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Medicare Payment Model Trends and Economic Drivers – Awaiting Direction from Trump Administration

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The Medicare program continues to face long term financial pressures associated with inflationary effects on health care costs and the growing wave of aging baby boomers. The Medicare Trust Fund, which is often viewed as a foil for health care affordability, has long faced a proverbial financing question. The fund covers Medicare Part A services, including inpatient hospital services and hospice care and skilled nursing services following a hospital stay. Projected solvency risks of the fund improved with the passage of the Affordable Care Act of 2010 (ACA), which, among other things, reduced Medicare payments to Medicare Advantage Organizations and implemented medical loss ratios. However, the fund faced acute short term solvency risks between 2018 to 2023. The fund is currently expected to be depleted in 2036.[1]

Under that economic drop back, the past two decades have seen incredible growth in value-based care reimbursement arrangements, including the rapid growth of the Medicare Shared Savings Program (MSSP) following passage of the ACA, the development of the Center for Medicare and Medicaid Innovation (CMMI) under the Centers for Medicare & Medicaid Services (CMS), and development of narrower alternative payment models (APMs) tested by the CMMI in subsequent years (such as the soon-to-be expiring Accountable Care Organization Realizing Equity, Access, and Community Health (ACO REACH) Model and the latest episode-based payment model Transforming Episode Accountability Model (TEAM)). Those payment models have improved quality and efficiency of care, while reducing overall cost to the Medicare program.

Indeed, on the heels of those early economic successes, CMS under the Biden Administration set a goal that by 2030 all Medicare fee-for-service beneficiaries with Medicare Parts A and Part B and a vast majority of Medicaid beneficiaries will be in an accountable care relationship for quality and total cost of care.[2] That transition is expected to generate large savings which could shore up the Fund. CMS reported 2.1BN in net savings under the Medicare Shared Savings Program in 2023.[3] Further, Medicare Advantage enrollment is shifting in this direction – as of September 2024, 50.5% of people enrolled in Medicare were participating in a Part C Medicare Advantage Program, up from 39% in 2019.[4]

The payment models package several features and innovations, but generally seek to support the "quadruple aim" – a modification of the "triple aim", which was highly publicized during the passage of the ACA, to address provider satisfaction. One recent evolution from that policy underpinning is the expansion of population health initiatives to address health inequities.

In recent years, CMS has elevated awareness of the health inequities as a way to address systemic health disparities found in underserviced communities with shared characteristics (e.g., disability or race). Drawing on a substantial body of evidence, CMS has linked health equity with those health disparities in underserved communities which are impacted by preventable health conditions more frequently or severely than individuals outside of those communities. Beginning in 2023, CMS offered health equity adjustments under the Medicare Shared Savings Program to encourage providers to serve and improve care for underserved populations or dually eligible beneficiaries.[5] Beginning in 2025, CMMI offered accountable care organizations (ACOs) participating in the ACO REACH Model a benchmark adjustment for health equity tied to socioeconomic data for specific regions.

Relatedly, CMS has increasingly been recognizing the importance of providing coverage for non-medical aspects of health care services to reduce health inequities. CMS has encouraged providers to address social determinants of health (SDOH) and the specific health-related social needs (HRSN) that impact individuals to promote better health outcomes. For example, from its outset, CMMI's Enhancing Oncology Model actively incorporated SDOH by requiring participants to screen for HRSNs, report patient demographic data (e.g., race, ethnicity, language, gender identify), and develop plans to implement evidence-based strategies to address health equity gaps in assigned patient populations.

While Dr. Mehmet Oz, the current nominee to lead CMS, is a staunch advocate of Medicare Advantage, it is unclear how the new Trump Administration will view and react to these trends as it retakes the helm at CMS. However, we would expect CMS to consider the economic back drop under which these trends evolved and the resulting data showing that total expenditures for the Medicare Program can be reduced without sacrificing coverage or quality. The payment models – whether the MSSP and CMMI-initiated APMs – are implemented by CMS under contractual arrangements with private insurers, ACOs and health care providers and frequently operate on calendar year periods. Accordingly, we anticipate meaningful changes will be delayed to 2026, giving stakeholders time to prepare.

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[1] *2024 Annual Report*, Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds (May 6, 2024) at https://www.cms.gov/oact/tr/2024 (also noting that the assets of the fund were $208.8 billion at the start of 2024, which was only expected to cover 50% of the anticipated spend in 2024, failing the trustee's recommended minimum of 100%).

[2] Chiquita Brooks-LaSure and Daniel Tsai, *A Strategic Vision for Medicaid and the Children's Health Insurance Program (CHIP)*, Health Affairs (November 16, 2021) at https://www.healthaffairs.org/content/forefront/strategic-vision-medicaid-and-children-s-health-insurance-program-chip.

[3] *Press Release: Medicare Shared Savings Program Continues to Deliver Meaningful Savings and High-Quality Health Care*, Centers for Medicare & Medicaid Services (Oct. 29, 2024) at https://www.cms.gov/newsroom/press-releases/medicare-shared-savings-program-continues-deliver-meaningful-savings-and-high-quality-health-care (lasted accessed Feb. 8, 2025).

[4] *2024 Annual Report*, of the Boards of Trustees of the Federal Hospital Insurance and Federal

Supplementary Medical Insurance Trust Funds (May 6, 2024) at https://www.cms.gov/oact/tr/2024; Medicare Advantage 2020 Spotlight: First Look, Kaiser Family Foundation (October 2019) at https://files.kff.org/attachment/Data-Note-Medicare-Advantage-2020-Spotlight-First-Look.

[5] *Press Release: Medicare Shared Savings Program Saves Medicare More Than $1.6 Billion in 2021 and Continues to Deliver High-quality Care*, Health and Human Services (Aug. 30, 2022) at https://www.hhs.gov/about/news/2022/08/30/medicare-shared-savings-program-saves-medicare-more-than-1-6-billion-in-2021-and-continues-to-deliver-high-quality-care.html.

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