Do Higher Payments and More Sophisticated Risk Adjustment Affect Enrollment in Medicare Advantage Plans?

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“Yes,” say Lister Hill scholars Michael Morrisey, Meredith Kilgore, David Becker and colleagues. “This retrospective study found that higher baseline payments to Medicare Advantage (MA) plans were associated with large increases in enrollment and reductions in disenrollment. Overall, a 10 percent increase in payment levels increased enrollment by 9.6 percent. Disenrollment was particularly sensitive to the payment level—a 10 percent increase reduced county-level disenrollments by over 35 percent. In addition, the use of detailed health status measures also led to increased enrollment in MA plans and reduced disenrollment.”

As part of the 1997 Balanced Budget Act (BBA) reforms and the subsequent Medicare Modernization Act, Congress made a number of changes in the payment levels that apply to MA plans. In the early years, these changes appear to have led to a substantial exit of MA plans from markets. Later changes sought to stem the losses. The Centers for Medicare and Medicaid Services (CMS) developed the Hierarchical Condition Categories (HCCs) approach in response to the BBA and phased it in from 2003 to 2007. Although this change is thought to have reduced favorable selection in the MA program, there has been no empirical investigation of this issue.

Data for this project were drawn largely from the 1999 through 2008 5 percent sample of Medicare enrollees which provided demographic characteristics and comprehensive longitudinal administrative Part A and B claims data on a random sample of Medicare beneficiaries. A two-phase analysis was conducted. First, the researchers estimated the effects of the shift to HCCs and the changes in county-specific payment levels on overall Medicare managed care enrollment. Second, the researchers looked at the 6 months prior claims experience of those who switch into a MA plan, relative to those who stay in traditional Medicare.

“Enrollment is very sensitive to payment levels,” say the researchers. “This finding has important implications for the Patient Protection and Affordable Care Act, which reduces payment levels to MA plans. Other things equal, one should anticipate reductions in enrollment that are on a par with the size of the cuts. That is, a 10 percent cut is likely to reduce enrollment by nearly 10 percent.”

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The article, “Favorable Selection, Risk Adjustment, and the Medicare Advantage Program” appeared in the journal Health Services Research. The authors of the article are Lister Hill Scholars Michael A. Morrisey, Meredith L. Kilgore, David J. Becker (all UAB – Health Care Organization and Policy), Wilson Smith (UAB – Epidemiology), and Elizabeth Delzell (UAB – Epidemiology and Center for Outcomes and Effectiveness Research & Education).

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