Key strategic implications of group-based Medicare Advantage as a retiree health strategy

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Individual Medicare retiree health insurance marketplace

Supports optimal health care purchasing and plan sponsor risk management

Over 12 years after the Affordable Care Act (ACA) was signed into law, Alight's analysis of the individual marketplace for Medicare-eligible retirees indicates that it continues to be the most robust, diverse, and cost-effective health insurance marketplace in the country. Based on CMS data, the value proposition appears to be improving each year.[1]

- There are approximately 4,000 Medicare Advantage plans offered by dozens of carriers nationwide which annually compete for over 50 million retiree enrollments, and **with over 2,500 plans offering $0 premium coverage**.
- In response to retiree desires for coverage flexibility and to support transitions from Medigap plans, **carriers have dramatically expanded their local Medicare Advantage PPO offerings**, which include a national "Medigap-like" out-of-network benefit, now representing approximately 40% of the marketplace.
- The value, choice, and savings delivered by these plans provides a best-in-market health insurance purchasing opportunity at the member level, supporting the wide variety of health care and financial needs of an increasingly diverse retiree population, **while potentially eliminating meaningful plan sponsor risk**.
- Further, the changes to the Medicare Part D program introduced by the Inflation Reduction Act (IRA) **enhance the individual plan value proposition**, with the new 2024 out-of-pocket cost limit eliminating a member cost exposure which has concerned some plan sponsors to date.

Unique, ongoing, and sustainable value proposition

The individual Medicare Advantage marketplace has doubled in size over the last decade and experienced reductions in overall premiums, while expanding retiree benefits and coverage flexibility. The most popular plans have improved coverage while driving down costs, highlighting the strength of the market and creating ongoing returns for both retirees and plan sponsors leveraging this marketplace.

Alight believes these improvements have driven the enormous popularity and enrollment growth of individual Medicare Advantage plans, which remain the gold standard given best-in-class care management, local network optimization, highly popular expanded benefits, with many supporting $0 premium arrangements. There are currently more than 23 million retirees enrolled in individual Medicare Advantage plans.[2]

The success of the individual marketplace also allows plan sponsors to re-evaluate their annual Health Reimbursement Arrangement (HRA) funding levels over time, with opportunities to "right-size" so that plan sponsors can share in continued market efficiencies, without disrupting retirees. Leveraging this more efficient health care market in the U.S. creates ongoing opportunities for cost reduction through the pursuit of continuous efficiencies, as opposed to pure cost-shifting strategies which so often characterizes group plans.

For these reasons, Alight believes over 3 million retirees have left employer-sponsored group coverage for the individual marketplace over the last decade, with many more projected to transition in the future.

Current group Medicare Advantage carrier marketplace

Extremely competitive often characterized by unusual proposals to targeted plan sponsors

Group Medicare Advantage contracting can be very profitable, but carriers have struggled to grow their group business over time for a variety of reasons. The entire group Medicare Advantage marketplace is approximately 5.1 million members, and has grown under 5% annually in aggregate across all carriers over the last few years.[2]

As a result, the group marketplace is characterized by the following:

— Volatile carrier-specific growth, creating an extremely competitive environment characterized by very aggressive pricing proposals and short-term guarantees.

— Carriers annually trading large group Medicare Advantage business amongst themselves through RFP activity, often requiring investments to secure these new opportunities — investments which need to be recouped over time.

— Carriers occasionally providing proposals which appear to defy basic Medicare Advantage economics, indicating that they are subsidizing the program in the short term to secure the business.

- In fact, we have seen a carrier supporting a large public sector plan sponsor with approximately 200,000 members admit to over $200 million in losses during a renewal process. This revelation raised concerns with the plan sponsor about the premium, plan design, accounting, and retiree relations implications of this outcome. We have seen similar results for other plan sponsors as well.

— The New York Times highlights aggressive attempts by carriers to maximize federal Medicare Advantage payments to make their proposals work. This is leading to scrutiny from the Department of Justice (DOJ) and fines/settlements with plans.

- An audit of a major Medicare Advantage carrier uncovered a 40% risk score "error rate" leading to approximately $500M in excessive Medicare Advantage payments over the audit period. A subsequent June 2022 federal court ruling agreed with the DOJ's interpretation of the law and ruled against the carrier, as reported by Bloomberg News. Alight believes this ruling likely means carrier risk scoring/revenue generation practices will be changing, potentially undermining the group Medicare Advantage value proposition for at least select carriers.

Sustainability concerns

We have found that at least some of these unusual group proposals could not be supported by individual market Medicare Advantage plan economics. This is in-spite of the fact that:

— Individual plans standardly leverage cost management techniques (e.g., locally optimized networks, formulary, care/utilization management, etc.) that the "open network", passive, one-size-fits-all group Medicare Advantage plans typically do not.

— **Based on current CMS protocols, the annual CMS Medicare Advantage funding process is intentionally biased against group plans and towards individual market plans.** The explicit disconnect between group plan performance and annual CMS funding leaves the group plan vulnerable, and helps guarantee that individual plans will always out-perform group-based strategies.

As a result, we believe that at least some of these very aggressive group-based proposals are not sustainable and are intended to secure group business, with the carrier attempting to recoup their investment over time, either directly from the plan sponsor, across other group clients in their portfolio, or both. Our recent analysis of plan sponsor group Medicare Advantage renewals supports this position.

Replacing a Medicare Exchange strategy with a group Medicare Advantage plan

Strategic and operational risks

In an attempt to open-up new business opportunities, Alight believes carriers are approaching existing Medicare Exchange clients with proposals to "replace" the current individual market exchange strategy with a single risk pool, one-size-fits-all group Medicare Advantage plan. This concept is counter to the clear market trend over the last decade with plan sponsors generally moving away from group plans and toward the more cost-effective individual marketplace.

These group plans are advertised as driving savings for the plan sponsor relative to their spend on the exchange, typically delivered as a subsidy in a Health Reimbursement Arrangement (HRA), even if such an approach cannibalizes the carrier's own individual market business in the process.

There are a variety of significant challenges with this concept, including but not limited to:

Risk management

- The performance of the group plan is entirely dependent upon variables outside of the plan sponsor's control, which can create volatility in cash and accounting results over time.
- The Federal Government and carrier are in the "driver's seat", with the plan sponsor becoming the "junior partner" in the relationship. Federal/carrier objectives are often not aligned with those of the plan sponsor and the non-transparent "black box" nature of the insured group program can lead to surprises.
- Growing federal debt and inflation will put pressure on the new 2023 Congress to limit federal spending, including payments to generally for-profit private Medicare Advantage plans. This scenario will specifically undermine group plans, due to their passive features and the explicit annual CMS funding bias away from group plans.
- Given their passive features, **group plans can struggle to maintain a 4.0 CMS Star Rating**, which qualifies the plan for a 5% Star Ratings bonus federal revenue payment, representing approximately $600 per member. **Preliminary feedback from CMS indicates that the second largest player in the group Medicare Advantage marketplace representing over 1 million members, failed to qualify for the 2024 plan year.**[3] This is expected to put upward premium pressure on all of the carrier's group plan customers into 2024.
- Overall, this strategy represents a step toward plan sponsor risk and volatility, as opposed to the individual market, which helps eliminate such themes.

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Financial/accounting

— Alight believes in order to create a meaningful value proposition for both the plan sponsor and retirees, the group carrier must generally make investments in at least the short-term, which can be expected to wear away over time, and which need to be reflected in current period accounting projections.

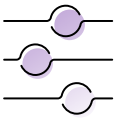
— **Additionally, the plan sponsor's accounting cannot generally assume that the carrier will make significant investments beyond the initial guarantee period, which weakens the value proposition of the concept at inception.**

— In contrast, cash and accounting costs associated with the Medicare exchange are completely determined by the plan sponsor's HRA subsidy, which the plan sponsor retains complete control over.

Retiree relations

— Because retirees are currently enrolled in individual plans, re-enrollment into a group plan must be voluntary. In order to make informed decisions, retirees will need effective customer service support to be able to effectively evaluate the group plan relative to their individual option.

— Retirees enrolled in individual plans for some time and those currently receiving treatments may be reluctant to leave their individual plans, leaving the plan sponsor with meaningful numbers of retirees in the marketplace, leading to a de facto "dual group and exchange strategy" indefinitely.



Administration

— Most exchange strategies are supported by little to no fees to the plan sponsor, but group program administration will generally require a per participant administrative fee, therefore increasing plan sponsor cost with each enrollment in the group plan. This is an explicit new cost associated with the approach.

— The group plan will also require ongoing management, review, and oversight by HR staff, taking them away from other priorities.

Retiree impact analysis

When plan sponsors move to a Medicare Exchange, an analysis is conducted to "prove the concept", demonstrating that ~20%-50% cash subsidy savings and significant accounting cost reductions can be realized, while allowing **virtually all** retirees to find equal/superior coverage at a lower cost. Plan sponsors typically need to develop a clear "win-win" with retirees in order to move forward with the exchange strategy.

When a plan sponsor evaluates implementing a group Medicare Advantage plan to "replace" the exchange, a similar impact analysis is needed. Alight conducted an analysis for a client considering such a strategy which indicated that the **vast majority** of the retiree group would experience material cost increases under the group plan proposal relative to the exchange (up to ~75% of members). Retirees in highly efficient individual Medicare Advantage plans were impacted most severely, as were many of those in Medigap/PDP plans. **The analysis showed that the group plan would essentially be driving a cost-shifting strategy, as opposed to more efficient health care purchasing.**

In order to avoid retiree financial disruption, the group plan would need to provide 100% medical and prescription drug coverage with a $0 premium, which is not a practical short or longer-term approach. It's very difficult to provide a meaningful group plan value proposition for retirees once they have enrolled in personalized, individual, cost-effective coverage supported by an HRA subsidy. Group plan designs providing less than 100% coverage and/or premium requirements simply result in cost-shifting to retirees, as opposed to supporting more efficient health care purchasing.

If a plan sponsor has maximized the health care purchasing opportunity through the individual marketplace, but still needs to reduce cost, it's very likely preferable to leave retirees in their individual plans and simply modify the HRA subsidy through creative approaches to mitigate the impact on the member. This also provides time for retirees to engage the exchange customer service team to potentially help them consider more cost-effective options on the exchange. **This focuses squarely on the subsidy, and eliminates all of the unique disruption, change management, accounting, funding, etc., risks introduced by the group plan.**

Alight can help plan sponsors evaluate group carrier proposals through our comprehensive modeling capabilities and identify the vulnerabilities to both plan sponsors and retirees. We strongly recommend such an analysis before a plan sponsor seriously considers such a strategy.

Conclusion

The individual Medicare marketplace is the most efficient, diverse, and retiree-friendly health care market in the U.S., offering a unique opportunity for plan sponsors to deliver the promised benefit at the lowest possible cost.

Group Medicare Advantage plans are inherently more costly due to their generally passive approach toward care/utilization management, lack of local market optimization, and annual CMS funding unrelated to their performance. This leads to higher cost growth over time resulting in the need to modify the plan design to control increases, simply resulting in cost-shifting to retirees. Expected ongoing federal funding challenges, health care inflation, etc., will further undermine group strategies relative to the individual marketplace.

Alight's actuarial analysis continues to consistently demonstrate a 20%–50% individual market cost reduction opportunity for both plan sponsors and retirees relative to group strategies, including group Medicare Advantage PPO Part D plans. Going forward, the individual market will continue to drive maximum health care purchasing opportunities while eliminating the variety of unique risks the one-size-fits-all group Medicare Advantage plans introduce to plan sponsors and their retirees.

Alight's retiree-centric customer service approach results in retirees enrolling in the optimal plan for their facts and circumstance at initial enrollment, leading to very low change rates, unless specific retiree needs change over time.

The Alight retiree health care strategy team is here to help you better understand the strategic themes outlined above, as well as the current state of the broader retiree health care marketplace. We can discuss, in significant detail, group Medicare Advantage carrier sales strategies, the implications of the Inflation Reduction Act (IRA), and the advantages of a Medicare Exchange strategy relative to a group approach, among other topics of interest.

The content of this brief is the consultative perspective of Alight Retiree Health Solutions and is provided based on internal analyses of the current Medicare plan marketplace as we understand it. This promotional material is intended for use by plan sponsors and is not intended to promote or market any particular plan.

[1] Kaiser Family Foundation (KFF), *Medicare Advantage in 2022: Enrollment Update and Key Trends*, 2022

[2] CMS.gov, Monthly Enrollment by Plan, January 2022

[3] CMS.gov, Medicare Advantage H5521 Contract

About Alight Solutions

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