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Federal ruling on Medicare star ratings raises questions about implications for other payers

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The Buzz This Week

Last week a federal judge ruled that the Centers for Medicare & Medicaid Services (CMS) inappropriately calculated SCAN Health Plan's Medicare Advantage (MA) star rating for the 2024 plan year. In October, SCAN Health, which serves more than 270,000 MA enrollees, filed a suit. The health plan claimed CMS violated the Administrative Procedure Act when SCAN's score fell from 4.5 for the 2023 plan year to 3.5 for the 2024 plan year.

MA star ratings were developed to give consumers additional insight when choosing an MA plan and determine plan bonus payment eligibility. Star ratings are on a scale of one to five and are based on quality metrics such as management of chronic conditions, customer service, and preventative care and screenings. CMS issues ratings based on a curve with specific cut points for each star rating. Plans rated 4 stars and above receive bonus payments that are used to offer additional benefits to enrollees.

The crux of the SCAN case was based on the fact that CMS did not explicitly issue regulations for how it would utilize two new analytics to calculate star cut points. The Tukey Outer Fence Outlier Deletion Method was added for the 2024 plan year, and the Guardrail Rule was added the year prior. The outlier rule removes extreme scores, theoretically increasing the predictability of star cut points. The Guardrail Rule caps any changes to cut points at 5 percent.

In the 2024 ratings, CMS removed a large number of low-scoring outliers, causing the cut points to be significantly higher than the previous year. Instead of capping the cut point changes via the Guardrail Rule as CMS originally stated would happen, it waived the Guardrail Rule for the 2024 plan year. Because CMS did not expressly amend the regulations for how it would apply the new star ratings rules, SCAN filed a claim citing the Administrative Procedure Act.

The win for SCAN means that its 3.5 star rating for 2024 will be modified to a 4 star rating, and it will receive \$250 million for quality bonus payments that it was originally denied. This case was closely followed because multiple other insurers, including Elevance Health, Hometown Health Plan, and Zing Health, have made similar claims and may also try to recoup denied bonus payments.

Why It Matters

The ruling in favor of SCAN could have significant implications for the industry. Regulators could decide to recalculate all plan star scores for the 2024 year. CMS may have to pay millions more in bonuses. Other lawsuit filings may turn into ongoing cases. And CMS may issue additional guidance about how it will assess quality for the 2025 plan year. If changes are made to 2024 star rating calculations or new regulations, CMS may need to give plans time to submit new contract bids, which were originally due last week.

Regardless of the final outcome of the 2024 MA star ratings, the program continues to undergo changes to the calculation methodology that will make attaining 4 or more stars increasingly difficult. A significant decline has already taken place: 68% of plans received 4 or more stars in the 2022 plan year, 51% received them last year, and 42% received them in the original 2024 plan year calculation.

That declining trend is expected to continue with new proposed rules, including introducing a Health Equity Index (HEI) reward and raising the hold harmless threshold. These changes are unlikely to face the same legal challenges since the SCAN case hinged on how CMS communicated the regulations, not the calculation methodology itself.

MA plans should also anticipate increased scrutiny as MA enrollment numbers continue to climb. 2023 saw 31 million enrollees in MA plans, and that number is expected to exceed 42 million by 2030. Regulatory and market forces like increased utilization, aging demographics, and lower reimbursement rates will exacerbate financial pressures. If plans are able to recoup bonus payments for 2024, it will be a welcome temporary financial reprieve. But ensuring future success will require adaptation of strategies to meet the changing regulatory environment and market needs.

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