



JUN - 8 2015

Administrator
Washington, DC 20201

The Honorable Pedro R. Pierluisi
U. S. House of Representatives
Washington DC, 20515

Dear Representative Pierluisi:

Thank you for your recent correspondence regarding the Medicare Advantage program in Puerto Rico. We at the Department of Health and Human Services (HHS) and the Centers for Medicare & Medicaid Services (CMS) take access to health care services for Medicare and Medicaid beneficiaries in Puerto Rico very seriously, and I look forward to working with you, and other key stakeholders, to support continued access to those programs.

As you know, Puerto Rico has a unique health care market, with many low-income individuals in both Medicare and Medicaid, and a complex legal history that affects the health care system in many ways. We are aware that you introduced legislation, the *Improving the Treatment of the U.S. Territories Under Federal Health Programs Act of 2015*, that seeks to address many of the challenges facing the Commonwealth and its health care system. Secretary Burwell and I are committed to engaging on these issues and, to that end, the Secretary is creating a workgroup within HHS so that there is a coordinated mechanism for engagement with and response from the Department regarding the number of issues facing Puerto Rico's health care system.

I would like to take this opportunity to respond more fully on the issues related to the Medicare Advantage Program. The long-run stability of Medicare Advantage in Puerto Rico is particularly important as Medicare Advantage is the point of access to premium and cost sharing subsidies for low-income Medicare beneficiaries in Puerto Rico. As we regularly look at reimbursement trends for Medicare Advantage plans, two projects underway at CMS may have positive implications for Medicare Advantage plans in Puerto Rico and other plans that enroll high proportions of dually eligible enrollees. These projects could result in additional support for plans serving dually eligible beneficiaries beginning in 2017, depending on the results of analytical work already underway.

For example, CMS is evaluating the impact of the Medicare Advantage risk adjustment model to ascertain whether it underpays plans that serve a large share of dual eligibles. Once the analysis is complete, as appropriate and consistent with the data, we could make changes to the risk adjustment model. Should an adjustment be made, plans in Puerto Rico, by virtue of their very high share of enrollees who are dually eligible, would be more affected. This work could inform risk adjustment payment policies in 2017.

In addition, in 2014 and 2015, CMS has undertaken a public process to investigate how the share of enrollees in a plan who are dually eligible affects a contract's star quality ratings (and thereby its quality bonus payment and rebate share) under the Medicare Advantage Stars Rating Program. CMS received and reviewed 65 submissions to a Request for Information on this topic, and is committed to continuing to study this issue and would propose, where appropriate, alternate payment adjustments in this fall's request for comment on 2017 star quality ratings.

During the comment period for setting Medicare Advantage rates for 2016, several commenters raised an issue regarding payment accuracy in Medicare Advantage for beneficiaries in Puerto Rico who are dually eligible for Medicare and Medicaid. CMS reviewed an actuarial analysis from the Moran Company that appeared to indicate that payment rates for Medicare Advantage plans in Puerto Rico are too low because dually eligible beneficiaries in Puerto Rico are more expensive than we account for in our risk adjustment models and payment rates.

We have discussed the issues with Members of Congress and stakeholders and thoroughly reviewed the issues raised by commenters. Deputy Administrator Cavanaugh and I have had several meetings with representatives of Medicare Advantage plans from Puerto Rico, and CMS staff spoke twice with the actuary from InnoVaCare who commissioned the analysis in order to fully understand the work.

In working to validate the analysis provided to us, the CMS Office of the Actuary did its own analysis (a summary is enclosed). CMS was not able to validate the results of this analysis. While the analysis presented to us included an annual average of approximately 2,000 dually eligible beneficiaries, we were able to identify an annual average of approximately 10,000 beneficiaries, allowing for a more complete analysis. We believe we were able to create a more comprehensive picture of the eligible beneficiaries because CMS receives the relevant data from the Puerto Rico Department of Health Medicaid Office for program administration purposes, and such data are not available to outside entities.

Our analysis suggests that the cost of dual eligibles in Puerto Rico is not higher than the cost that would be expected according to their risk profile. Specifically, we estimate that dually eligible beneficiaries in Medicare fee-for-service cost about 5 percent more than other beneficiaries, but that once risk factors are considered, dually eligible beneficiaries in fee-for-service do not cost more than other individuals in fee-for-service. We believe that the difference between these results and the actuarial analysis shared by your office can be accounted for by our larger and more accurate data source. My staff is reaching out to the relevant stakeholders to explain the analysis, and if you would like to discuss this work in person, I would be happy to arrange a meeting with my staff. We continue to analyze the cost structure of dually eligible beneficiaries and other beneficiaries in Puerto Rico in order to gain a better understanding of factors unique to Puerto Rico's health care market.

To reiterate, the long-term health of Medicare Advantage in Puerto Rico is particularly important as Medicare Advantage is the point of access to premium and cost sharing subsidies for low-income Medicare beneficiaries in Puerto Rico. The Department's next steps in this work are to complete the two analytic projects that might affect Medicare Advantage plans in 2017, and to initiate a systemic review of the issues facing Puerto Rico through the Department-wide working group. I welcome your input and advice and look forward to continuing to work with you so that Medicare and Medicaid beneficiaries in Puerto Rico have access to high-quality health care services.

Sincerely,



Andrew M. Slavitt
Acting Administrator

Enclosure

Analysis of Dually Eligible Beneficiaries vs Non-Dually Eligible Beneficiaries' Medicare Costs in Puerto Rico

In response to the April 6, 2015, request from Members of Congress and other stakeholders, CMS conducted a study of the standardized per-capita spending for fee-for-service (FFS) beneficiaries residing in Puerto Rico. Specifically, we analyzed whether or not the standardized costs for individuals dually eligible for Medicare and Medicaid are significantly different than that for all Puerto Rico residents in Medicare.

The analysis presented to CMS, conducted by the Moran Company, suggested that Medicare spending for dually eligible beneficiaries in FFS greatly exceeds that of spending on other beneficiaries, and that the difference is not adequately reflected in Medicare Advantage payment rates. That analysis suggested that CMS should therefore increase Medicare Advantage rates to reflect the higher costs and high rate of enrollment for dually eligible beneficiaries in MA in Puerto Rico.

CMS attempted to validate the analysis. Important differences in the input data and approach became apparent as we considered the issue:

- The analysis presented to us included an annual average of approximately 2,000 dually eligible beneficiaries, but we were able to identify an annual average of approximately 10,000 dually eligible beneficiaries.
- Beneficiaries we identified were identified by the Puerto Rico Department of Health Medicaid Office, and serves as the basis for how risk scores are calculated and payments made to Medicare Advantage organizations. Only CMS and the Commonwealth of Puerto Rico have access to this data, so the analysis presented to us could not accurately identify dually eligible beneficiaries in Puerto Rico. Instead, that analysis appears to identify individuals who had dual status somewhere else in the country and also lived in the Commonwealth. This approach cannot reliably identify dually eligible beneficiaries in Puerto Rico.

As a result, CMS did not validate the analysis. While CMS did find dually eligible beneficiaries cost more than other beneficiaries before adjusting for risk factors (by 5%), taking into account the risk adjustment factors used in payment suggested that dually eligible beneficiaries in Puerto Rico cost less than other beneficiaries (by about 13%). Because we did not find that dually eligible beneficiaries in Puerto Rico are more costly than other beneficiaries, this analysis did not provide a justification for making an adjustment to Medicare Advantage rates.

Exhibit 1: Analysis of Duals vs Non-Dual FFS Experience in Puerto Rico

| | Simple average <u>2009 - 2013</u> |
|--|--|
| <u>Enrollment</u> | |
| Non-dual eligible | 71,521 |
| Dual eligible | 10,217 |
| | 81,738 |
| <i>Dual share</i> | 12% |
| <u>Claims (dollars in thousands)</u> | |
| Non-dual eligible | \$251,383 |
| Dual eligible | \$37,939 |
| | \$289,321 |
| <i>Dual share</i> | 13% |
| <u>Monthly per-capita cost (nominal, not adjusted for risk profile)</u> | |
| Non-dual eligible | \$293 |
| Dual eligible | \$309 |
| | \$295 |
| <i>Dual relative to average</i> | +5% |
| <u>Average Risk Score</u> | |
| Non-dual eligible | 0.9262 |
| Dual eligible | 1.1557 |
| | 0.9548 |
| <i>Dual relative to average</i> | +21% |
| <u>Monthly per-capita cost (standardized for risk profile)</u> | |
| Non-dual eligible | \$316 |
| Dual eligible | \$267 |
| | \$309 |
| <i>Dual relative to average</i> | -13% |

Description of Methodology

The study is based on FFS enrollment, claims and risk scores for calendar years 2009 through 2013, which is the historical period supporting the 2016 ratebook. The key steps in the study are as follows:

- Using the Denominator enrollment file, for each year we created a finder file representing Puerto Rico beneficiaries with fee-for-service (FFS) enrollment and coverage for Medicare Parts A and B.
- Next, we appended to the finder file the v22 HCC risk scores and concurrent Medicaid status for each beneficiary with a valid risk score from the Risk Adjustment Payment System (RAPS).
- We tabulated annual Medicare non-hospice A & B claims using the Standard Analytic Files (SAFs).
- Finally, we summarized results by calendar year, county, and dual status:
 - Enrollment counts
 - Claims
 - Risk scores
 - Monthly, nominal per-capita claims
 - Monthly, standardized per-capita claims