Congress of the United States

Washington, DC 20510

August 18, 2005

Richard S. Foster, Chief Actuary
Centers for Medicare and Medicaid Services
7500 Security Boulevard, Mail Stop N3-01-21
Baltimore, Maryland 21244-1850

Dear Mr. Foster:

We are writing to request an estimate related to Medicare Advantage (MA) payment rates for 2006. On April 4, 2005, the Centers for Medicare and Medicaid Services (CMS) released the 2006 MA rates and announced that it would continue through 2010 its policy of negating the savings from risk adjusting payments to Medicare Advantage plans.

To accomplish this policy, CMS estimates how much risk adjustment would change total spending in Medicare Advantage if fully implemented. (Risk adjustment lowers payments to plans if they enroll healthier and less expensive beneficiaries on average and raises payments to plans if they enroll beneficiaries who are sicker on average.) Based on this estimate, CMS makes an across-the-board adjustment to the statutory payment rates. In the 2006 rate announcement, CMS estimated that risk adjustment would reduce spending in Medicare Advantage by about 8 percent. The agency increased the 2006 payment rates accordingly to reverse those savings.

Recently, our staff learned that the Administration used updated data on the health status of Medicare Advantage enrollees in its Mid-Session Review (MSR) of Medicare spending (released July 2005). The updated data, referred to as "risk scores," suggest that beneficiaries enrolled in Medicare Advantage plans may not be as healthy as estimated in the 2006 rate announcement, though they are still healthier than the average beneficiary. If July MSR risk scores were used to set the 2006 rates, they would have resulted in a much smaller estimate of the payment increase needed to hold plans harmless from risk adjustment. By our staff estimate, using the April 4 data could mean MA payments will be about $1 billion higher in 2006 than they would be if CMS used the newer risk scores.

We share concerns about the appropriateness of Medicare Advantage payment rates. Given CMS' decision to reverse risk adjustment savings, the accuracy of the data used to calculate the added payments is essential. We are concerned by the variations in the risk adjustment data in recent years and are troubled that the use of April 4 data could over-compensate plans in 2006.

Please provide us with an estimate of the budgetary effect of using the risk scores from the April 4 release rather than the July MSR. We would like to know your estimate of the amount of spending under CMS' policy of reversing the savings from risk adjustment and the amount and percentage change in that spending using the more recent risk scores.

Also we would like to know the effect this change would have on Part B premiums in 2006. Please provide this information by September 2, 2005.

Thank you for your time and assistance. If you have any questions regarding this request, please contact Jennifer Friedman for Representative Spratt at (202) 226-7200, Shawn Bishop for Senator Baucus at (202) 224-4515, or Cybele Bjorklund for Representative Stark at (202) 225-4021.

Sincerely,

Max Baucus
Ranking Member
Committee on Finance
U.S. Senate

John M. Spratt, Jr.
Ranking Member
Committee on Budget
U.S. House of Representatives

Pete Stark
Ranking Member, Health Subcommittee
Committee on Ways and Means
U.S. House of Representatives