

2025 Medicare Advantage and Part D Rate Announcement



By Jackie Lee

The Announcement of Calendar Year (CY) 2025 Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies ([Rate Announcement](#)) was recently released. This Rate Announcement addresses CMS’s intentions for MA and Part D payments such as encouraging the affordability and viability of the Medicare program, health equity, and supporting comprehensive care. The most notable change from the 2025 Advance Notice was a reduction to the effective growth rate. Most other policies were adopted as proposed in the Advance Notice.

Year-to-Year Percentage Change in Payment

[The chart below](#) compares the expected impact of the policy changes and updates of the most recent MA plan payments released recently. Following this comparison, each impact category is further discussed.

Impact	2024 Rate Announcement	2025 Advance Notice	2025 Rate Announcement
Effective Growth Rate	2.28%	2.44%	2.33%
Rebasing / Re-pricing	0.00%	TBD	0.07%
Change in Star Ratings	-1.24%	-0.15%	-0.11%
Medicare Advantage Coding Pattern Adjustment	0.00%	0.00%	0.00%
Risk Model Revision	-3.12%	-2.45%	-2.45%
Normalization	-3.12%	-2.45%	-2.45%
MA Risk Score Trend ¹	4.44%	3.86%	3.86%
Expected Average Change in Revenue	3.32%	3.70%	3.70%

Fee-for-Service (FFS) Effective Growth Rate

This represents the average change in the benchmarks from the prior year. Benchmarks represent the maximum amount CMS will pay for Medicare covered claims in the service area. This effectively becomes the capitation rate from CMS for MA business. The trend from 2024 to 2025 at 2.33% is a slight decrease from the Advance Notice, mostly due to the incorporation of additional (2023 Q4) payment data. This trend of 2.33% is similar to last year’s counterpart but still lower than years before. In the past 10 years, 2.33% is one of the lowest trends (ex-Covid years) and should provide revenue challenges if not mitigated with cost management or revenue enhancement.

FFS Growth Rate	2021	2022	2023	2024	2025
Early Preview	4.46%				
Advance Notice	2.57%	4.52%	4.84%	2.09%	2.44%
Final Notice	3.64%	5.47%	4.88%	2.28%	2.33%

Rebasing/Re-Pricing

Rebasing is the impact of CMS reassessing the expected costs of traditional Medicare on a county-by-county basis. The FFS Medicare costs are the underlying data driving the calculation of MA benchmarks, and CMS annually recalculates these values since the implementation of the ACA. This ensures that the most recent set of data is being used to calculate the expected FFS costs. This impact would include movement in quartiles for counties with significant FFS cost changes, as well as other up and down adjustments based on expected geographic cost. Note that CMS is now using 2022 FFS cost data in the development of geographic factors used in rebasing, which was released on page 29 of the 2025 Advance Notice.

Change in Star Ratings

The Change in Star Ratings shows the revenue impact due to changes in the Star rating methodology. CMS changes and edits the measures and thresholds used in calculating the average Star Rating for MA organizations. The adjustments in Star Ratings reflect how changes impact the Quality Bonus Payments for the following payment year. These payments for 2025 are determined by the number of stars achieved in 2024, which, in turn, is based on performance across various measures during 2022. Specific MA organizations may have significant variable performance in this metric.

CMS has two provisions related to the extreme and uncontrollable circumstances policy, namely the 25% rule and the 60% rule. With the former, contracts with at least 25% of their service area affected will receive the higher of their measure-level ratings from the 2024 rating or 2025 rating. The 60% rule indicates that contracts with at least 60% of their service area impacted will be excluded from various cut point and variance thresholds. In 2026, the 60% rule will be removed.

Coding Pattern Adjustment

The Coding Pattern Adjustment is a reduction in risk scores for MA plans based on the higher levels of coding seen in the MA membership. This has become a cumulative 5.90% reduction and hasn't changed in several years (no new impact from 2024 to 2025). We expect the conversation and specific adjustments coming from the Risk Model Revision have captured the desired normalization and leveling of the playing field in MA risk enhancement that had been discussed for several years in rate announcements and we expect this factor to continue to remain stable (or at least universal for all of MA).

Risk Model Revision & Normalization

The Risk Model Revision adjustment reflects the changes in the risk score model. CMS proposed a new risk score model (colloquially the 2024 model) last year, which was subject to a three-year phase in with plan year 2024 having 33% weight on the new model and 67% on the existing 2020 CMS-HCC model. In 2025, CMS is continuing the phase in with the 2024 CMS-HCC model receiving 67% weight and the older 2020 CMS-HCC model receiving a 33% weight. While last year the risk model and normalization changes produced a -2.16% change in expected total MA revenue, this year is expected to yield a -2.45% change. This accounts for the impacts of the Part C normalization factor and the phasing in of the new 2024 CMS-HCC model.

The Normalization change impacts MA risk scores to account for trend observed in the FFS population risk score. The total risk score in the FFS population has increased slightly each year due to changes in demographics, provider coding patterns, ICD-10 implementation, etc. CMS wants all trends in the overall program to come from the growth rates, so a scaling adjustment is applied to all risk scores to ensure the average risk score across all of Medicare is always 1.0. While the normalization factors are industry wide, there will be variance in the MA model impact by carrier, often dramatically. CMS has announced changes to the methodology used to calculate both the MA and PD risk scores for CY2025, which are described in more detail below.

Unlike last year, there are considerable changes being implemented to the RxHCC model. For the RxHCC model, CMS plans on implementing the updated version of the RxHCC model that incorporates the changes made to the Part D Benefit with the IRA; this change was outlined in the CY2025 Advance Notice.

MA Risk Score Trend

CMS has estimated plan coding for MA providers and included in the fact sheet. This impact will vary dramatically based on carrier, provider network and sophistication, plan coding efforts and programs, membership duration and lapses, etc. This 3.86% trend is unchanged from the Advance Notice but is a noticeable drop from last year's trend of 4.44%. We suspect timing and impact of COVID-19 may not be accounted for. While the overall observed trend by CMS in MA risk scores may be approaching this value, how much is driven by consolidation of MA plans and members into carriers with higher proportions of member share and sophistication in plan coding practices?

Rate Announcement Fact Sheet Highlights

CMS outlined the changes in detail in the [fact sheet](#) associated with this announcement. A few major highlights from the fact sheet are below.

Inflation Reduction Act of 2022 (IRA) Updates for 2025

The IRA made several notable amendments to the Standard Part D drug benefit as defined in the Social Security Act, including:

- Elimination of the coverage gap phase introduces a three-phase benefit comprising of the deductible, initial coverage, and catastrophic phases.
- A cap on the out-of-pocket costs (MOOP) of \$2000 for CY 2025 is expected to largely benefit those who take high-cost medications.

Previously implemented IRA benefits are expected to continue in CY 2025, including:

- A cap of \$35 on cost-sharing for covered insulin products
- No cost-sharing for Part D covered adult vaccines.

These updates are unchanged from the Advance notice and further updates to the Part D program are coming in Base Year 2026.

Part C Risk Adjustment

In the CY 2024 Rate Announcement, CMS finalized the Part C Risk Adjustment Model (2024 CMS-HCC Model), which was expected to be phased in over a three year period. For CY 2025, this phase in will continue by blending 67% of the risk score calculated using the updated 2024 MA risk adjustment model with 33% of the risk score calculated using the 2020 MA risk adjustment model. CMS also plans on adopting a more complex approach for risk score normalization so as to better address the impacts of the COVID-19 without excluding data years. CMS calculated the normalization factor for the applicable risk models using a five-year multiple linear regression methodology, with average FFS risk scores from 2019 to 2023, with an indicator for diagnoses captured pre- and post- onset of the COVID-19 pandemic. This is consistent with the approach proposed in the Advance Notice but is a change in methodology from prior years. The prior approach used to develop the CY2024 normalization factors were based on a single linear regression methodology and excluded years impacted by COVID-19.

MA Risk Score Trend

CMS's notes are as follows:

We calculate the MA risk score trend for the 2020 and 2024 CMS-HCC risk adjustment models used for CY 2025 payment separately and blend the trends based on the phase-in of the 2024 CMS-HCC risk adjustment model. The risk score trend is 3.30% under the 2024 CMS-HCC model and 5.00% under the 2020 CMS-HCC model. CMS blended the MA risk score trends using the same blend that will be used to determine CY 2025 risk scores (i.e., 67% of the MA risk score trend under the 2024 CMS-HCC model and 33% under the 2020 CMS-HCC model). This blended MA risk score trend for CY 2025 is 3.86%.

PD Normalization Methodology

CMS is planning on applying separate normalization factors to risk scores used to pay MA-PD plans and PDPs. Per the Rate Notice, CMS believes that doing so will better align with the actual Part D costs within these sectors. These costs are influenced by various market-based factors, including overall benefits management, the limitations of PDPs in affecting diagnosis submissions in FFS, and the strategies employed to manage costs. This results in a higher normalization factor for MA-PD plans (which lowers payment risk scores) and lower normalization factor for PDPs (which increases payment risk scores).