

Medicare Advantage Update

National Council on Teacher Retirement

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Today's Discussion

- Overview of Traditional Medicare and Medicare Advantage
- Healthcare Reform's Impact on Medicare Advantage
- Medicare Advantage Sustainability
- Discussion of Recent Case Studies

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Traditional Medicare Overview

Medicare Advantage

Traditional Medicare Program

- National health insurance program for elderly and disabled
- First beneficiaries enrolled in 1966
- Covers 45 million beneficiaries today
- Plan design features deductibles, coinsurance and no out-of-pocket limits
- Consists of four parts:

Part	Covered Services	Financing	Funding Vehicle
A – Hospital Ins	IP Hospital, SNF	Payroll & SS Tax	Hospital Ins Trust Fund
B – Supplemental Ins	Physician, OP Hospital	General Revenue -75% Beneficiary Premiums – 25%	Supp Ins Trust Fund
C – Private Plan Options **(Medicare Advantage)**	Parts A & B plus enhancements	Parts A & B Taxes/Premiums * Employer and/or Beneficiary Premiums	Hosp & Supp Ins Trusts
D – Prescription Drug Ins	RX	General Revenue – 75% ** Beneficiary Premiums – 25% * Employer and/or Beneficiary Premiums	Hosp & Supp Ins Trusts

Notes:

* CMS pays private plans risk adjusted monthly capitation payments at the county level based on average cost under FFS Medicare and bids submitted by the plans. Regional MA plan payments are based upon regional benchmarks and plan bids

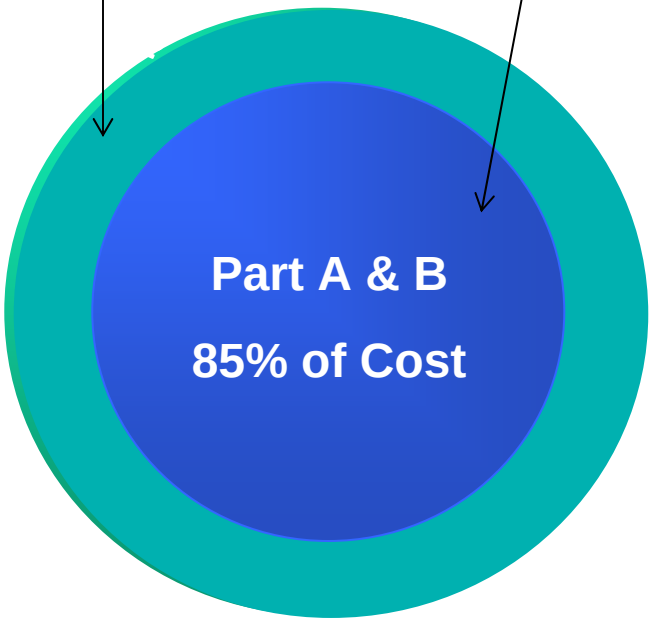
** CMS pays private plans risk adjusted monthly capitation payments based upon regional benchmarks and plan bids. Plans receive additional payments for catastrophic claims and beneficiaries qualifying for Low Income Subsidies

Medicare Secondary vs. Medicare Advantage Plan

Medicare Secondary Plan

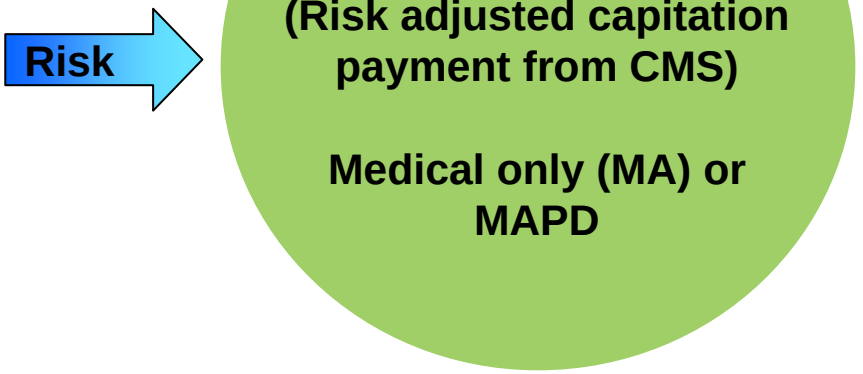
Traditional Medicare (85%)

Medicare Secondary (15%)



Medicare Advantage

Medicare Advantage (100%)



Examples of enhancements include:

- **Wellness/physical fitness**
- **Integrated behavioral health/medical programs**
- **Full spectrum of senior-focused care management**

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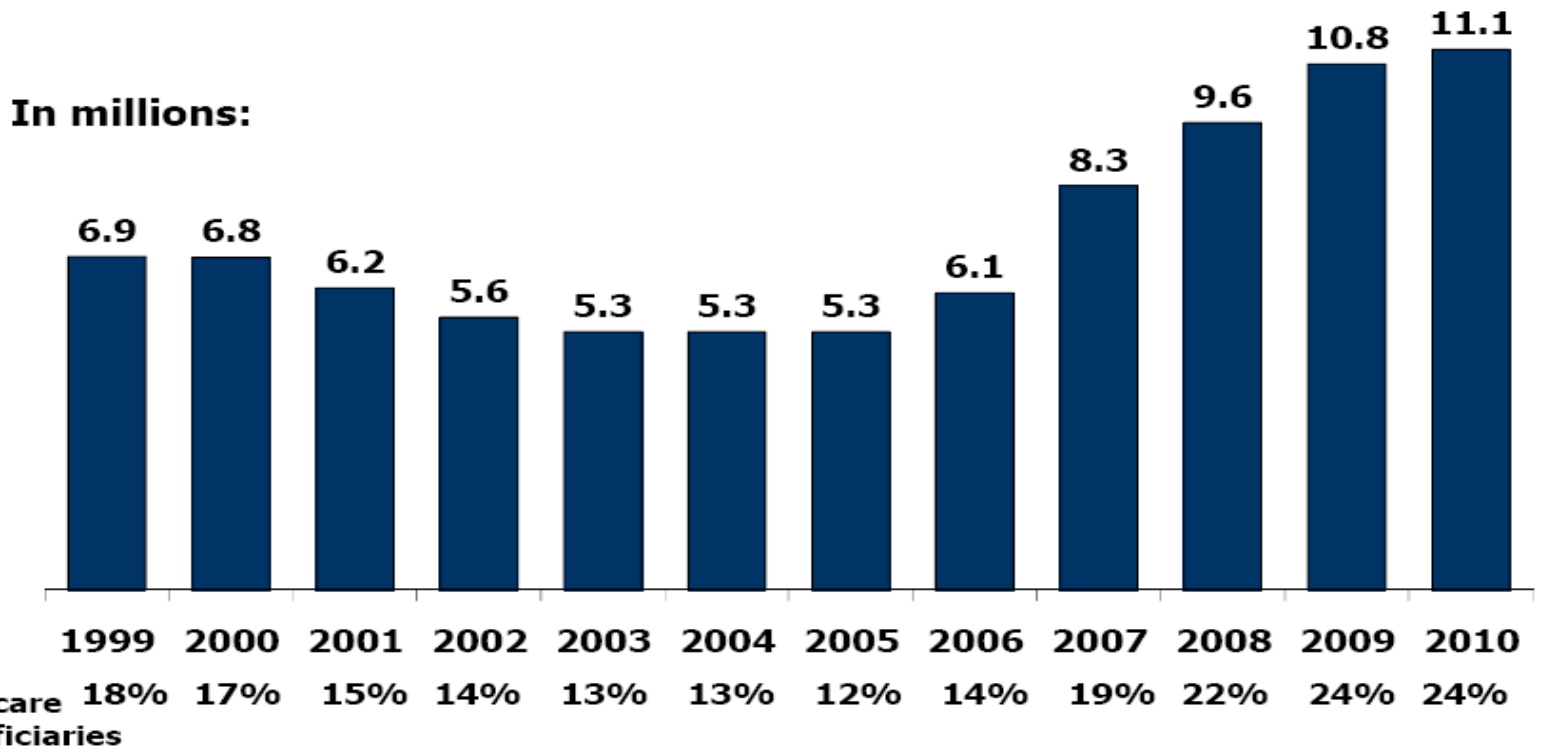
Enrollment in Medicare Advantage

Figure 1

Total Medicare Private Health Plan Enrollment, 1999-2010



Note: Includes local HMOs, PSOs, and PPOs, regional PPOs, PFFS plans, 1876 cost plans, demonstrations, HCPP, and PACE plans.
Source: Mathematica Policy Research,"Tracking Medicare Health and Prescription Drug Plans Monthly Report," February 1999-2010

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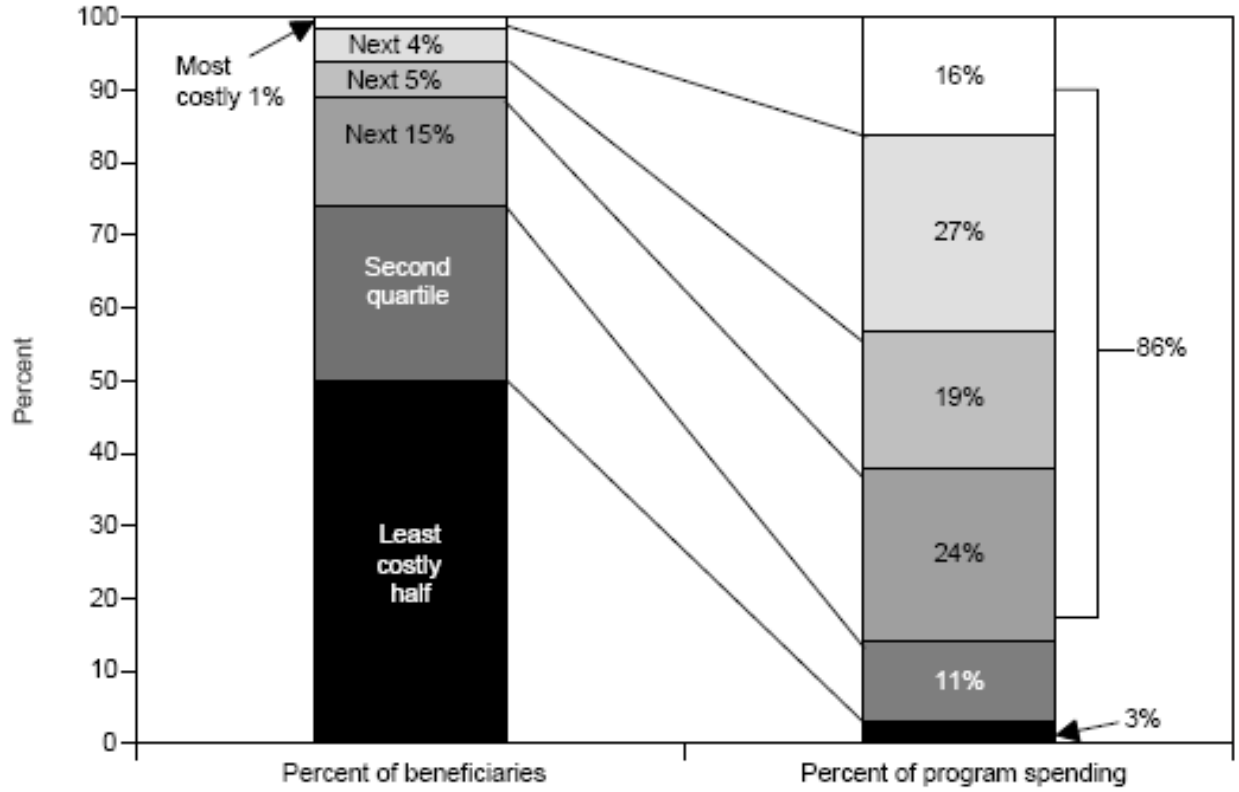
Traditional Medicare FFS Spending is Highly Concentrated Among Beneficiaries

Chart 1-10. FFS program spending is highly concentrated in a small group of beneficiaries, 2006



Note: FFS (fee-for-service). Excludes beneficiaries with any group health enrollment during the year. Numbers do not sum to 100 percent due to rounding.

Source: MedPAC analysis of Medicare Current Beneficiary Survey, Cost and Use files.

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Health Reform Impact

Medicare Advantage

Summary of Key Provisions of the PPACA as Amended by the HCERA - Medicare Advantage (MA)

- MA benchmarks no change in 2011 (update for 2012)
- Restructure MA payments to align with new area benchmarks set at different percentages of traditional Medicare Fee For Service costs (FFS)
  - Counties in 50 states and DC ranked by FFS costs
  - MA benchmark percentage linked to FFS cost quartiles

FFS Cost Quartile	*MA Benchmark %*
Highest	*95%*
Second Highest	*100%*
Third Highest	*107.5%*
Lowest	*115%*

- Phased-in over two, four or six years depending upon the amount of benchmark reduction when comparing current (2010) law benchmark to sum of ½ current and ½ new benchmark (including quality bonus)

County Benchmark Monthly Reduction	*Phase in Period*
$50 or more	*2012-2017*
$30-$49	*2012-2015*
Les than $30	*2012-2013*

- New benchmarks capped at level of benchmarks under current law

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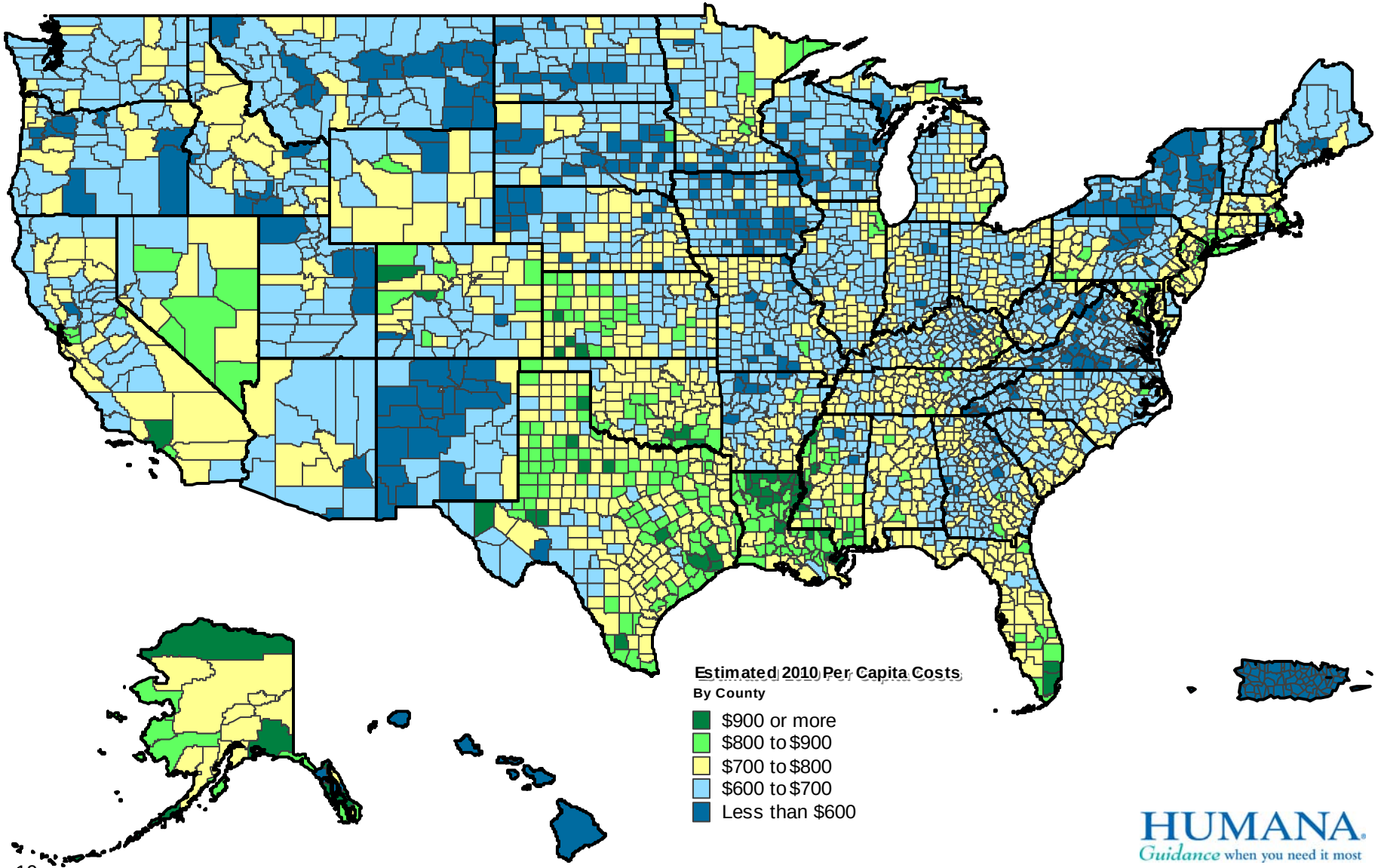
Medicare FFS Estimated 2010 Monthly Per Capita Cost Ranges by County



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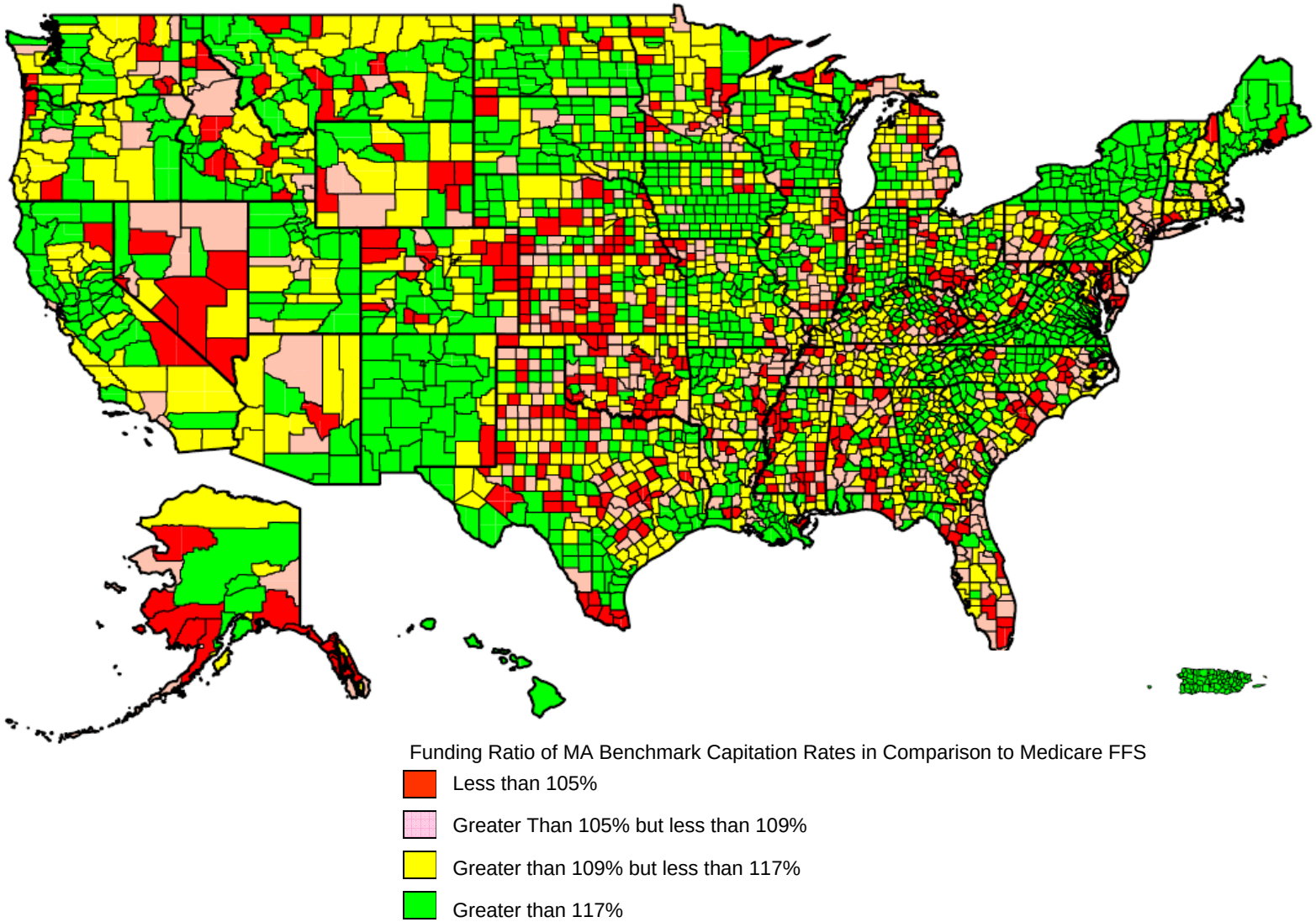
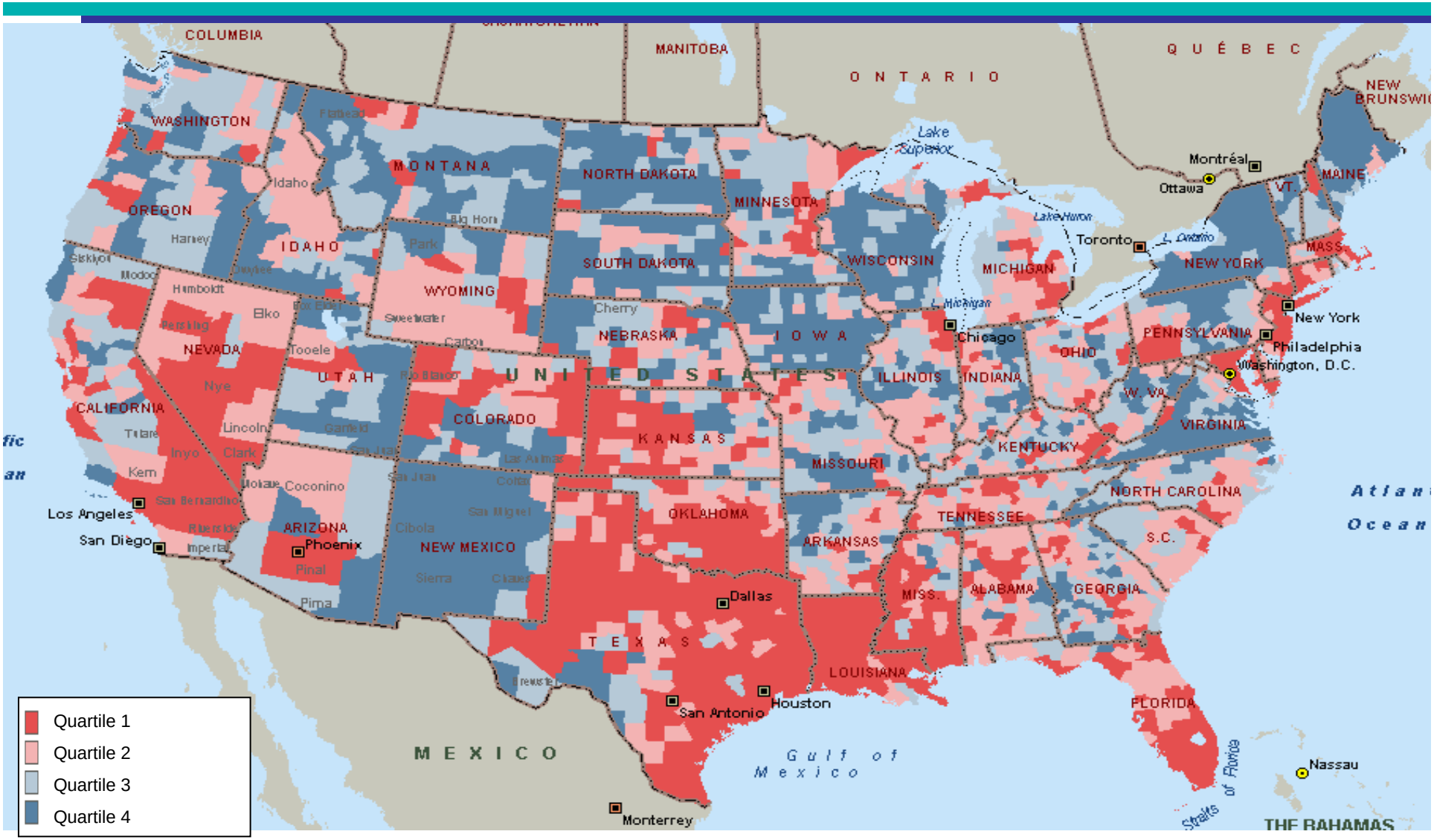
Current Funding Ratio of Medicare Advantage Benchmark Capitation Rates in Comparison to Medicare FFS



Benchmark Quartile Map



Note – County quartile assignment is based on interpretation. Future guidance provided by CMS may result in different quartile than shown.

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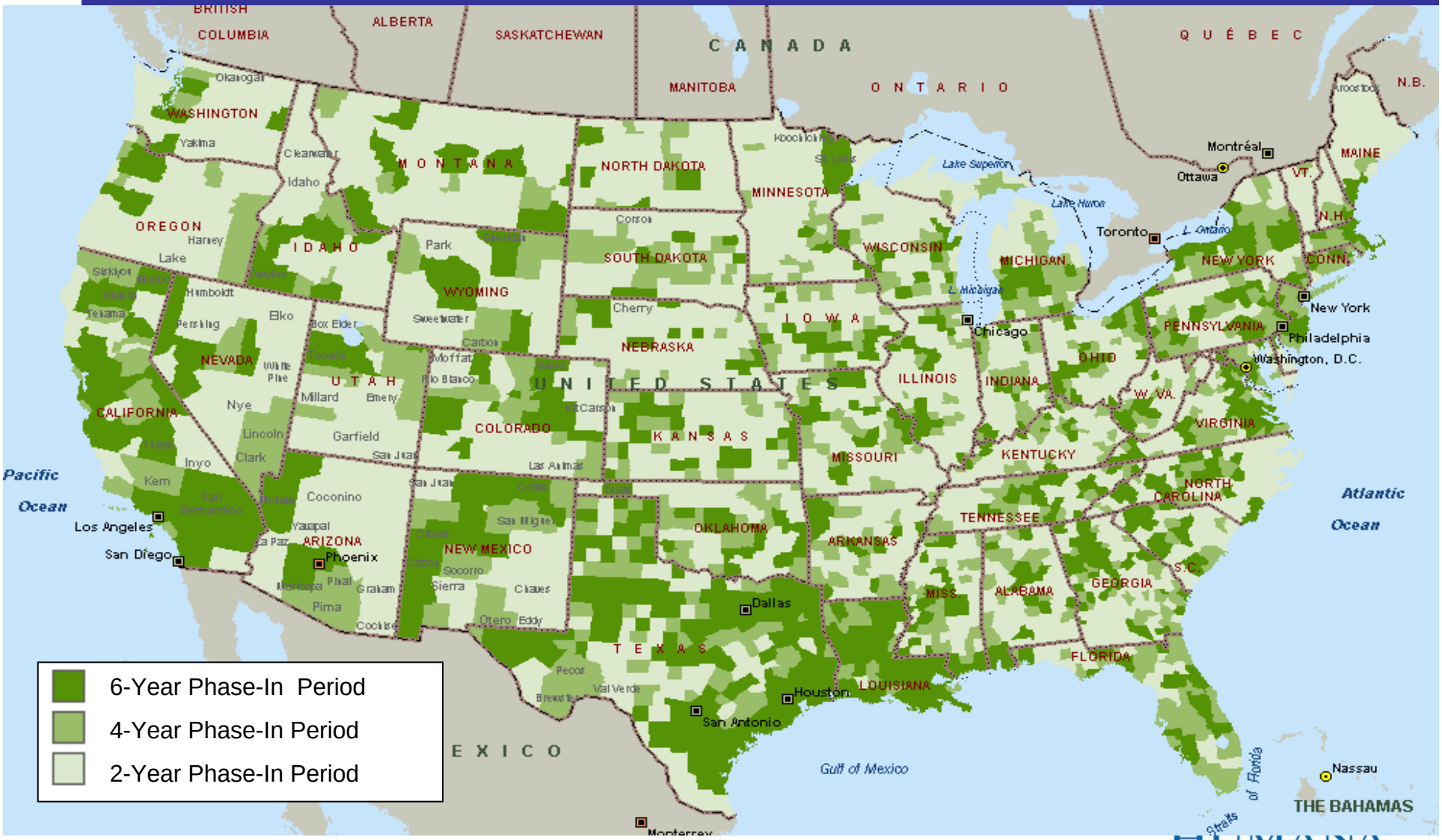
Benchmark Phase-In Period



Note – County phase-in period assignment is based on interpretation. Future guidance provided by CMS may result in different phase-in period than shown.

Summary of Key Provisions of the PPACA as Amended by the HCERA - Medicare Advantage (MA)

- Pay quality bonuses to MA Plans beginning in 2012
  - Based on CMS's Five-Star Quality Rating System
  - Driven by HEDIS, CAHPS, HOS and other scores (See definitions on next slide)
  - Qualifying plans must have a 4-Star rating
  - Benchmarks increased for qualifying plans by 1.5% in 2012, 3% in 2013, and 5% in 2014 and after
  - Double bonus provision for certain urban areas

- Plan rebates linked to CMS Star Rating

CMS Star Rating	*Rebate %*
4.5 or more	*70%*
3.5 but less than 4.5	*65%*
Less than 3.5	*50%*

  - New rebate percentages will phase-in 1/3 in 2012, 2/3 in 2013 and 100% in 2014
  - Rebates to be applied in the following order:
    - Reduce member cost sharing for Parts A,B and D
    - Add preventive and wellness benefits
    - Add non-covered benefits (e.g. eye exams, dental)
  - Rebates may not be used to buy-down Part B premiums

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2011 Star Measures - the basics

Star Measures		
Category	**Number**	**Contribution**
HEDIS	15	33%
CAHPS	8	24%
CMS	5	18%
HOS	6	18%
IRE	2	6%
Total	**36**	**100%**

Health / Clinical (17 out of 33 measures)
Customer Experience / Service / Other (16 out of 33 measures)

Categories / Data sources:
HEDIS – Healthcare Effectiveness Data Information Set
CAHPS – Consumer Assessment Healthcare Providers / Systems
CMS – Centers for Medicare / Medicaid Services
HOS – Medicare Health Outcomes Survey
IRE – Independent Review Entities

Key Points

- All 36 measures contribute equally to the Star Summary Score for each contract (H#)
- Clinical/health related topics and customer experience/service topics
  - Each contributes roughly half of the total measures

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Sustainability Strategy

Medicare Advantage

Strategic Ideas

- Rerun GASB OPEB Valuation
  - Run valuation showing impact of MA and Part D projected savings
  - Show additional impact of using MA and Part D savings to pre-fund actuarial accrued liability

- Continue Exploring Feasibility of Medicare Advantage
  - MA and MAPD solutions
  - Part D EGWP plan versus RDS
  - Transitional PPO (same benefits in and out-of-network) with CMS waivers for small number of retirees residing outside of our approved service area
  - Move to traditional PPO with HMO (ACO/Medical Home style) option in year two or three
  - Total replacement with creative and transparent financial arrangements
  - Core/Default Plan with buy-up to current plan

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Medicare Advantage Strategy

- Collaborate with the client to determine best health care solution for the post 65 population
  - Understand the pre and post 65 solutions are different
  - Review the data
  - Identify barriers
- Maintain and expand networks
  - Grow HMO, ACO, provider reward arrangements
- Evaluate and expand clinical programs to improve the health of the population
  - Improved Stars Rating
  - Focus on quality improvement
- Demand continual improvement of claims payment methodologies
- Evolve risk adjustment strategies

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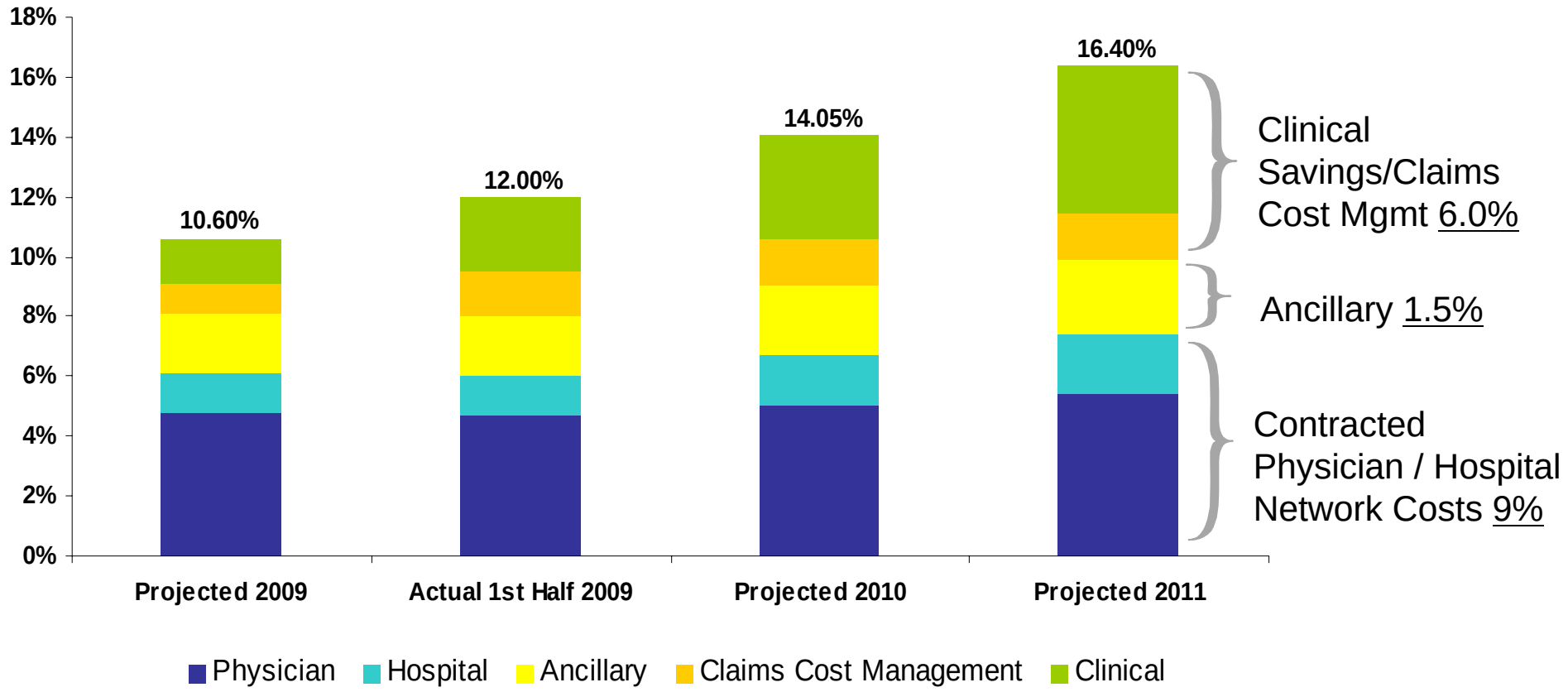
Components of the 15% Solution
Healthcare Delivery & Clinical Processes

MAPD PPO

Three core initiatives are driving our 15% Solution



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Sustaining and Growing the 15% Solution

- Provider Contracting
  - Maintain and improve
- Clinical programs
  - Holistic approach
  - Improved engagements
- Quality Improvements to improve care and achieve Stars bonus
  - Provider engagement across the continuum
    - Rewards
    - Shared risk
    - Technology
    - Coordination

Strategic Ideas

- MA and MAPD solutions
- Part D EGWP plan versus RDS
- Transitional PPO (same benefits in and out-of-network) with CMS waivers for small number of retirees residing outside of our approved service area
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Recommended Next Steps

- Conduct Medicare Advantage Feasibility Study
- Initiate a Medicare Advantage Procurement
  - Explore Multiple Program Structures
- Determine Impact on Annual Cash Flow and GASB OPEB Liability
  - Rerun GASB OPEB valuation showing impact of potential MA savings on projected liability

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Case Studies

Medicare Advantage

Recent Case Studies

- Large Midwest Manufacturing Company
- Public Employees Retirement Systems
- VEBAs
- Others

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