MILLIMAN WHITE PAPER

So you want to start a Medicare Advantage plan…

What to expect for a star rating in the first five years

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Why should Medicare Advantage organizations focus on star ratings?

While Medicare Advantage organizations (MAOs) have a number of items to focus on in their first few years after entering the market, it is important that achieving a high star rating does not fall from the top of the list. While enrollees undoubtedly compare premiums, supplemental benefits, and copays when determining which plan is right for them, the Centers for Medicare and Medicaid Services (CMS) highly encourages enrollees to also consider the star rating of the health plan.

The concept of star ratings in the Medicare Advantage (MA) program, introduced in 2007, has existed for well over a decade. Originally, "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." [1] CMS bases the star rating on nearly 40 different measures, many of which rely upon data from two years prior. Thus, MAOs new to the market do not receive a star rating in their first few years of operation. However, their performance in year one will affect their star ratings a few years down the road (assuming they enroll the minimum amount of membership to have sufficient data).

What is a star rating?

CMS assigns star ratings at the contract level for each MAO. MAOs may have multiple contracts with CMS, each of which can have multiple plans. Often an MAO starts with a single contract but may apply for separate contracts by state or product type, for example a health maintenance organization (HMO) or preferred provider organization (PPO). Star ratings are published annually in October at the beginning of the upcoming year's annual enrollment period but affect the following year's revenue (i.e., the 2021 star ratings were released in October 2020 and were largely based on 2019 data. The 2021 star ratings affect the marketing for 2021 and MAO revenue and bid development for 2022). Therefore, not focusing on quality in the first few years in the market can be a detriment to marketing and revenue in the years ahead.

This article is the third in a series following the path of new entrants over their first five years in the market. The first two articles [2,3] in this series focused on enrollment growth and ways in which MAOs can expand in their first few years in the market. Focusing on achieving a high star rating is another way MAOs can achieve success because higher star ratings increase revenue to enrich benefits; without an appropriate emphasis on star ratings, an MAO's other efforts may be hindered.

What MAOs are included in our study?

This study identified 28 MAOs that entered the MA market in either 2015 or 2016. For the purposes of this paper, we identified an MA start-up organization as a health plan that first entered the MA individual market in 2015 or 2016, regardless of whether it provided health insurance for another line of business prior to 2015 or 2016. As part of this study, we tracked the journey of new MAOs over their first five years based on publicly available information published by CMS.

How does a star rating affect revenue?

While a more comprehensive explanation of the star rating program can be found in the Milliman white paper quoted above,[4] we offer the following brief explanation. CMS pays each MAO a monthly benchmark payment rate that varies by a member's county of residence, by average risk level of the MAO's non-ESRD, non-Hospice (NENH) enrollees, and by the MAO's quality bonus payment (QBP). The QBP is directly based on the overall star rating earned by the MAO (MAOs receive a separate Part C and Part D star rating in addition to an overall star rating for each contract, but only the overall star rating affects revenue). CMS also provides each MAO Part C rebate revenue, which is calculated as a percentage of the difference between the plan's bid amount and the plan's risk-adjusted benchmark payment rate, where the percentage varies based on the MAO's star rating. Therefore, two portions of the CMS revenue (the monthly benchmark payment rate and the Part C rebate) vary based on overall star rating.

Figure 1 summarizes the QBP and Part C rebate percentages corresponding to each star rating. QBP in a given year is based on the prior year's star rating (i.e., an MAO's revenue in 2022 will be based on its 2021 star rating).

FIGURE 1: 2022 QBP AND PART C REBATE PERCENTAGES BY OVERALL STAR RATING

2021 Star Rating	2022 QBP	2022 Part C Rebate Percentage
Less than 3.5 stars	0%	50%
3.5 stars	0%	65%
4.0 stars	5%	65%
4.5+ stars	5%	70%
New or Low Enrollment	3.5%	65%

As shown in Figure 1, MAOs achieving at least a 4.0 star rating generally receive an additional 5% of CMS revenue during the bid process. MAOs achieving at least a 4.5 rating are able to retain the highest percentage of Part C rebates compared to plans with lower star ratings, which provides additional funds for them to be able to offer richer, more competitive benefits to their members. Organizations achieving a 5.0 star rating earn the same QBP and Part C rebate percentage as the 4.5 star organizations but also receive a special designation on the Medicare Plan Finder website (where eligible beneficiaries can review their plan options). As an additional benefit for receiving a high star rating, plans that earn a 5.0 star rating are also permitted to market and enroll members year-round (marketing and enrollment changes are normally limited to the annual enrollment period from October through December, with the exception of being able to enroll individuals aging into Medicare eligibility throughout the year).

The bottom row of Figure 1 addresses new and low enrollment plans. New and low enrollment plans are further discussed in the section titled "How often do plans achieve a 4.0 or higher rating the first year they are eligible?"

Figure 2 contains an illustrative example to help demonstrate the affect star ratings have on CMS revenue. For each of the star rating scenarios in Figure 2, the standard benchmark revenue and bid amount are identical. As illustrated, CMS revenue can vary by up to $75 per member per month (PMPM) based on a 1.5 star rating change.

How often do plans achieve a 4.0 or higher rating the first year they are eligible?

Due to the lag between when performance is measured and when the data is collected for use in the star rating calculation, startup MAOs are treated as "new contracts" for the first two years, at a minimum, for marketing purposes and for the first three years of MA revenue. In other words, an MAO that entered the market in 2015 would receive its 2017 star rating in the fall of 2016. Thus, this star rating would be available for marketing purposes during the open enrollment period for plan year 2017. However, the 2017 star rating does not affect MAO revenue until 2018. If a plan does not enroll sufficient membership to have enough measures calculated in year one (currently around 500 enrollees), it continues to receive a low enrollment star rating.[5] As shown in Figure 1, low enrollment contracts are treated the same as a new contract from a revenue bonus and Part C rebate standpoint.

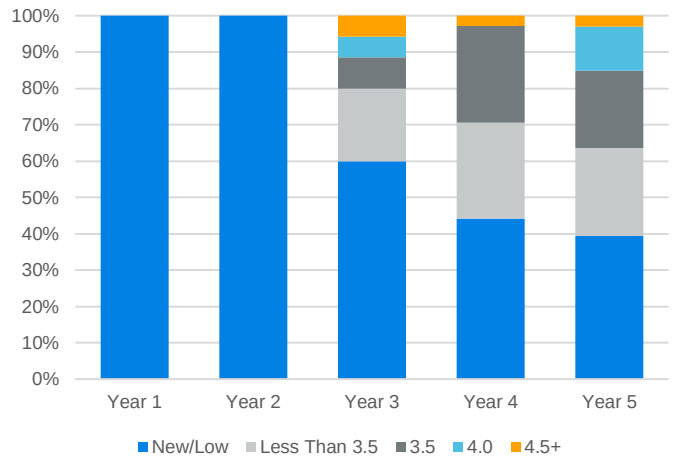
FIGURE 2: ILLUSTRATIVE EXAMPLE OF HOW STAR RATINGS AFFECT CMS REVENUE (PMPM)

		3.0 Star	3.5 Star	4.0 Star	4.5 Star	New/Low Enrollment
A	Risk Adjusted Benchmark	$1,000	$1,000	$1,050	$1,050	$1,035
B	Part C Bid	$800	$800	$800	$800	$800
C = A - B	Part C Savings	$200	$200	$250	$250	$235
D	Part C Rebate %	50%	65%	65%	70%	65%
E = C x D	Part C Rebate	$100	$130	$163	$175	$153
F = B + E	Total CMS Revenue	$900	$930	$963	$975	$953

Figure 3 shows that in year three (for example, the 2017 star rating for a new contract in 2015), 60% of contracts had insufficient enrollment to receive a star rating and were treated as low enrollment contracts. About 20% of contracts had sufficient enrollment in year one but did not perform well on the required measures and achieved less than 3.5 stars. Only about 10% of contracts achieved a 4.0 star rating or higher, and only about 5% of contracts maximized their CMS revenue by achieving at least 4.5 stars. By year four, the percentage of contracts treated as low enrollment decreased to a little less than 50%, but the majority of those plans now eligible for a star rating fell short of the 4.0 threshold. Only 3% of contracts received a 4.0 star rating or higher in year four, increasing to about 15% in year five. Even by year five approximately 40% of contracts continued to receive the default 3.5% QBP and 65% Part C rebate percentage assigned to contracts that have not yet enrolled enough members to develop a star rating.

By year five, approximately 40% of the PPOs in our study achieved a 4.0 or higher star rating compared to only about 15% of the HMOs in our study. As discussed in the second paper of this series, HMOs were offered significantly more often by startups in the first five years than PPOs, so the PPO results were also more limited. Though beyond the scope of this paper, other studies have also found that PPOs, on average, often have higher star ratings in year 3 of operation once they are first eligible for a star rating, though this can change over time and also varies with membership size.[6]

FIGURE 3: DISTRIBUTION OF STAR RATINGS FOR YEARS 1-5, BASED ON COUNT OF CONTRACTS

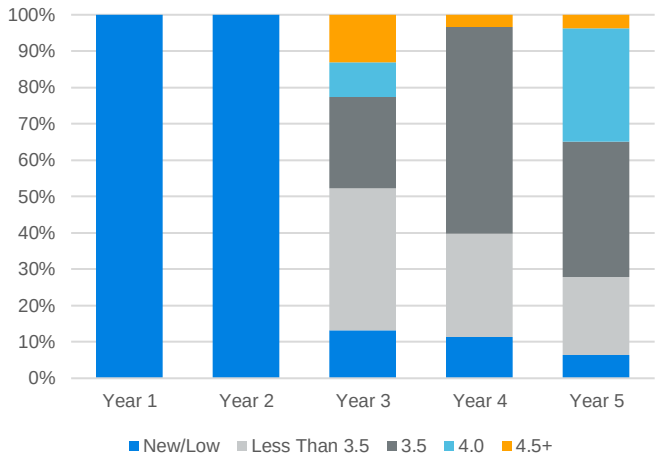


Do members care about star ratings?

When selecting a plan under an MAO's contract, enrollees have the ability to compare star ratings on the Medicare Plan Finder to identify the highest-rated plans. Based on our study, it is clear members take star ratings into consideration, as the highest-rated plans also enroll a disproportionate share of the members.

Similar to Figure 3, Figure 4 shows the star rating earned by MAOs during their first five years in the market based on enrollment rather than a count of contracts. The results demonstrate a significantly higher percentage of enrollees in plans with 4.0 or higher star ratings. In year three, over 20% of the enrollees were in plans with 4.0 or higher star ratings, increasing to 35% by year five.

FIGURE 4: DISTRIBUTION OF STAR RATINGS FOR YEARS 1-5, BASED ON ENROLLMENT



Appendix A shows the star rating and enrollment for years one through five for each MAO contract in our study.

What are the key takeaways?

Star ratings play an important role in both marketing and revenue maximization for MAOs. As this paper outlines, the additional revenue earned by highly rated organizations is significant, and enrollees are often attracted to organizations with higher star ratings. To capture these revenue and enrollment advantages, MAO startups need to focus on star ratings[7] in year one (even though the star rating won't impact revenue until year three or four). A continual emphasis on improving star rating measures will help to ensure revenue is maximized year after year.

What are these results based on?

In performing the analysis described in this paper, we relied on MA plan offerings in 2014 through 2020, as published by CMS. We summarized information from Milliman's Medicare Advantage Competitive Value Added Tool (Milliman MACVAT®), which uses publicly available MA information from CMS including enrollment information from February of each year, star ratings, and plan details (e.g., plan type, special needs plan [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 from this analysis Medicare-Medicaid Plans (MMP), Cost plans, Prescription Drug Plans (PDPs), Program of All-Inclusive Care of the Elderly (PACE) plans, and Employer Group Waiver Plans (EGWPs). 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 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 as CMS does not publish enrollment if the count is under 10 enrollees.

Caveats, limitations, and qualifications

This paper was developed to analyze the star ratings achieved by new entrants during 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. This paper should be read in its entirety.

In preparing our analysis, we relied upon public information released by CMS and other publications listed and footnoted above. The credibility of certain comparisons provided in this report may be limited, particularly where the number of plans in certain groupings is low.

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 Star Rating and Enrollment Data by Contract

	Star Rating [8]					Enrollment				
Contract	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
1	New	N/A	N/A	N/A	N/A	0	N/A	N/A	N/A	N/A
2	New	New	Low	Low	Low	0	165	390	1,166	1,159
3	New	New	Low	Low	4	0	0	332	1,099	2,060
4	New	New	Low	Low	Low	0	322	285	217	221
5	New	New	Low	Low	Low	0	165	220	341	465
6	New	New	Low	Low	Low	0	141	325	919	1,225
7	New	New	Low	2.5	2.5	14	2,739	3,126	4,623	1,524
8	New	New	Low	N/A	N/A	56	106	153	N/A	N/A
9	New	New	Low	Low	Low	58	237	274	1,252	2,293
10	New	New	N/A	N/A	N/A	61	492	N/A	N/A	N/A
11	New	New	Low	Low	Low	62	109	123	115	264
12	New	New	Low	3.5	3	62	984	1,876	2,840	4,084
13	New	New	Low	N/A	N/A	132	272	268	N/A	N/A
14	New	New	Low	Low	N/A	146	172	163	0	N/A
15	New	New	Low	Low	Low	213	233	1,200	1,316	1,577
16	New	New	Low	3	N/A	400	1,417	2,105	1,681	N/A
17	New	New	Low	2	2.5	403	1,224	1,580	1,428	1,174
18	New	New	4	3.5	3	633	1,546	2,770	3,546	2,544
19	New	New	N/A	N/A	N/A	633	1,164	N/A	N/A	N/A
20	New	New	N/A	N/A	N/A	812	1,148	N/A	N/A	N/A
21	New	New	5	4.5	4.5	867	2,049	3,686	5,097	6,040
22	New	New	3	2.5	3	987	1,558	2,223	2,725	2,477
23	New	New	3.5	2.5	3.5	1,208	3,830	4,668	4,221	5,097
24	New	New	3	3.5	3.5	1,263	4,162	10,670	12,013	14,950
25	New	New	3	3	3	1,510	4,330	5,477	5,812	6,602
26	New	New	3	3.5	3.5	1,702	6,709	8,509	7,760	6,195
27	New	New	2.5	3	3.5	2,100	5,341	9,373	4,462	5,649
28	New	New	3	3.5	3	2,294	5,247	6,795	8,540	12,062
29	New	New	2.5	3.5	3.5	3,951	7,698	9,788	10,608	8,930
30	New	New	3.5	3.5	4	5,285	7,610	7,846	7,696	7,352
31	New	New	4.5	3	4	5,814	11,583	14,102	14,895	15,423
32	New	New	4	3.5	N/A	6,955	9,194	9,866	9,312	N/A
33	New	New	3.5	3.5	4	7,696	14,469	21,520	24,021	24,735
34	N/A	N/A	New	New	3.5	N/A	N/A	2,101	8,200	12,328
35	N/A	N/A	N/A	New	New	N/A	N/A	N/A	310	947
36	N/A	New	New	N/A	N/A	N/A	0	30	N/A	N/A
37	N/A	N/A	N/A	N/A	New	N/A	N/A	N/A	N/A	281
38	N/A	New	New	N/A	N/A	N/A	0	16	N/A	N/A
39	N/A	N/A	N/A	N/A	New	N/A	N/A	N/A	N/A	593

	Star Rating [8]					Enrollment				
Contract	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
40	N/A	New	New	Low	Low	N/A	33	393	584	728
41	N/A	N/A	N/A	New	New	N/A	N/A	N/A	387	568
42	N/A	New	New	2.5	3	N/A	911	2,156	3,564	3,817
43	N/A	N/A	New	New	3.5	N/A	N/A	620	1,234	6,365
44	N/A	N/A	N/A	New	New	N/A	N/A	N/A	0	0

ENDNOTES

[1] https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2017/medicare-advantage-star-ratings-best-practices.ashx

[2] https://www.milliman.com/en/insight/So-you-want-to-start-a-Medicare-Advantage-plan-What-to-expect-for-enrollment-in-the-first-five-years

[3] https://www.milliman.com/en/insight/So-you-want-to-start-a-Medicare-Advantage-plan-Service-area-and-product-portfolio-expansions

[4] https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2017/medicare-advantage-star-ratings-best-practices.ashx

[5] 2022 Advance Notice found at https://www.cms.gov/medicarehealth-plansmedicareadvtgspecratestatsannouncements-and-documents/2022-advance-notices

[6] https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2018/medicare-advantage-star-ratings.ashx

[7] https://us.milliman.com/-/media/milliman/importedfiles/uploadedfiles/insight/2017/medicare-advantage-star-ratings-best-practices.ashx

[8] CMS considers Medicare Advantage contracts "new" for the first two years after a new contract is launched. An indicator of "Low" means the contract had insufficient data in the measurement period to receive a Star rating.