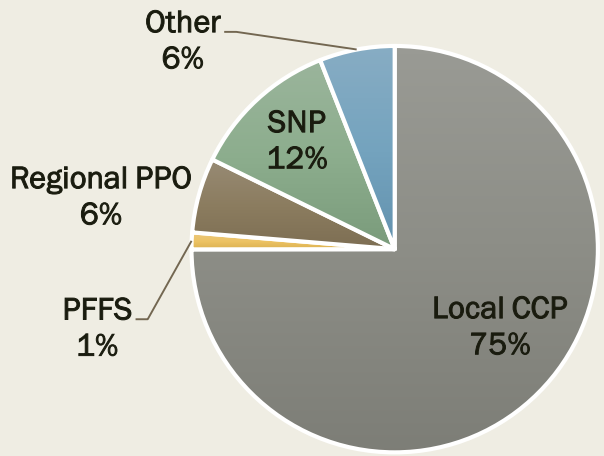
PRIVATE HEALTH PLANS – MEDICARE PART C BASELINE

September 30, 2016

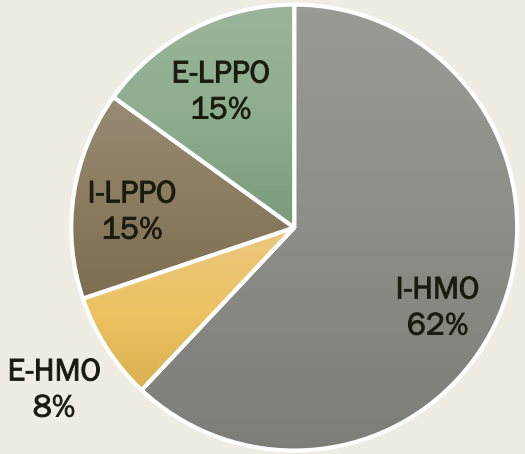
Private Health Plans

- Local Coordinated Care Plans (HMO, HMO-POS, Local PPO, PSO, and MSA)
- Special Needs Plans
- Regional PPO Plans
- Private Fee For Service
- Other products (Cost Plans, PACE, Medicare-Medicaid Plans).

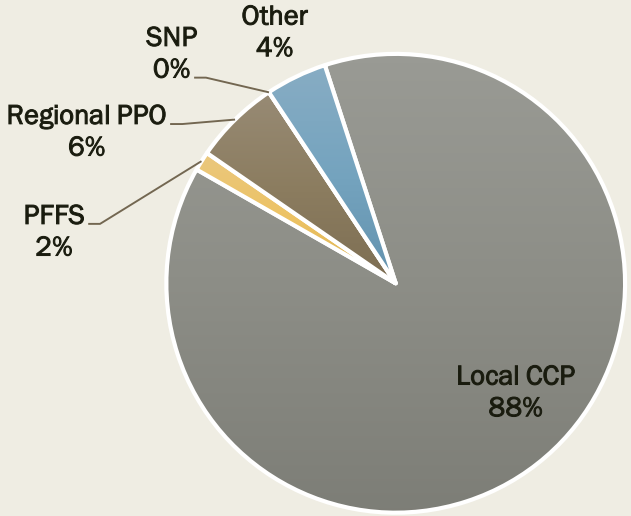
2016 Private Health Plan Enrollment Categories



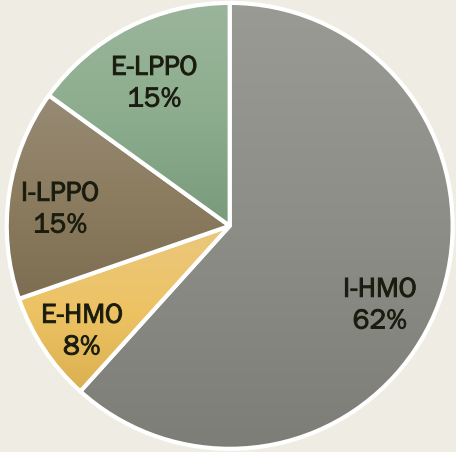
2016 Local CCP Categories



2020 Private Health Plan Enrollment Categories



2020 Local CCP Categories

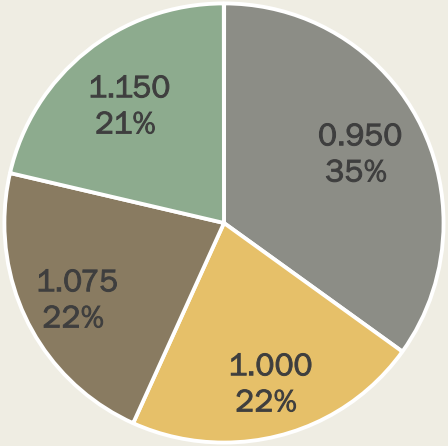


The Affordable Care Act of 2010 (ACA)

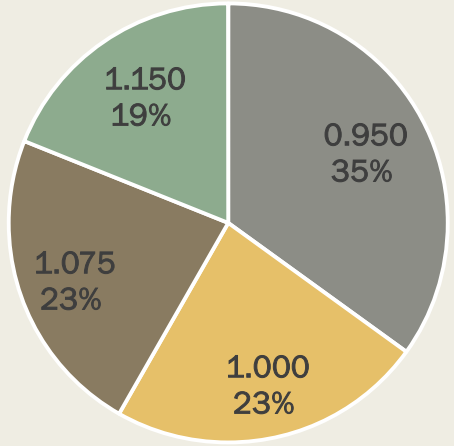
- The ACA made fundamental changes to MA funding by linking the benchmark rates to Medicare FFS costs.
- Begin using quality measures to determine eligibility for bonuses. Linking to the quality rating the share of bid savings versus benchmarks to be provided as a rebate.
- Beginning in 2012, the ACA mandated that the MA county-level benchmarks be based on a multiple of estimated FFS costs in the county.

Quartile	Applicable Percentage
4th (highest)	95%
3rd	100%
2nd	107.5%
1st (lowest)	115%

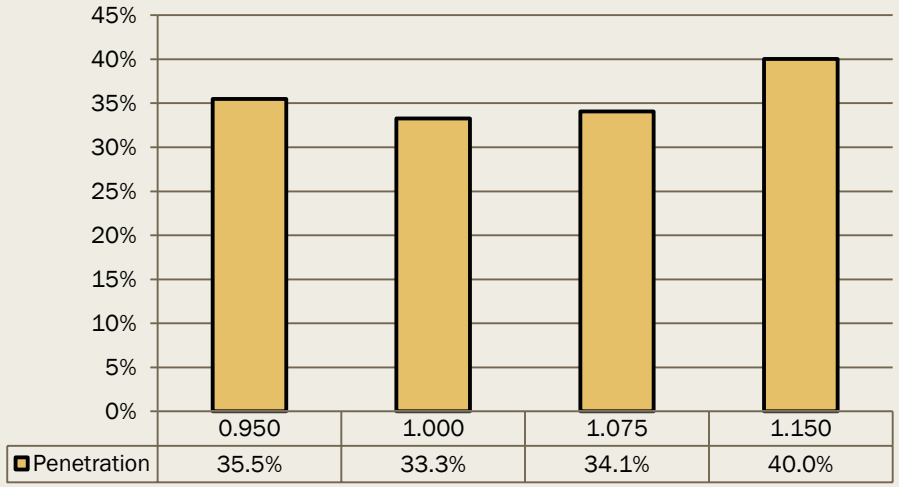
Medicare Advantage Enrollment by Quartile
January, 2016



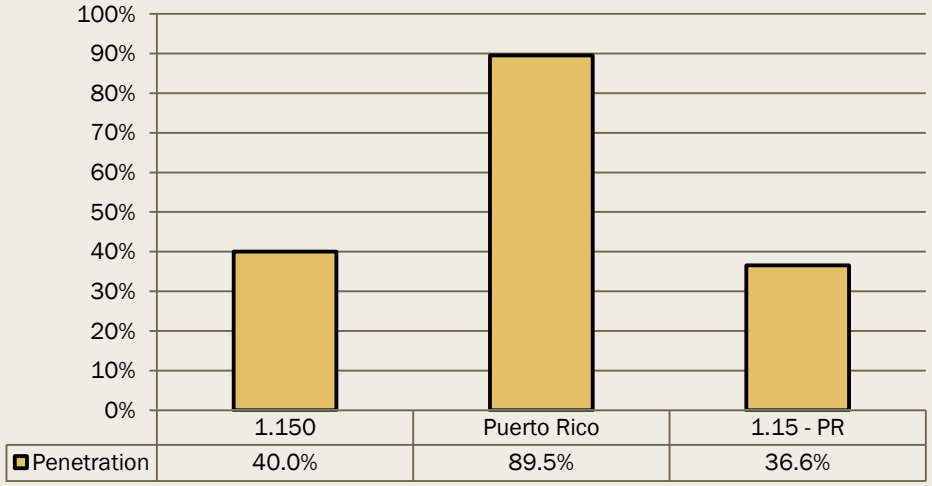
Medicare Advantage Eligibles by Quartile
January, 2016



Penetration Rate by Quartile



Penetration for 1.15 Quartile



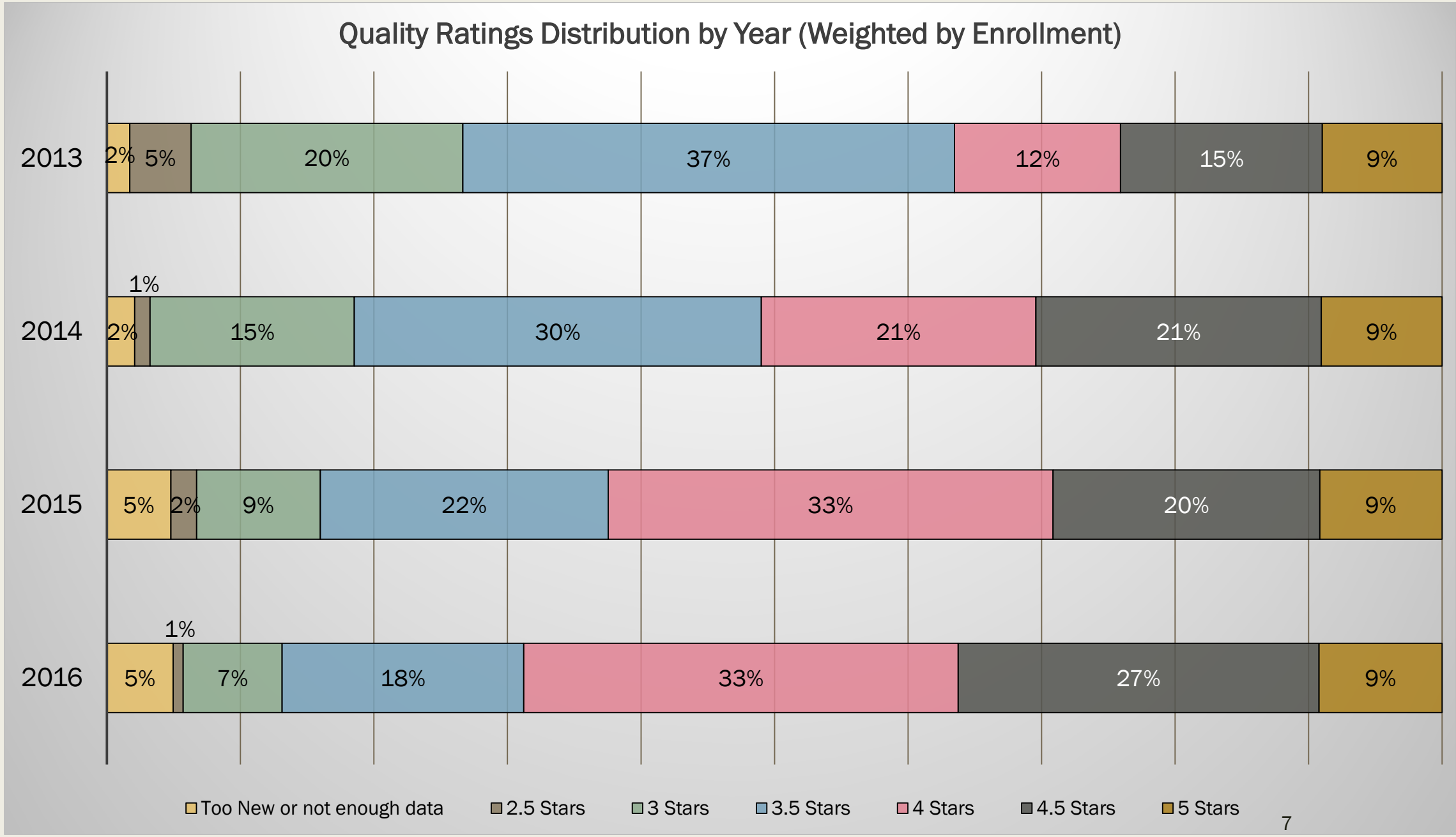
Puerto Rico includes 564k MA enrollees out of 630k eligibles at January, 2016

Quality Ratings, Bonuses, and Rebates

- Health Plans receive an overall star rating (from 1 – 5) in increments of ½ stars.
- Part C – 32 measures. Part D – 15 measures. Weightings vary by measure.
- Since 2012, payment to Health Plans have been tied to star ratings (though star ratings have been assigned prior to 2012).
- Star Ratings impact payment in 2 Ways:

Star rating	Rebate share of bid "savings"
Less than 3.5 stars	50%
3.5 – 4.0 stars	65%
4.5 – 5.0 stars	70%

Star Rating	2017 QBP Percentage *
Fewer than 3 Stars	0%
3 Stars	0%
3.5 Stars	0%
4 Stars	5%
4.5 Stars	5%
5 Stars	5%
* The QBP percentage is a percentage point increase to the applicable percentage for a county in a qualifying plan's service area. (Some counties eligible for "double-bonus")	


Quality Ratings Distribution by Year (Weighted by Enrollment)
2013
2%
5%
20%
37%
12%
15%
9%
2014
1%
2%
15%
30%
21%
21%
9%
2015
5%
2%
9%
22%
33%
20%
9%
2016
1%
5%
7%
18%
33%
27%
9%
Too New or not enough data
2.5 Stars
3 Stars
3.5 Stars
4 Stars
4.5 Stars
5 Stars

Benchmark impacts

- Average benchmark compared to FFS
  - *114.9% in 2010*
  - *105.1% in 2015*
  - *104.3% in 2020 (projected)*

Additional ACA Changes

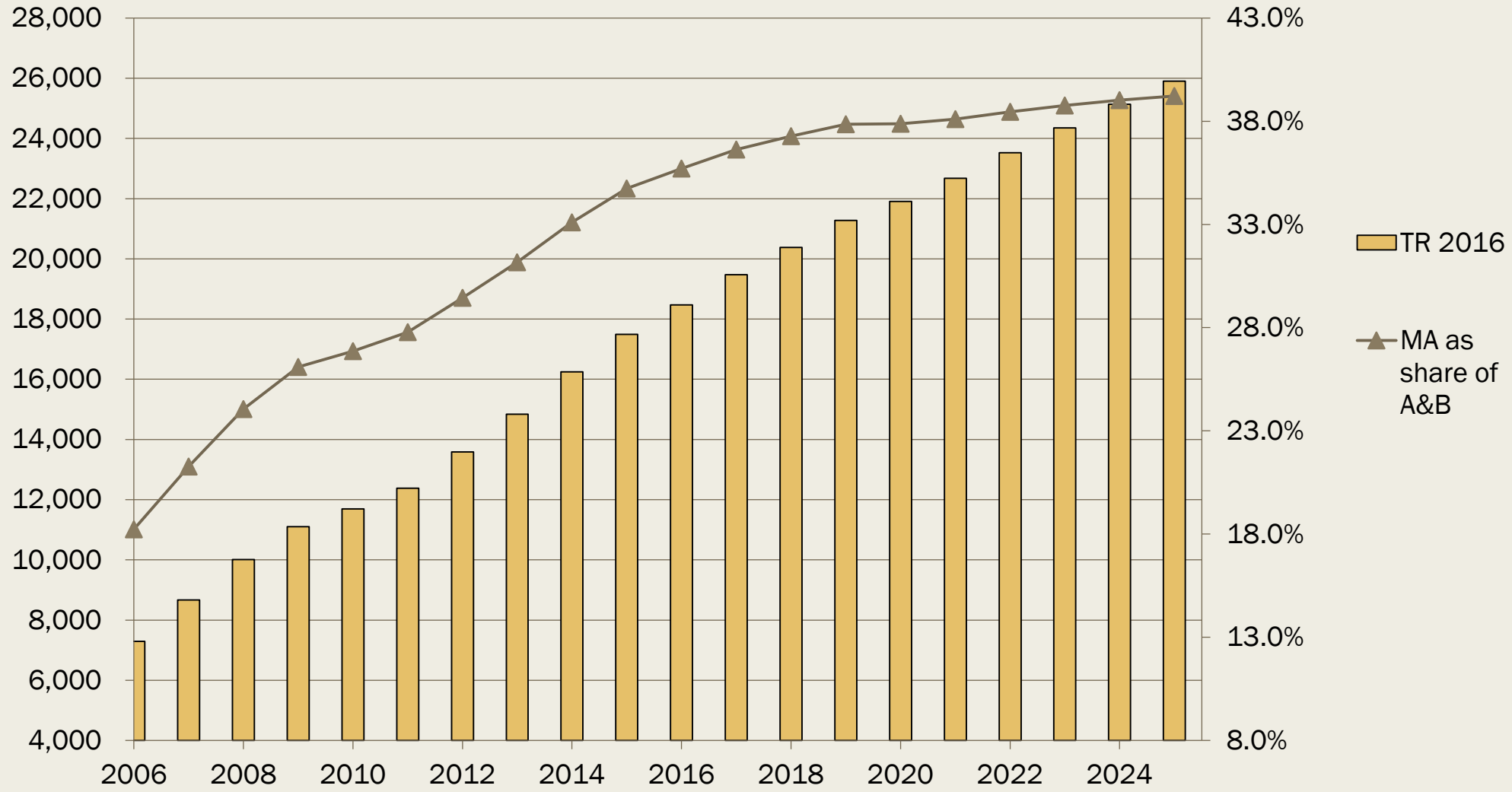
- Codification of CMS' authority to adjust MA risk scores to account for differences in diagnosis coding practice patterns between Medicare FFS providers and MA providers.

- An annual insurer fee
  - Averaged 1.5 percent of 2014 plan revenues and is expected to increase to 2.2 percent for years 2018 and later.
  - Under the Consolidated Appropriations Act, 2016, there will be a 1-year moratorium on the annual fee in 2017.

Payments to Plans

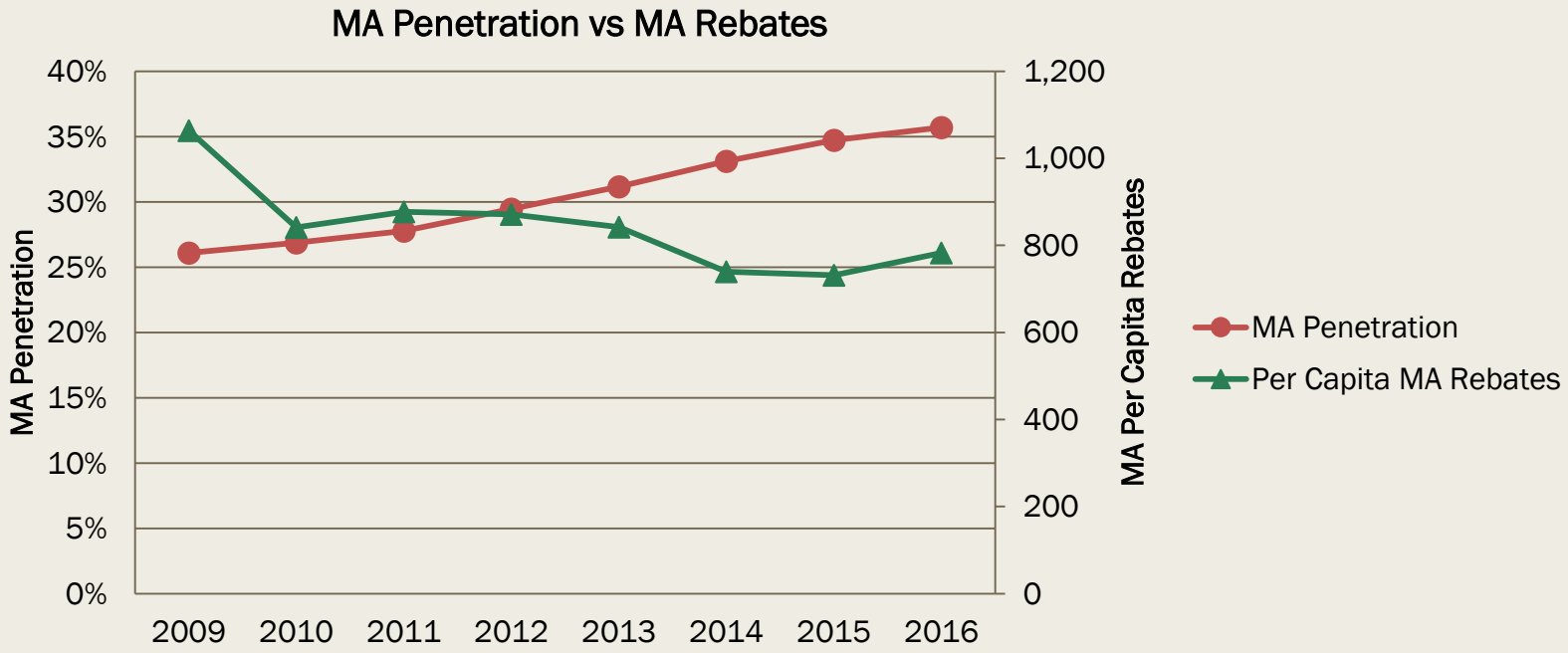
- MA plans submit bids annually that best represent the projected per enrollee cost of providing the standard Medicare Part A and part B benefits.
- Plans with bids below the benchmark generate a rebate that can fund:
  1. *Part A and Part B cost-sharing.*
  2. *Coverage of additional non-drug benefits.*
  3. *Reduction in the Part B or Part D premium.*
- Plans with bids above the benchmark must charge that difference as a basic premium.
- Actual beneficiary-level payment made during each month of the contract year equals—
  - *County-level bid for the beneficiary's county of residence times the beneficiary risk score; plus*
  - *Rebate; minus*
  - *Premium for basic benefits.*

Part C Enrollment and Penetration: 2006-2025



Prior Enrollment Model (TR2015)

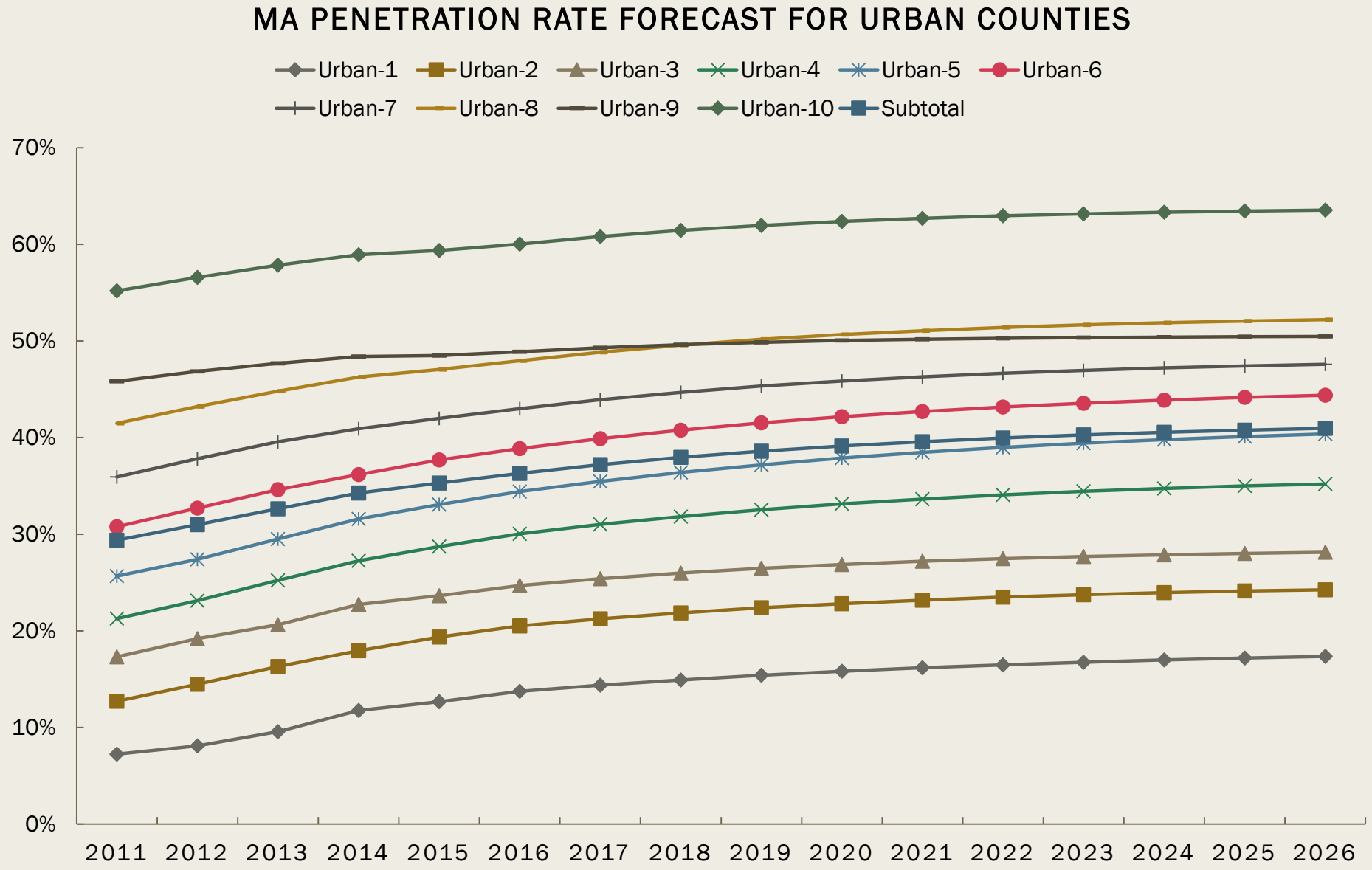
- Based on the theory that as rebates decreased, MA enrollment would decrease. This is not what happened:

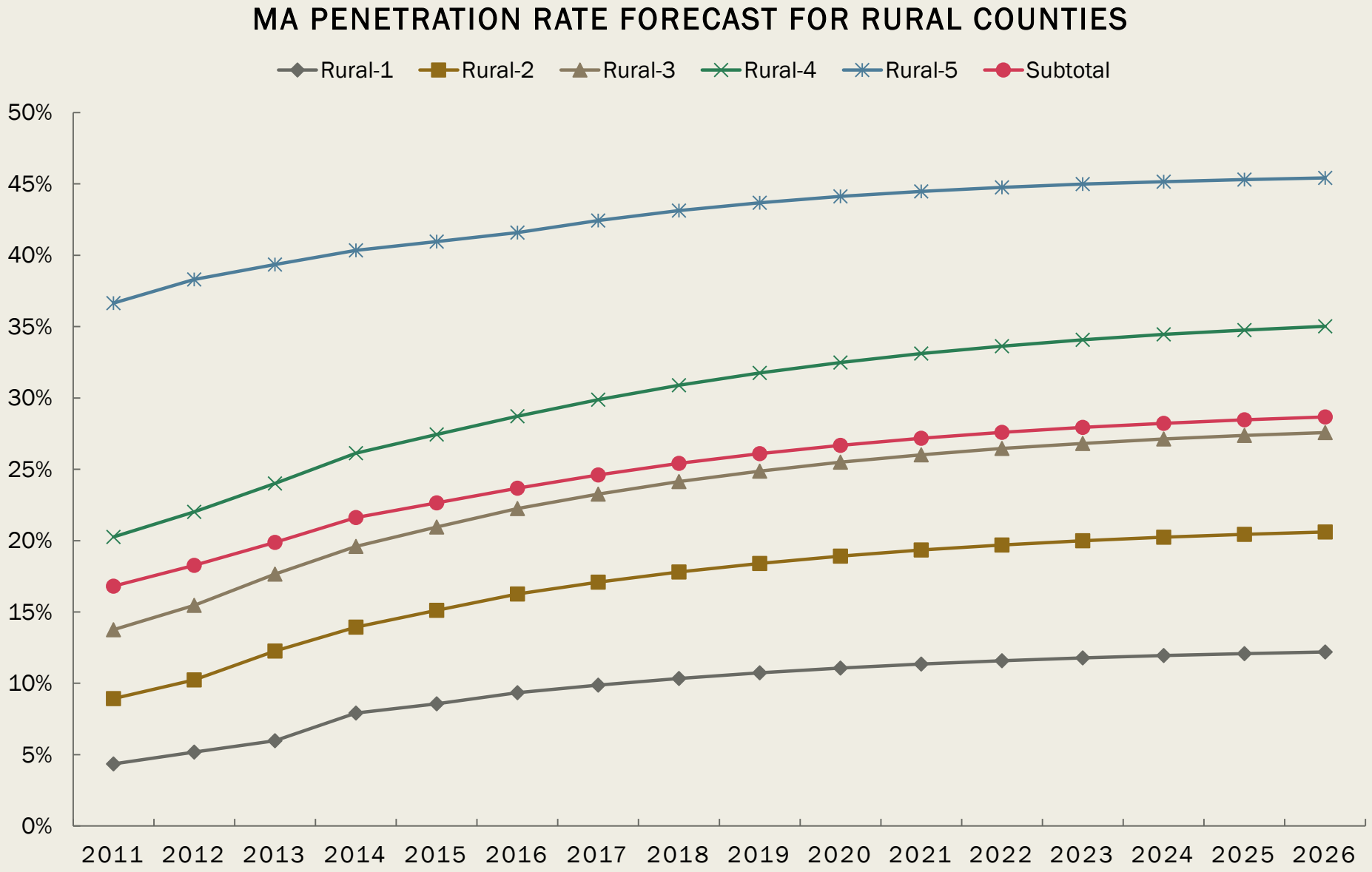


- Not nationally anyway – some evidence that rebates and enrollment were correlated at county level.

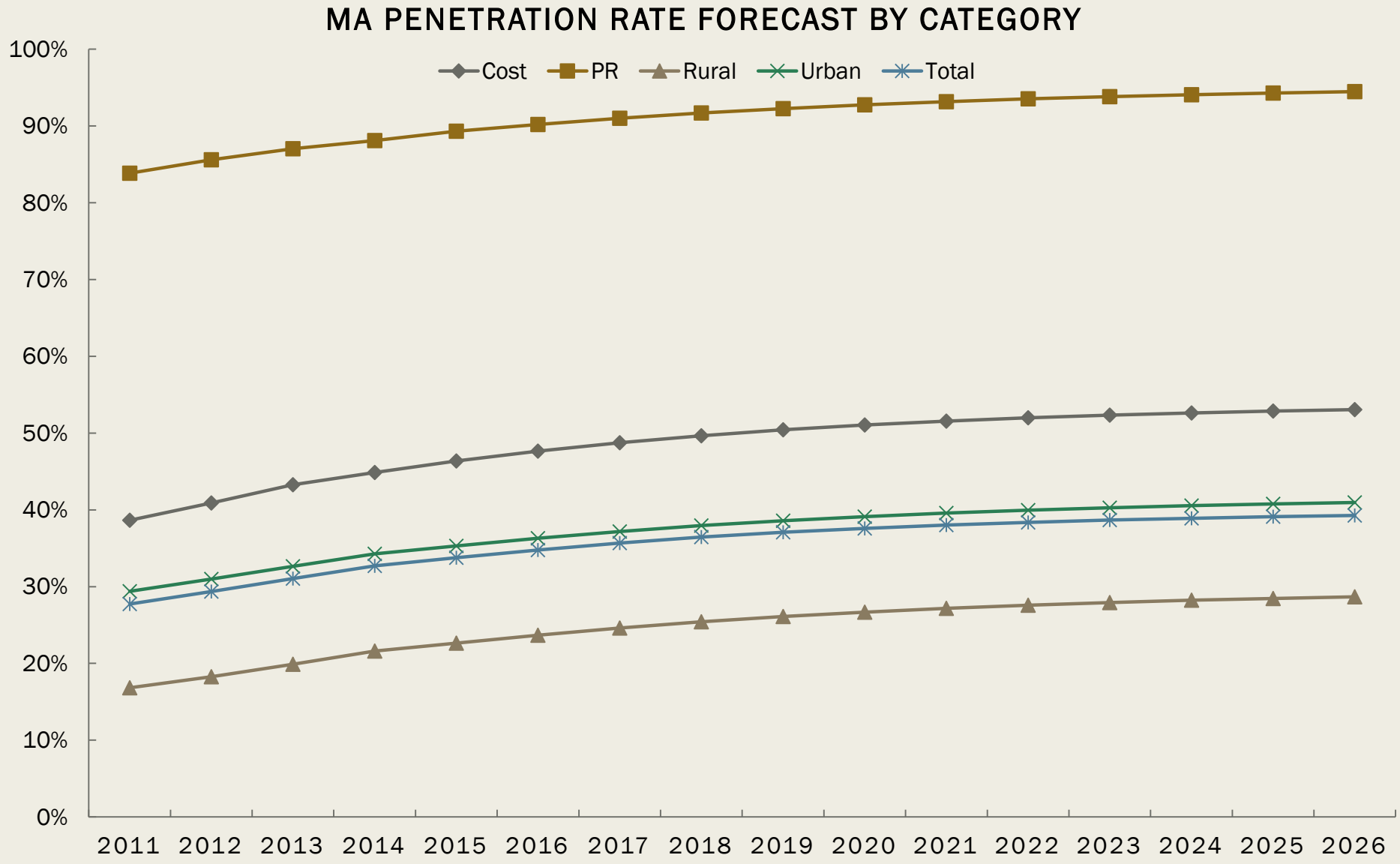
Steps Used in Enrollment Projections

- Summarize 2011 enrollment (by county) into 17 model categories: 10 urban, 5 rural, 1 Cost Counties, 1 Puerto Rico. The 10 urban and 5 rural categories are derived by sorting those counties by the 2011 penetration rate.
- Calculation the natural log of the growth in 2011 - 2015 MA Penetration Rates for the 17 model categories.
- Project the natural log of the growth in MA Penetration for 2016 – 2025 for the 17 categories using linear trend methods.
- Use blending methods to smooth variances between 17 categories.
- Calculation of the Inverse Log of growth rates to project penetration rates for the short – range projection years.


MA PENETRATION RATE FORECAST FOR URBAN COUNTIES
Urban-1
Urban-2
Urban-3
Urban-4
Urban-5
Urban-6
Urban-7
Urban-8
Urban-9
Urban-10
Subtotal
70%
60%
50%
40%
30%
20%
10%
0%
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026


MA PENETRATION RATE FORECAST FOR RURAL COUNTIES
Rural-1
Rural-2
Rural-3
Rural-4
Rural-5
Subtotal
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026

Private Health Plan Enrollment Assumptions



Private Health Plan Enrollment Assumptions

- The Part C penetration rate has grown steadily since the passage of the MMA—from 14 percent in 2004 to just under 35 percent in 2015—and is assumed to reach its ultimate level of 39 percent in 2025

Medicare Private Plan Enrollment
Beneficiaries enrolled in Medicare private health plans (in thousands)

CY	Local CCP	PFFS	Regional PPO	SNP	Other	Total private health plan (2016 TR)	Total private health plan (2015 TR)	Private health plan to MA eligible (2016 TR)	Private health plan to MA eligible (2015 TR)
2006	5,428	712	71	663	417	7,291	7,291	18.2%	18.2%
2007	5,530	1,623	135	977	403	8,667	8,667	21.3	21.3
2008	5,968	2,244	212	1,224	362	10,010	10,010	24.0	24.0
2009	6,605	2,433	349	1,343	373	11,104	11,104	26.1	26.1
2010	7,546	1,674	740	1,320	412	11,692	11,692	26.9	26.9
2011	8,925	602	1,042	1,367	447	12,383	12,383	27.8	27.8
2012	10,247	526	835	1,497	483	13,588	13,587	29.4	29.4
2013	11,212	388	949	1,768	527	14,843	14,842	31.2	31.2
2014	12,253	303	1,040	1,990	657	16,243	16,244	33.1	33.1
2015	13,155	256	1,018	2,085	979	17,493	17,607	34.7	35.0
2016	13,850	246	1,100	2,171	1,103	18,471	18,650	35.7	36.0
2017	14,614	260	1,160	2,286	1,149	19,469	19,598	36.6	36.9
2018	15,336	272	1,217	2,394	1,158	20,377	20,237	37.3	37.0
2019	18,538	285	1,272	—	1,181	21,276	21,015	37.8	37.4
2020	19,339	297	1,327	—	948	21,911	21,920	37.9	37.9
2021	20,118	309	1,381	—	863	22,672	22,760	38.1	38.3
2022	20,879	321	1,433	—	895	23,528	23,589	38.5	38.6
2023	21,611	332	1,483	—	925	24,351	24,381	38.8	38.8
2024	22,306	343	1,530	—	954	25,133	25,069	39.0	38.9
2025	22,986	353	1,577	—	983	25,898	25,774	39.2	39.0

Private Health Plan Projection Assumptions

The key assumptions for the increase in per capita benchmarks are as follows:

- FFS USPCC growth rates.
- Adjustment to MA risk scores for differences in diagnosis coding between MA and FFS beneficiaries.
- ACA benchmark phase-in schedule (county-specific).
- ACA quality bonus (county and contract specific).
- Phase-out of IME (county-specific).

Medicare Payment to Private Health Plans, by Trust Fund (in billions)

CY	Incurred basis			Part A as % of Total	Cash basis
	Bid	Rebate	Total		
Expenditures from Part A and Part B Trust Fund					
2006	$58.5	$6.7	$65.2	50.9%	$64.4
2007	$71.9	$8.2	$80.1	50.8%	$77.8
2008	$87.0	$10.4	$97.4	50.8%	$98.7
2009	$100.5	$11.8	$112.3	52.5%	$112.7
2010	$106.1	$9.8	$115.9	52.4%	$115.9
2011	$113.0	$10.8	$123.8	52.3%	$123.7
2012	$124.7	$11.8	$136.5	51.6%	$136.2
2013	$134.4	$12.5	$146.9	50.2%	$145.6
2014	$147.3	$12.0	$159.3	46.3%	$159.6
2015	$160.4	$12.7	$173.1	45.6%	$172.3
2016	$173.9	$14.4	$188.3	45.1%	$188.0
2017	$188.1	$15.4	$203.5	45.3%	$203.2
2018	$203.6	$16.4	$220.0	45.0%	$219.7
2019	$222.2	$18.3	$240.5	44.5%	$240.1
2020	$238.7	$20.5	$259.2	44.1%	$258.9
2021	$258.0	$22.8	$280.8	43.8%	$280.4
2022	$280.6	$25.3	$305.9	43.5%	$305.4
2023	$304.6	$28.6	$333.2	43.1%	$332.8
2024	$329.0	$31.7	$360.7	42.7%	$360.2
2025	$351.7	$35.0	$386.7	42.5%	$386.2