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Negative Tone Ahead for Medicare Advantage Stars While Awaiting CY25 Awards

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Key Takeaways: Developments involving **Humana (HUM)** and **UnitedHealth (UNH)** last week show CMS remains intent on limiting the financial "largesse" insurers receive in its Medicare Advantage (MA)/Part D (PDP) star rating quality bonus program by making the awards more selective and ratings harder to maintain year to year. We expect the CY25 MA/PDP stars, when officially released on/by Oct. 10, will confirm this dynamic. Furthermore, the pressure on MA/PDP star ratings is unlikely to abate over coming years, regardless of the November election.

What Happened Last Week?

Although CMS has yet to officially release its CY25 MA/PDP star ratings, two insurers indicated they are at risk of losing billions from the agency lowering the CY25 star ratings of certain MA contracts. Last week, HUM disclosed that the CY25 star rating associated with its largest MA contract (H5216) was demoted from 4.5-star to 3.5-star, thereby lowering the amount of quality bonus payments it will receive in CY26. It blamed the reduction on narrowly missing the cut points on a small number of quality measures and calculation errors, though the company intends to seek rectification.

Separately, UNH alleged in a federal lawsuit that CMS inappropriately relied too heavily on how UNH's customer service call center handled a single call in calculating the concomitant quality metric, thereby downgrading the contract's CY25 star rating. Similar allegations were made this past spring by **Elevance (ELV)** and not-for-profit **Scan** when each sued CMS to challenge the lower CY24 star ratings. In both lawsuits, the court sided with the insurer, leading to a subsequent upward revision by the agency. However, the court concluded the incorrect ratings arose from CMS failing to heed the regulatory calculation process, and not by capriciously over-weighting the call center measure.

Unless HUM or UNH can demonstrate CMS did not follow the appropriate steps, we are skeptical the agency will be persuaded to recalculate the stars at issue. We are hard-pressed to think that CMS had taken the same missteps it did with ELV and Scan. Even if we are wrong and CMS ends up upgrading the relevant CY25 star ratings, we still caution that the MA/PDP star rating program is unlikely to be as lucrative for insurers as it has in the past, as we suspect CMS is inclined to squeeze them.

What is the MA/PDP Star Rating Program?

CMS's MA/PDP star rating program, which is designed to evaluate quality and ascribe financial benefits to individual MA and PDP contracts, has long been under attack for unnecessary spending and a disconnect from actual coverage / care quality. The payment implications are meaningful to insurers, which derive rebates from the government that can be used to enhance benefits or lower premiums / cost-sharing while affording a bonus to the plan's benchmark.

Humana Inc (HUM)

Price:	$243.10
52-Week High:	$530.54
52-Week Low:	$213.31

UnitedHealth Group Incorporated (UNH)

Price:	$580.78
52-Week High:	$607.94
52-Week Low:	$436.38

CVS Health Corp (CVS)

Price:	$65.54
52-Week High:	$83.25
52-Week Low:	$52.77

Elevance Health Inc (ELV)

Price:	$488.58
52-Week High:	$567.26
52-Week Low:	$435.99

Cigna Corp (CI)

Price:	$342.62
52-Week High:	$370.82
52-Week Low:	$253.95

Alignment Healthcare LLC (ALHC)

Price:	$12.03
52-Week High:	$12.36
52-Week Low:	$4.46

Over the past few years, CMS has adopted various changes to tighten and improve this rating system to address overspending and quality concerns. The thrust of these changes has led to fewer plans being awarded the higher star ratings, difficulty in maintaining rankings from year-to-year, and a decline in the average star rating. Collectively, these policies are presumed to have dampened the growth in federal spending for star ratings.

The most consequential policy change has likely been implementation of the Tukey outlier deletion method, which removes a contract's outlier scores on specific quality metrics from the calculation and increases a measure's cut points used to generate a plan's overall score. When applied with CMS's guardrail policy that limits volatility in these cut points year to year, insurers are apt to feel additional pressure over next few years, as it will take time for the cut points to fully reflect the removal of outlier scores on quality measures.

What Else Is on the Horizon?

Looking ahead, CMS has already indicated plans to further pressure MA/PDP stars and squeeze the money the government shells out to insurers. For the CY26 star ratings, CMS intends to eliminate the COVID-related disaster adjustment added to ratings during the pandemic. For CY27, CMS is replacing its current reward system within the star rating program with a new paradigm that includes a health equity index and accounting for populations with social risk factors. While this change does not automatically cut (or add) funding, it would theoretically redistribute the dollars toward MA/PDP contracts with a disproportionately higher percentage of enrollees with social risk factors.

Vice President Kamala Harris has not targeted the MA/PDP star ratings in her campaign talking points, but we see little reason for her to change direction on the already-finalized star rating policies. We also see no evidence that she has adopted a different view from the current CMS about perceived government overspending to MA.

Were former President Donald Trump to win in November, we presume that his administration would stick with the Tukey outlier deletion method as well, given that it was initially finalized during his first term. However, given the anticipated pushback from insurers, perhaps his CMS would be more open to widening the guardrails on the annual change in cut points.

While his campaign has not detailed any star rating-specific policies, the Paragon Institute, a right-leaning think tank led by former Trump administration officials, previously called for a reshaping of the program, with an end to quality bonuses for benchmarks and a refocus on core health outcomes / patient experiences, a change the group estimates would reduce federal spending by $170B over ten years.

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