

# So you want to start a Medicare Advantage plan...

## What to expect for enrollment in the first five years

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Future enrollment can be difficult to predict, especially in the initial years of a startup Medicare Advantage plan. Understanding typical enrollment levels in the first five years of operation will allow MA organizations to make informed decisions and projections.

The Medicare Advantage (MA) market is highly competitive as Medicare Advantage Organizations (MAOs) compete for enrollment. This is true for mature plans as well as startups. This paper identifies 28 MAO startups and follows each for five years to understand their enrollment growth. This paper is the first in a series of Milliman articles focused on the results and outcomes of these 28 MAOs.

### Where to start as a startup?

Becoming an MAO is no easy task. Before an organization enrolls any members, it needs to submit an application to the Centers for Medicare and Medicaid Services (CMS), develop provider networks and contracting, analyze market research to understand the enrollment opportunity and competition, prepare and file bids, create marketing materials, and much more. After all the initial work is done and the organization is ready to enroll a member, do all the efforts pay off? How much enrollment do new startups typically achieve? Will they be able to attain five-star ratings?<sup>1</sup> Are the MAO's benefits attractive in the highly competitive MA market?

To gain a better understanding of the typical path new entrants take and the unique challenges they can expect to encounter as they hit the ground running, we took a closer look at organizations that entered the MA market during contract years 2015 and 2016 and tracked their journey over their first five years.

The MA market has experienced strong enrollment growth for a number of years, with about 40% of Medicare eligibles choosing to enroll in an MA plan in 2020 (up from 32% in 2015). Due to the

increasing popularity of MA<sup>2</sup> and the aging Baby Boomer generation, it is no surprise more and more organizations are looking to capitalize on this market. Each year we help new organizations as they look to compete in this space.

### Who is included in our study?

We identified 28 MAOs nationwide that entered the MA market in either 2015 or 2016. For the purposes of this paper, we identified an MA startup organization as a health plan that first entered the MA individual market in 2015 or 2016 regardless of whether that organization provided health insurance for another line of business prior to 2015 or 2016. The following provides a high-level overview of the 28 startups we identified in their initial year of operation:

#### PLAN TYPES

- Eighteen launched a general enrollment plan, i.e., non-Special Needs Plan (SNP).
- Seven launched a dual eligible SNP (D-SNP).
- Six launched an institutional SNP (I-SNP).
- One launched a chronic or disabling condition SNP (C-SNP)

#### PRODUCT TYPES

- Twenty-six launched health maintenance organizations (HMOs)
- Five launched local preferred provider organizations (LPPOs)
- One included an HMO point-of-service (POS) plan, i.e., an HMO with an out-of-network component for select services

<sup>1</sup> "CMS published star ratings to help Medicare beneficiaries choose high-quality plans; however, since 2012, CMS has tied plan revenue and other incentives to star ratings as well." See <https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2017/medicare-advantage-star-ratings-best-practices.ashx>.

<sup>2</sup> "Enrollment growth is strong within this market, due to the popularity of the MA program and the continued aging of the Baby Boomer generation, with an increase of approximately 8% per year from 2016 to 2019 as measured in this analysis." See [https://milliman-cdn.azureedge.net/-/media/milliman/pdfs/articles/state\\_of\\_the\\_2020\\_medicare\\_advantage\\_industry.ashx](https://milliman-cdn.azureedge.net/-/media/milliman/pdfs/articles/state_of_the_2020_medicare_advantage_industry.ashx).

Note the sum of the counts shown above is greater than 28 because some MAOs launched multiple plans or product types in the initial year of operation.

Many other startups have entered the MA market since 2016. However, for this study, we elected to focus on the 2015 and 2016 startups to allow us to analyze their first five years of data.

## What is a reasonable year one enrollment expectation?

The 28 startup MAOs in our study achieved approximately 45,000 total enrollees as of February of the first year of operation (that is, as of February 2015 for an MAO that launched in 2015). This equates to an average of about 1,600 enrollees per MAO. However, the results showed significant variation as the smallest organization had no enrollment in year one while the largest had nearly 13,000 enrollees.

Analyzing an organization’s enrollment based strictly on the number of enrollees in the organization’s plans is a simple and high-level way to track enrollment success. However, such an approach does not differentiate between MAOs with a small service area (one or two counties) versus MAOs that enter a service area with many counties or in multiple states. Further, it does not differentiate between MAOs in populous, urban areas versus those in rural areas. To put these MAOs on a more comparable basis and to make the statistics more useful to future startups looking to estimate year one enrollment, we converted the enrollment for each MAO into the percentage of total Medicare-eligible lives the MAO enrolled (also known as market penetration).

Figure 1 shows the relationship between number of enrollees and percentage of Medicare eligibles.

We make the following year one observations from Figure 1:

- The MAO with the most membership (MAO number 28 in Figure 1 with about 13,000 enrollees) enrolled over 0.6% of total Medicare eligibles in its service area.
- MAO number 26 in Figure 1 enrolled about 5,800 members, which reflects 3.5% of total Medicare eligibles in its service area.

The average MAO enrolled about 0.4% of the eligible individuals in its service area in year one. Approximately 35% of the MAOs in our study achieved enrollment of at least 0.5% of Medicare eligibles in their first year of operation, while less than 10% enrolled over 1.0% of the total available Medicare eligibles in their service area in year one.

## What level of enrollment growth is achieved in the first five years?

In year five of our study, 23 of the 28 MAOs were still in operation; the reduction is likely due to acquisitions and/or organizations withdrawing from the MA program. These 23 MAOs have about 160,000 enrollees in February of year five—an average of almost 7,000 enrollees per MAO, with the smallest around 225 and the largest in excess of 32,000 enrollees. Approximately 20% of the MAOs in our study had at least 2,000 enrollees in year one. About 50% of MAOs reached this threshold by year two and, by year five, 75% of MAOs achieved in excess of 2,000 enrollees. In addition, by year five, about 50% of MAOs achieved at least 4,000 enrollees and 25% achieved at least 10,000 enrollees.

FIGURE 1: YEAR ONE ENROLLMENT

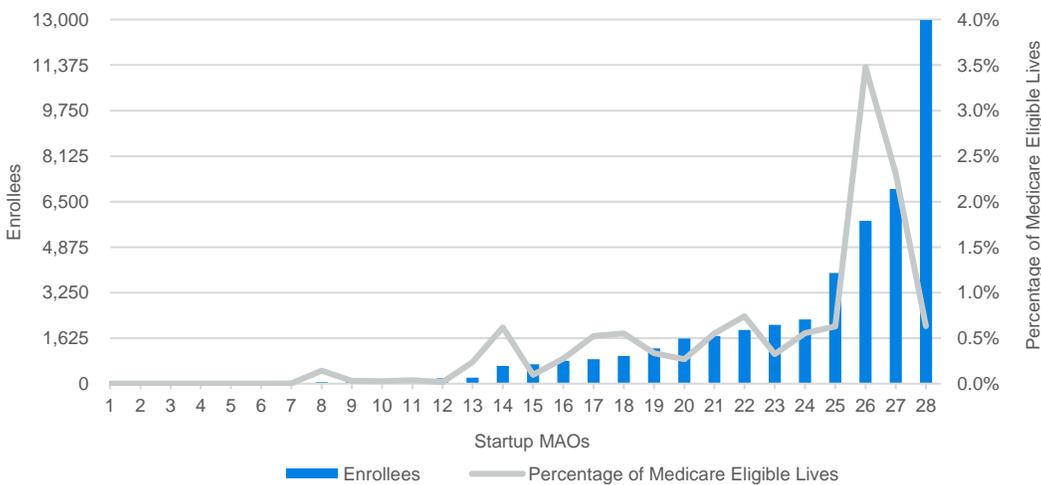
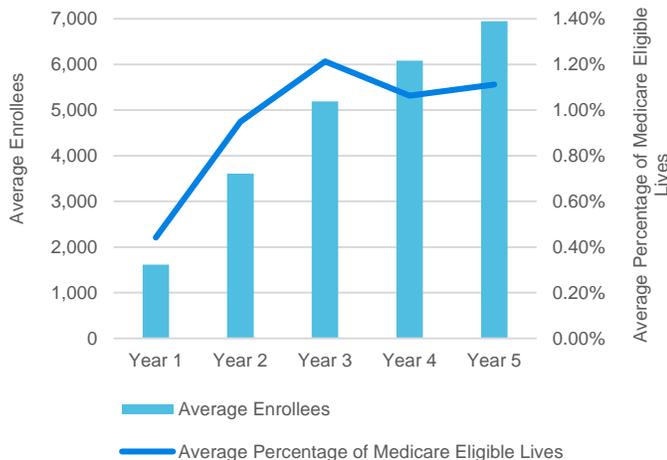


Figure 2 shows the average enrollment for an MAO for each of the first five years as well as the average percentage of Medicare-eligible lives.

**FIGURE 2: AVERAGE ENROLLMENT OVER FIVE YEARS**



Throughout the five years, the enrollment achieved by each MAO varied significantly, ranging from less than 0.1% to 8.1% of total Medicare eligibles. In year five, 60% of the MAOs remaining in the market achieved enrollment levels of at least 0.5% of total Medicare eligibles in their respective service areas (over 40% of the MAOs achieved over 1.0%).

As shown in Figure 2, the average enrollment as a percentage of Medicare eligibles peaks in year three at about 1.2%, but decreases from year three to year four due to MAOs expanding their service areas. Therefore, although the average number of enrollees continued to increase throughout the five years, the measure of enrollment as a percentage of Medicare eligibles decreased.

At the point of highest average market penetration in year three, approximately 50% of MAOs enrolled at least 1.0% of total Medicare eligibles in their service areas. However, as MAOs expanded their service areas, the percentage of MAOs achieving 1% of Medicare eligibles plateaued around 40% in years four and five. The effects of service area expansion can be similar to launching a startup all over again in the expanded area due to a variety of challenges including, but not limited to, a lesser-known brand in the expansion counties. To remove the impacts of service area expansion, we separately looked only at the counties included in the original year one service area of each MAO and tracked the growth in only those year one counties over five years. Based on this subset of counties, we saw a

steady increase in average enrollment as a percentage of Medicare eligibles throughout the five-year time period from approximately 1.0% of Medicare eligibles in year two to over 1.5% in year five.

As Figure 2 illustrates, the MAOs in our study typically had the most significant enrollment growth in year two:

- The average enrollment per MAO grew from 1,600 in year one to 3,600 in year two, nearly a 125% increase.
- On average, the percentage of Medicare eligibles enrolled increased from about 0.4% in year one to about 0.9% in year two.
- While less than 10% of MAOs enrolled at least 1.0% of total Medicare eligibles in year one, nearly 40% of MAOs surpassed the 1.0% enrollment threshold by year two.

Please see Appendix A for additional details on the growth achieved by each of the 28 MAOs in our study. As shown, the enrollment varied significantly across the 28 MAOs. An MAO's initial membership growth can vary based on the organization's size and type of population it enrolls (i.e., general enrollment, dual eligibles, institutionalized individuals, and individuals with certain chronic diseases), among other variables<sup>3</sup>.

## What are these results based on?

In performing this analysis, we relied on MA plan offerings in 2014 through 2020 as published by CMS. We summarized information from the Milliman Medicare Advantage Competitive Value Added Tool (Milliman MACVAT®), which uses publicly available MA information from CMS including enrollment information from February of each year and plan details (e.g., plan type, SNP type, parent organization, etc.). The values presented reflect organizations available in each respective contract year. We identified new MAOs in 2015 and 2016 by identifying MA contracts and parent organizations that were not in the prior year's database. We excluded Medicare-Medicaid Plans (MMPs or dual demonstration plans), Medicare Cost Plans, Prescription Drug Plans (PDPs), Program of All-Inclusive Care of the Elderly (PACE), and Employer Group Waiver Plans (EGWPs) from this analysis. We also did not include any organizations that acquired contracts with previously established plans.

We relied on the Public Use Files (PUFs) from CMS for the February enrollment and market penetration in each year (downloaded as of January 2021). The MAO enrollment is at a county/plan level and, as such, could be missing small enrollee counts because CMS does not publish enrollment if the count is 10 enrollees or fewer.

<sup>3</sup> Backes, K. and Friedman, J. (June 2019). Medicare Advantage enrollment: Growth expectations for new organizations. milliman.com. Retrieved on January 7, 2021, from <https://us.milliman.com/-/media/milliman/importedfiles/ektron/medicare-advantage-enrollment.ashx>

## What are the key takeaways?

By year five, most startups in our study were able to enroll about 2,000 members and many were able to capture approximately 1% of the market in their service areas.

Enrollment growth depends on many things, including an effective marketing campaign, general brand recognition, competitive benefit design, and a strong provider network. Obtaining sufficient enrollment growth in the first few years in the market is a critical component to being successful in the MA market because it provides the MAO with more leverage in contract negotiations and helps reduce administrative expenses per member, among other things. Through the upcoming series of articles of which this is the first, we will continue our analysis of these new entrants as we explore several of the other components critical to success in the MA market.

## Caveats, limitations, and qualifications

This paper was developed to examine the enrollment achieved by new entrants in their first five years in the MA market. This information may not be appropriate, and should not be used, for other purposes. We do not intend this information to benefit, and

assume no duty or liability to, any third party that receives this work product. Any third-party recipient of this paper that desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its specific needs.

In preparing our analysis, we relied upon public information released by CMS and other publications listed and footnoted above.

We are not attorneys and do not intend to provide any legal advice or expertise related to the topics discussed here. The opinions included here are ours alone and not necessarily those of Milliman.

We are actuaries for Milliman, members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of our knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.



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## Appendix A: MAO enrollment data

MAO	MAO Enrollment as of February		Medicare Eligible Lives in Service Area		Percentage of Medicare Eligible Lives	
	Year 1	Year 5	Year 1	Year 5	Year 1	Year 5
1	0	1,225	101,835	561,775	0.0%	0.2%
2	0	n/a	1,863,821	n/a	0.0%	n/a
3	0	1,786	534,981	3,651,468	0.0%	0.0%
4	0	221	1,635,162	1,930,099	0.0%	0.0%
5	0	1,159	335,728	675,302	0.0%	0.2%
6	0	2,060	462,311	547,415	0.0%	0.4%
7	14	1,524	1,789,606	2,045,446	0.0%	0.1%
8	58	2,293	41,001	217,286	0.1%	1.1%
9	62	264	200,646	309,585	0.0%	0.1%
10	62	4,084	244,782	669,204	0.0%	0.6%
11	146	n/a	393,169	n/a	0.0%	n/a
12	188	n/a	1,268,346	n/a	0.0%	n/a
13	213	2,145	90,053	1,809,363	0.2%	0.1%
14	633	2,544	102,650	215,479	0.6%	1.2%
15	694	3,817	714,395	1,887,658	0.1%	0.2%
16	812	n/a	293,728	n/a	0.3%	n/a
17	867	6,040	165,782	328,252	0.5%	1.8%
18	987	2,477	179,104	272,325	0.6%	0.9%
19	1,263	15,897	375,632	954,631	0.3%	1.7%
20	1,608	5,097	600,921	751,655	0.3%	0.7%
21	1,702	12,560	309,459	395,349	0.5%	3.2%
22	1,913	7,776	258,624	358,762	0.7%	2.2%
23	2,100	5,649	649,258	958,347	0.3%	0.6%
24	2,294	12,062	412,625	1,146,744	0.6%	1.1%
25	3,951	21,258	629,183	808,253	0.6%	2.6%
26	5,814	15,704	167,189	458,059	3.5%	3.4%
27	6,955	n/a	301,476	n/a	2.3%	n/a
28	12,981	32,087	2,057,703	2,448,906	0.6%	1.3%

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