Change to Medicare Advantage Plan Payment Rates over the Past Decade

Percentage annual change in National Per Capita Medicare Advantage Growth Percentage, by year

-4.07% 3.25% 3.08% 2.95% 3.40% 2.53% 1.66% 4.08% 8.50% 3.32%


Note: Percentages are from the corresponding year rate announcement. Data: Centers for Medicare and Medicaid Services.
Timeline of Medicare Advantage Annual Payment Updates

Key events:
- CMS publishes advance notice
- CMS publishes rate announcement, rate book, and BPT
- Plans submit bids
- CMS releases national average monthly bids, regional plan benchmarks, and other info
- MA plan quality star ratings are announced for next payment year

Statutory timing requirements:
- Minimum 60 days before rate announcement
- 30-day comment period
- By 1st Monday of April
- By 1st Monday of June

Note: BPT = bid pricing tool; OACT = Office of the Actuary.

Data: Centers for Medicare and Medicaid Services.

Calculating the Benchmark for Payments to Medicare Advantage Plans

Projected FFS USPCC × Average geographic adjustment = County-level FFS per capita cost

Average and low-rated Medicare Advantage plans

County-level FFS per capita cost × 0.95 to 1.15 = County-level benchmark

- CMS sets benchmarks at 95% to 115% of counties’ FFS spending levels
- Plans in counties with lower FFS spending have benchmarks set at higher percentages

Highly rated Medicare Advantage plans

County-level FFS per capita cost × 0.95 to 1.15 × 1.05 to 1.10 = County-level benchmark

- Highly rated plans may see 5%–10% higher benchmarks

Note: FFS = fee-for-service; USPCC = United States Per Capita Cost.
Data: Centers for Medicare and Medicaid Services.

### Calculating Risk Scores for Medicare Advantage Enrollees

**Dollar coefficient**

*Marginal cost of each demographic characteristic and condition*

\[
\text{Beneficiary risk score} = \frac{\text{Relative factor}}{\text{Predicted average FFS per capita costs in a specified year (the "denominator year")}}
\]

<table>
<thead>
<tr>
<th>Relative factor (Marginal cost)</th>
<th>Illustrative example</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.600</td>
<td>1.880</td>
<td>Male, ages 70–74</td>
</tr>
<tr>
<td>0.340</td>
<td></td>
<td>Diabetes with chronic complications</td>
</tr>
<tr>
<td>0.371</td>
<td></td>
<td>Congestive heart failure</td>
</tr>
<tr>
<td>0.377</td>
<td></td>
<td>Acute myocardial infarction</td>
</tr>
<tr>
<td>0.192</td>
<td></td>
<td>Diabetes and congestive heart failure interaction</td>
</tr>
</tbody>
</table>

---

**Note:** FFS = fee-for-service.

Basic Components of Medicare Advantage Plan Payments

1. CMS sets a **benchmark**, the maximum amount the federal government will pay plans per enrollee per county.

2. A plan submits a **bid**, its estimated costs of covering the Medicare Parts A and B services for the average enrollee in each county.

3. If a plan bids below the benchmark, it receives a portion of the difference in the form of a **rebate**. This can range from 50 percent to 70 percent, depending on the plan’s quality star rating.

   Plans must use the rebate to lower out-of-pocket costs for enrollees or finance extra benefits.

---

Data: Centers for Medicare and Medicaid Services.

Source: Christina Ramsay and Gretchen Jacobson, “How the Government Updates Payment Rates for Medicare Advantage Plans” (explainer), Commonwealth Fund, Mar. 4, 2024. [https://doi.org/10.26099/009r-2t15](https://doi.org/10.26099/009r-2t15)