



Rewards and Incentive Programs Geared Toward Medicare Advantage Can Provide Potential ROI Boost to Healthcare Organizations

Executive Summary

Until very recently, the rules governing the implementation and management of rewards and incentive programs for Medicare memberships were extremely restrictive.

That has changed. Rules changes finalized in 2016 now offer organizations substantial freedoms in implementing and administering RI programs for their Medicare Advantage members.

The new rules offer unprecedented opportunity for organizations to realize greater ROI from Medicare Advantage programs. Accordingly, many of the largest health insurance providers on the planet have already implemented RI programs that leverage the opportunities inherent with the recent CMS rules changes.

This white paper provides an overview of the potential benefits — including both direct and indirect impact to ROI — made possible for organizations that choose to implement rewards and incentive programs for Medicare Advantage memberships. This paper also provides a high-level overview of the new rules, including dos and don'ts, that now apply to such RI programs.

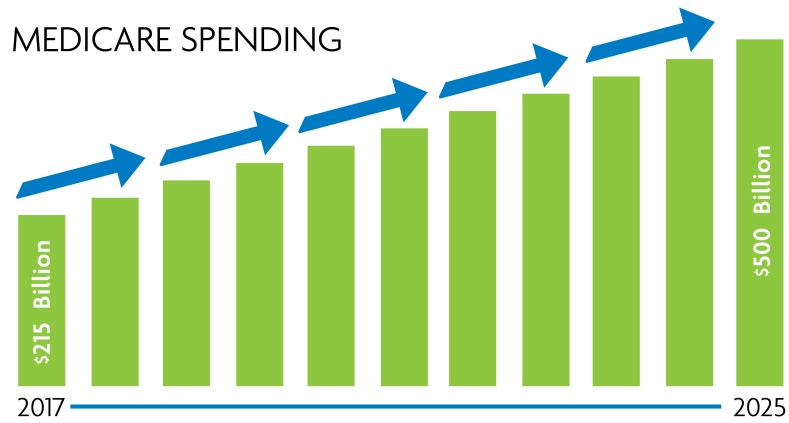
Could Medicare Advantage Rewards and Incentive Programs Help Provide the Single Best ROI Boost for Healthcare Organizations?

What is the single point of focus that will provide the best ROI for healthcare organizations in the coming decade?

While there may be no simple answer to that question, it could be argued that attracting, catering to, and engaging Medicare Advantage (MA) members should be a primary focus of healthcare organizations seeking to maximize ROI.

The United States Centers for Medicare and Medicaid Services (CMS) projects an astounding rate of growth in Medicare spending in the next ten years. During the time-period from 2021 through 2026, Medicare spending is projected to average an annual increase of nearly 8% — nearly double the 4.7% annual growth rate projected for private insurance.¹

¹ <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>



The financial impact of Medicare’s growth will be substantial. Enrollment in MA is anticipated to grow at a compounded annual rate of seven to twelve%. **As a result, annual total revenues from MA plans is projected to more than double in less than a ten-year span, increasing from \$215 billion in 2017 to more than \$500 billion in 2025.** ²

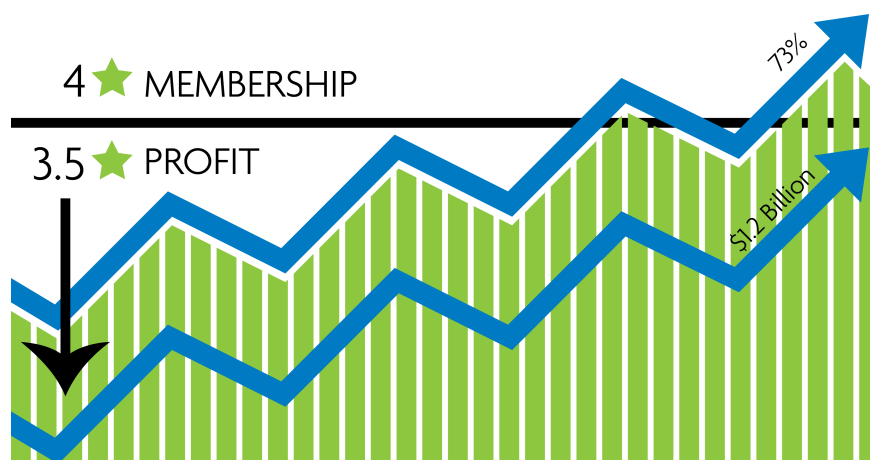
The projected windfall in Medicare revenue is good news for the healthcare industry at large. But not all healthcare organizations will benefit; the Medicare Advantage ROI pie will not be shared equally.

The PwC Health Research Institute’s annual report for 2018 notes that the MA boom will begin immediately, with a five-percent increase in coverage under MA in 2018 from 2017. But the report also forecasts that some insurers will be squeezed out of the market entirely. “With more potential customers, competition among insurers in Medicare Advantage is intensifying.” ³

Separating the Successful, ROI-Boosting Medicare Advantage Plans from the Failures

What separates the successful, ROI-boosting MA plans from the failures? The PwC report lists customer satisfaction as a key factor: “...new customers are flocking to plans with proven track records that cater to their individual needs.” It’s a trend that is likely to intensify. A primary indicator of member satisfaction, the CMS Star Ratings system, will help to separate the successful from the unsuccessful.

According to a recent article published in *strategy+business* magazine, “...within three years, 73% of the total MA membership will be serviced by plans with four or more stars, up from 34% today.)” **And the more highly rated plans are projected to enjoy a profit increase of \$800 million to \$1.2 billion each year.** ⁴



² <https://www.strategy-business.com/article/How-to-Succeed-in-the-Booming-Business-of-Medicare-Advantage?gko=5aaf7>

³ <https://www.pwc.com/us/en/health-industries/assets/pwc-health-research-institute-top-health-industry-issues-of-2018-report.pdf>

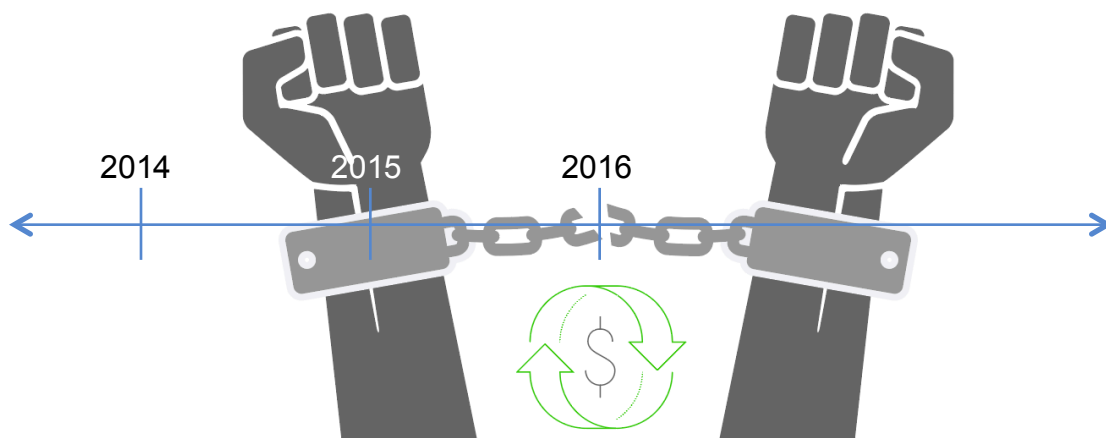
⁴ <https://www.strategy-business.com/article/How-to-Succeed-in-the-Booming-Business-of-Medicare-Advantage?gko=5aaf7>

How can organizations assure that they rank among the highly rated plans that benefit from the ROI potential of the MA boom? Both the PwC report and the *strategy+business* article offer the same advice: improve member engagement and experience. There's no better way to do that than through rewards and incentive programs (RI).

And thanks to recent Medicare rules changes, organizations can now leverage the power of RI programs in boosting both member satisfaction and Star ratings.

The Shackles Are Off: CMS has Authorized Increased Flexibility for Medicare Advantage RI Programs

Prior to 2016, organizations were extremely restricted in their ability to deploy RI programs applicable to MA members. But in 2014, CMS proposed rules changes that would offer organizations substantial freedoms in providing rewards and incentives to MA members. In 2016, the proposed rules changes were finalized into law in the form of U.S. Code of Regulations 422.134.⁵



As was noted on the global community HealthEconomics.Com, CMS rules changes typically result in more restrictions for insurers, not enhanced freedoms. But in this case, "...the agency took an entirely opposite tack on rewards and incentives for Medicare Advantage members, and the result is an opportunity — which can result into higher star-rating bonuses and other big financial gains, as well as healthier members — that many MA sponsors have yet to fully recognize."⁶

In early 2015, *Managed Healthcare Executive* echoed the opportunity that the CMS rules-changes would enable. The publication noted that organizations that "...approach their rewards program through a strategic lens, within the frame of these regulations, will set their organizations apart in both quality and outcomes, as well as differentiate themselves in the minds of consumers."⁷

Many of the largest healthcare organizations in the world were also quick to recognize — and act upon — this opportunity.

⁵

https://www.govregs.com/regulations/expand/title42_chapterIV_part422_subpartC_section422.134#title42_chapterIV_part422_subpartC_section422.134

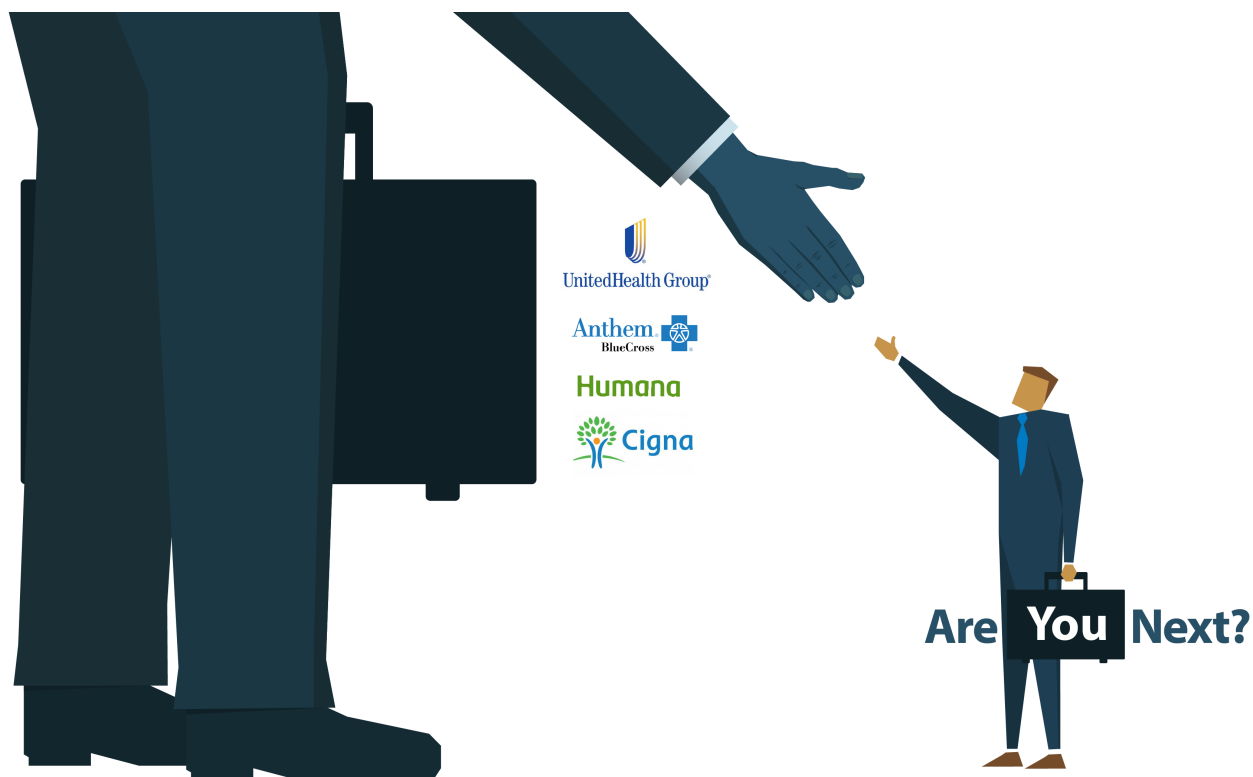
⁶ <http://www.healtheconomics.com/resource/medicare-advantage-reward-and-incentive-programs-how-plans-and-members-can-gain-from-cmss-new-guidance>

⁷ <http://www.managedhealthcareexecutive.com/benefit-design-and-pricing/cms-rewards-programs-can-impact-medicare-advantage-organizations-bottom-lines/page/0/2>

Many of the Largest Insurance Providers Are Already Leveraging the CMS Rules Amendments

Though relatively little time has passed since the CMS rules-changes were finalized into federal law, many of the largest, most successful insurance providers have already instituted RI programs for their MA members. These organizations certainly recognized the opportunity that the CMS rules changes presented. And they were quick to capitalize upon the potential benefits for their organizations and for their members.

These industry giants are leading the way again, among the first to implement RI programs for MA...



Organizations (all ranked among America's five largest health insurance providers, according to *Forbes*⁸) that were quick to embrace the new CMS rules for Medicare Advantage RI programs include:

- UnitedHealth Group⁹
- Anthem Blue Cross¹⁰
- Cigna¹¹
- Humana¹²

Why were these organizations so quick to enact RI programs for their Medicare Advantage members? The answer is quite simple: RI programs for MA memberships can provide some very unique benefits and ROI boosts for organizations that implement them.

⁸ <https://www.forbes.com/pictures/fefi45ejdih/1-unitedhealth-group/#7e4f05acf77e>

⁹ <https://www.uhc.com/rewards>

¹⁰ https://www11.anthem.com/ca/shared/f2/s2/t1/pw_e244049.pdf?refer=provider

¹¹ <https://www.cigna.com/medicare/medicare-advantage/plan-extras>

¹² <https://www.humana.com/about/public-policy/humana-improves-healthcare/transforming-health/rewarding-healthy-living>

The Unique Benefits of Targeting Rewards Programs to Medicare Advantage Members

RI programs offer a range of benefits that make them popular with both employers and health insurance providers. RI programs help to:

- Improve health-related behaviors
- Reduce health risks
- Reduce healthcare costs

All of the above offer ROI benefits for organizations that enact RI programs. And now, RI programs that target Medicare Advantage membership groups can provide these very same benefits.

But RI programs designed for MA membership groups also offer some unique advantages that build upon the benefits noted above, and that work *specifically* to boost the ROI of MA programs. These special advantages provided by enacting RI programs for Medicare Advantage focus upon three key areas:

1. **Star Ratings:** Maintaining a competitive Star rating is crucial to the long-term success of any MA program. According to *Becker's Hospital Review*: "Increasing a plan's star ratings is a key way to attract new enrollees, expand market share and increase revenue.... Improving from a 3-star to 4-star rating could increase revenue between 13.4 and 17.6%." ¹³

The 2018 PwC report notes that the Star Ratings system, enacted roughly a decade ago, is having a substantial and increasing influence upon consumers' choices. "In 2014, 52% of Medicare Advantage enrollees were in the highest-rated plans with four or more stars; in 2017 that rate had increased to 68%." ¹⁴



Clearly, achieving and maintaining a high star rating is a competitive necessity. As the PwC report stated: "To win new members and achieve the highest star rating, plans will have to provide a high-quality customer experience." And instituting an MA RI program is a great way to enhance the customer experience.

2. **Increased Per-Member Payments:** Programs that achieve high star ratings can also realize increased ROI directly through payments received from Medicare. Quality bonus payments and rebate percent ages are both tied directly to star ratings. According to a *Kaiser Health News* article, plans that maintain at least a 4-star rating bring in an average of about \$500 per year extra per MA member. ¹⁵

¹³ <https://www.beckershospitalreview.com/finance/impact-of-star-ratings-on-medicare-advantage-plan-success.html>

¹⁴ <https://www.pwc.com/us/en/health-industries/assets/pwc-health-research-institute-top-health-industry-issues-of-2018-report.pdf>

¹⁵ <https://khn.org/news/medicare-plans-score-higher-ratings-and-millions-in-bonuses/>

3. **Marketing Advantages:** Contrary to some misinformation that has been published, plans that offer RI programs are permitted to leverage that advantage in marketing to prospective members. But the CMS has provided clear guidelines to what is allowed in marketing.

Managed Healthcare Executive provided a succinct summary of referencing RI programs in marketing materials: “...CMS is very clear that MAOs may include information about RI programs in marketing materials. However, communications must be provided to all current and prospective enrollees without discrimination. Also, the marketing of RI programs must be done in conjunction with marketing of plan-covered benefits.” The article also notes that “...reward and incentive items may not be offered to potential enrollees under any circumstances.”¹⁶

Best Practice Dos and Don'ts for Medicare Advantage RI Programs

Any organization catering to a MA membership would be wise to implement a RI program. But the implementation and management of the program must be carefully structured to assure compliance with CMS regulations.

However, CMS grants considerable latitude to organizations in structuring their RI programs for MA memberships. This quote from the CMS regulations reflects the intent of the agency in permitting RI programs: “MA plans have significant flexibility in designing RI Programs that are specific to their populations’ interests, abilities and needs. Plans are free to determine the specific services, activities, or behaviors that are subject to rewards or incentives within their RI Program design.”¹⁷

While detailed CMS compliance guidelines are beyond the scope of this paper, the following bulleted list provides a high-level overview of best-practice recommendations:

- **DO Use RI Program to Close Stars Gap:** Program activities authorized by CMS align perfectly with those that support achieving and maintaining higher star ratings. Therefore it is recommended that organizations carefully examine specific areas in which their star rating could be improved, and structure the program to help close those gaps. As noted previously, improving star ratings can directly result in a positive impact to ROI.
- **DON'T Reward Health Outcomes:** An RI program can certainly be used to encourage overall improvements in health, but a program may not be designed to *directly* reward improvements in health metrics. Where a non-MA program might reward an improvement in a specific health measurable — blood pressure, for example — the same would not be permitted under an MA program.
- **DON'T Discriminate:** Plans must be carefully structured to assure that no discrimination exists; all enrollees must be able to earn rewards. However, the non-discrimination mandate does not preclude targeting improvement in certain diseases, conditions, or behaviors, so long as the program does not restrict any enrollee from participation.
- **DON'T Reward Cash:** Quite simply, rewards and incentives associated with the RI program may not awarded in the form of cash or monetary rebates.

All rules pertaining to the implementation and management of RI programs for MA memberships may be found online in CFR part 110.¹⁸

¹⁶ <http://www.managedhealthcareexecutive.com/benefit-design-and-pricing/cms-rewards-programs-can-impact-medicare-advantage-organizations-bottom-lines>

¹⁷ <https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/mc86c04.pdf>

¹⁸ https://www.cms.gov/Medicare/Health-Plans/ManagedCareMarketing/Downloads/CY-2018-Medicare-Marketing-Guidelines_Final072017.pdf

Help and Guidance Is Available

The recent relaxation of the rules governing the use of RI programs with Medicare Advantage memberships presents a significant opportunity for many organizations. But while the CMS regulations now enables the liberal use of rewards programs, deviations from applicable rules may result in substantial penalties and fines.

ChipRewards offers a fully configurable, enterprise-wide incentive platform that provides a flexible solution for health-plan rewards and incentives programs. The ChipRewards platform is perfectly suited for administering an RI program that targets a Medicare Advantage membership. And guidance is available; the ChipRewards team has experience in helping clients design and implement RI programs specifically for MA Medicare Advantage memberships.

To learn more about the potential and benefits of implementing a Medicare Advantage RI program for your organization, contact ChipRewards today.

www.chiprewards.com | 205-323-4008