



Managed Care & Facilities

2021 MA Notice Takes a Step Back From a Very Positive Starting Point

This evening HHS issued the preliminary rate notice for Medicare Advantage 2021 rates and regulations. While there were some modest negatives in the release, we have to warn that this comes in the context of one of the most favorable rate and regulatory environments ever seen for the MA program. Additionally, with the permanent elimination of the HIF starting in 2021, this would be the year that the plans could absorb some headwinds. Overall, the quantum of the rates proposed, while down from the December flash report, and still very strong and well above historical averages.

More specifically, within the notification we see a solid starting point through the base rate (though lower than the abnormally strong rates for 2019 and 2020) with other adjustments making up some of the headwind and leading to a 2021 prelim notice that is consistent with last year's rate at this time. As discussed in more detail below, we see the expected revenue increase for MA plans in 2021 up 4.49% which is 40bps lower than the starting point a year ago. Remember, we saw the 2020 rate notice as a clear positive and the plans have added a record 1.0mm lives in January (7.9% growth YOY). **It is way too early to project MA growth for 2021 with certainty but the view from here suggests that a slightly lower base rate will be more than offset by the HIF removal and lead to a growth rate next year that could even exceed the record growth seen this year.**

Additionally, we view the lack of any new surprises (we get to ESRD below) as a positive as well. CMS has a history of using the 45 day notice as a trial balloon for potential changes to the program. There is little expected to change for 2021, with the exception of ESRD implantation which isn't really a surprise.

Lastly, CMS is moving forward with the implementation of the new model for ESRD and with no apparent adjustments, we view this as a negative. As discussed more below, the ability for ESRD patients to enroll voluntarily into MA will likely pressure the MA plans. Industry reports estimate ESRD MA MLRs at 112% and the plans have complained about losing money on their current ESRD patients. It is certainly possible that the plans adjust benefits and/or premiums to account for the higher costs, but that impacts the entire population. While they can protect margins, it would likely reduce the attractiveness of the products and slow growth.

Overall, the 2021 rates were lower than the December flash and ESRD is moving forward. While these are headwinds to the program, we note that we are starting off in a very favorable position AND the removal of the HIF can help offset a lot of those headwinds.

As a reminder, this is part 2 of the Medicare Advantage advance rate notice, and follows part 1 of the advance notice published on January 6, 2020. The rate release today is a preliminary proposal for reimbursement for MA plans for 2021 with final rates due out on Monday April 6, 2020.

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