies of the enrollment to maintain their ongoing visibility and to grow their membership. Stars is one of the ways to do that, one of the important ways to do that, and it can have an immediate effect on the bottom line through really growth in enrollment and market share, but also stature in the community and brand.

All important things for health plans to remember, that it is important to select the right provider network and to associate with those that are focused on their members in the right way.

Host: Janet, Jim, thanks so much for joining us today.

Jim: Thank you.

Janet: Thanks very much.

Announcer: That concludes today's episode. Be sure to check in with us for future installments of the Navigant On Healthcare podcast series on navigant.com/healthcarepodcast. Navigant On Healthcare is a podcast series produced by Navigant's healthcare practice. If you enjoyed this episode, please share it with friends and colleagues on social media. Learn more at navigant.com.

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