

## Medicare Advantage: What Is Old Is New Again

In 2011, amid draconian cuts to base rates, the apprehension around CMS audits, and uncertainty around the impact of Star Ratings, L.E.K. Consulting published an article entitled “Whatever Doesn’t Kill You Makes You Stronger.” Our team asserted at that time that despite the many structural and regulatory threats looming for payers competing for Medicare Advantage members, the product would remain an attractive consumer value proposition for a broad segment of seniors. We also asserted that its popularity would continue to drive membership into those plans, helping to achieve operational excellence and create sustained competitive differentiation.

Today (April 2014), more than 15 million seniors have enrolled in a Medicare Advantage plan, representing more than 30% penetration among those who are eligible for Medicare (see Figure 1). One out of two newly eligible seniors is choosing to enroll in a Medicare Advantage plan. Member satisfaction remains high, even as monthly premiums are becoming more the norm. In fact, growth in the 2011-2013 timeframe exceeded that of the preceding three-year period.

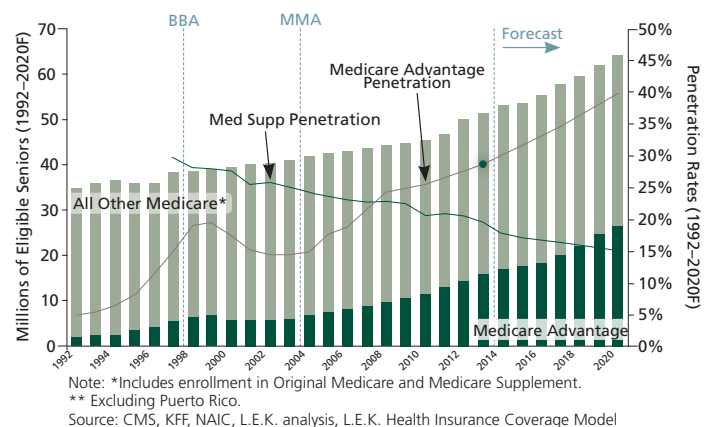
### Not Just About Seniors

Medicare Advantage represents the first real “retail” health insurance market of scale, preceding the “exchange” market by a decade. The Medicare Advantage program contains critical elements that enable the market to foster private enterprise competition, while ensuring consumer protection, choice and regulatory compliance. There is also reason to believe that

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**Figure 1**

**At Year End 2013, 15 Million Seniors had Chosen Medicare Advantage**



Health and Human Services (HHS) will create analogous structures for the under-65 market. This “convergence” – driven in no small part by the tendency of the federal government to draw upon previous proven models to form the basis of new innovations – is evidenced by what has been occurring in various Medicare Medicaid Alignment Initiatives, Waiver Programs, Medicare ACOs, and other demonstration projects.

L.E.K. believes three of the structures pervasive in Medicare Advantage are likely to be replicated in some form in other markets (such as the exchange):

- **Consumer protection, sales and marketing compliance:**

The passage of MIPAA brought to the Medicare Advantage market very tightly defined (and enforced) rules on the role of brokers and other intermediaries, as well as marketing and

sales restrictions for payers' products. As the exchange business becomes established, the current somewhat ad-hoc articulation of rules and guidelines are likely to be supplanted with a more tightly defined and regulated set of codes.

- **Regulatory compliance in utilization management, care models, and member interactions:** Medicare Advantage is governed by advanced rules on how payers may direct and guide member care. The measurement of quality outcomes not only brings the threat of sanctions, but also the potential for reward and concrete competitive advantage through revenue bonuses and marketing. It is clear that regardless of what level of actuarial risk forms in the exchange population, meaningful, provider-aligned, member-centric care models will be critical to financial viability.

- **Provider partnerships and tighter alignment:** Today's environment and requirements are compelling even the most advanced provider organizations to look for more assistance from payers to reach and effectively interact with patients under their care. Likewise, alignment with providers is mission critical for payers to build credibility and trust with members, and ultimately to produce good outcomes clinically and financially.

All three structures, when executed well, also have the additional benefit of driving member loyalty and retention – critical for

realizing positive returns in “retail” segments where members are free to leave.

## What's Next?

As the successes and challenges of the past few years clearly demonstrate, Medicare Advantage offers both big rewards as well as humbling lessons. Market-defining brand, vast resources and bell-weather network relationships are not enough to guarantee success.

Indeed, the last few years demonstrate that competing in Medicare Advantage is not something that can be done “off the side of someone's desk.” It requires focus, dedicated resources, and a will by executive management to make significant, sustained investments to achieve success. Payers that may not be competitive in the commercial and group business may represent formidable, focused, local competitors, and numerous provider organizations are seriously contemplating entering the market. Leading innovators in Medicare Advantage have had over a decade to hone these functions and activities in response to requirements imposed by Medicare Advantage. These capabilities can now be repurposed to deploy effectively to enhance the success of under-65 offerings. Sustained market leadership in the broader market may depend in no small part on the capabilities developed in this “retail” market.

### About L.E.K. Consulting's Healthcare Services Practice

L.E.K. has built a high-end healthcare services strategy practice designed for senior executives and their organizations. Combining significant cumulative healthcare experience with more than 30 years of customized analysis, L.E.K.'s partners remain actively engaged in day-to-day work with clients to provide actionable recommendations. L.E.K. uses data, experience and judgment to reduce the inherent uncertainty of resource-allocation decisions. We also provide fresh thinking and creativity to determine which initiatives will work best for our clients' organizations.

For a more in-depth analysis of Medicare Advantage and its broader implications, including local market analysis, contact [healthcare@lek.com](mailto:healthcare@lek.com).

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