

GAO Highlights

Highlights of [GAO-14-148](#), a report to the Ranking Member, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

MA organizations are entities that contract with the Centers for Medicare & Medicaid Services (CMS) to offer one or more private plans as an alternative to the Medicare fee-for-service (FFS) program. These MA plans are generally available to all Medicare beneficiaries, although certain types of plans, such as employer group plans, have specific eligibility requirements. Payments to MA organizations are based, in part, on the projected expenses and profits that MA organizations submit to CMS. These projections also affect (1) the extent to which MA beneficiaries receive additional benefits not provided under FFS and (2) beneficiary cost-sharing and premium amounts. The Patient Protection and Affordable Care Act (PPACA) required that, starting in 2014, MA organizations have a minimum medical loss ratio of 85 percent—that is, they must spend 85 percent of revenue on medical expenses, quality-improving activities, and reduced premiums.

This report examines how MA organizations' actual expenses and profits for 2011 as a percentage of revenue and in dollars compared to projections for the same year, both for plans available to all Medicare beneficiaries and for plans with specific eligibility requirements. GAO analyzed data on MA organizations' projected and actual allocation of revenue to expenses and profits. The percentage of revenue spent on medical expenses reported in GAO's study is not directly comparable to the PPACA medical loss ratio calculation, as the final rule defining the calculation was issued after actual 2011 data were submitted.

View [GAO-14-148](#). For more information, contact James Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.

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MEDICARE ADVANTAGE

2011 Profits Similar to Projections for Most Plans, but Higher for Plans with Specific Eligibility Requirements

What GAO Found

Medicare Advantage (MA) organizations' actual medical expenses, nonmedical expenses (such as marketing, sales, and administration) and profits as a percentage of total revenue were, on average, similar to projected values for plans available to all beneficiaries in 2011, the most recent year for which data were available at the time of the request for this work. MA organizations' actual medical expenses, nonmedical expenses, and profits were 86.3 percent, 9.1 percent, and 4.5 percent of total revenue, respectively. As a percentage of revenue, all three categories were within 0.3 percentage points of what MA organizations had projected. In addition, MA organizations received, on average, \$9,893 in total revenue per beneficiary, slightly higher than the projected amount of \$9,635.

The percentage of revenue spent on medical expenses and profits varied between MA contracts. For example, while MA organizations spent an average of 86.3 percent of revenue on medical expenses, 39 percent of beneficiaries were covered under contracts where less than 85 percent of revenue was spent on medical expenses. In addition, the accuracy of MA organizations' projections varied on the basis of the type of plans offered under the contract. For example, contracts for private fee-for-service plans—a plan type with new provider network requirements in 2011—had average profit margins that were 4 percentage points lower than projected.

In 2011, plans offered by MA organizations with specific eligibility requirements had higher-than-projected profits. Special needs plans (SNP), which serve specific populations, such as those with specific chronic conditions, had an 8.6 percent profit margin, but had projected 6.2 percent. This higher percentage, combined with higher-than-projected revenue, resulted in SNPs reporting an average profit per beneficiary of \$1,115, or 44 percent higher than projected (\$777). Employer group plans, which are offered by employers or unions to their employees or retirees, as well as to Medicare-eligible spouses and dependants of participants in such plans, had a 7.6 percent profit margin, but had projected 4.2 percent. The higher profit margin, combined with higher-than-projected revenue, resulted in employer plans receiving an average profit per beneficiary of \$861, or 108 percent higher than projected (\$413).

GAO requested comments from CMS, but none were provided.