

# So you want to start a Medicare Advantage plan...

Service area and product portfolio expansions in the first five years

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Enrollment growth is a primary goal for many Medicare Advantage startups. A strategic expansion of service area or product portfolio can be a catalyst for growth.

Expanding the service area of a Medicare Advantage organization (MAO) can require a significant effort. Similarly, launching new plans or plan types requires important planning. Such decisions may be even more critical for Medicare Advantage (MA) startups that are trying to grow membership in their early years to move toward profitability. This paper shares observations regarding the expansions in size of service area and in product portfolio (both increased number of plans and types of plans) offered by MAOs during their first five years in the MA program. This paper is the second of a series of Milliman articles focused on the results and outcomes of 28 MAOs that entered the MA market five years ago.

## How do startups expand after year one?

As MAOs evolve, it is common for them to grow, but that growth comes in various forms. The first article of this series<sup>1</sup> discussed average year one enrollment for new entrant MAOs and average growth over the first five years of operation. In this article, we continue looking at growth, but now from the service area and product portfolio perspective.

## Who is included in our study?

This study identified 28 MAOs that entered the market in either 2015 or 2016. For the purposes of this paper, we identified an MA startup organization as a health plan that first entered the MA individual market in 2015 or 2016, regardless of whether it provided health insurance for another line of business prior to 2015 or 2016.

Of the 28 organizations in our study, the products offered in year one were as follows:

- 26 launched health maintenance organizations (HMOs)
- 5 launched local preferred provider organizations (LPPOs)
- 1 included an HMO-POS, i.e., an HMO with an out-of-network, or point-of-service (POS), component for select services

Note that the sum of the counts shown above is greater than 28 because some MAOs launched multiple products in their initial year of operation. Twenty-three of these 28 MAOs existed in year five; the decline is likely due to acquisition and/or some organizations leaving the MA market.

## What percentage of MAOs expand their service areas in the first five years?

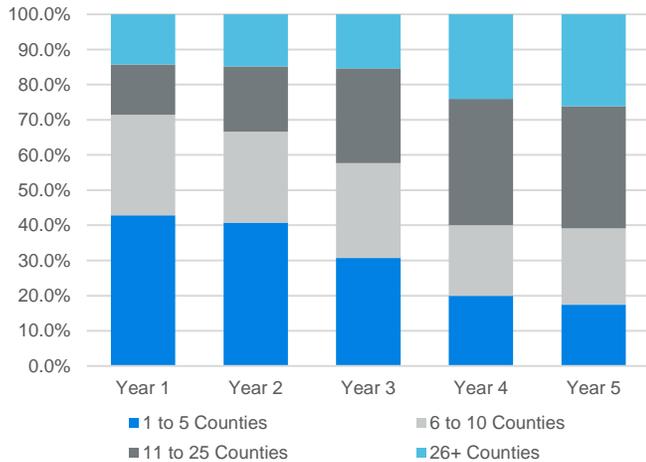
Most startup MAOs (75%) expanded their service areas at some point during their first five years of operation. The MAOs in our study averaged service areas of approximately 12 counties in year one, growing to about 24 counties on average by year five.

Figure 1 shows the distribution of MAO service area size where:

- Approximately 40% of the MAOs in our study entered the market in service areas comprised of five or fewer counties. By year five, only about 20% of the MAOs were in five or fewer counties.
- Approximately 70% of the MAOs entered the market in service areas comprised of 10 or fewer counties. By year five, about 40% of MAOs had service areas limited to 10 or fewer counties.
- Approximately 15% of the MAOs launched service areas with at least 25 counties in year one. By year five, about 25% of the MAOs remaining in the market expanded to service areas comprised of at least 25 counties.

<sup>1</sup> Kramer, A., Piper, B., & Vandermause, E. (January 2021). So You Want to Start a Medicare Advantage Plan... What to Expect for Enrollment in the First Five Years. Milliman White Paper. Retrieved January 21, 2021, from <https://www.milliman.com/en/insight/So-you-want-to-start-a-Medicare-Advantage-plan-What-to-expect-for-enrollment-in-the-first-five-years>.

FIGURE 1: DISTRIBUTION OF MAOS BY SERVICE AREA SIZE



Based on our study, year four was the most common year for an MAO to expand its service area. Specifically, 15% of the MAOs expanded in year two, about 40% expanded in year three, about 50% expanded in year four, and roughly 40% expanded in year five. An MAO that expanded its service area in multiple years (for example, year three and year five) would be counted in both years in Figure 1.

While some MAOs expand in year two, this is not as typical because the Centers for Medicare and Medicaid Services (CMS) reserves the right to deny requests to expand in year two due to the absence of 14 months of performance and compliance history.<sup>2</sup> While CMS may occasionally approve such requests, MAOs should carefully consider their year one service areas, because they may not be able to make changes until year three, when they can demonstrate compliance with the requirements of the MA program. In the few cases where MAOs did expand in year two, the expansion was generally achieved by launching a new contract in a new state rather than adding counties to an existing plan’s service area.

In addition to observing significant service area expansion throughout the five years, a few MAO startups reduce their service areas at some point over their first five years in the market.

Appendix A shows the number of counties for year one and five for each MAO.

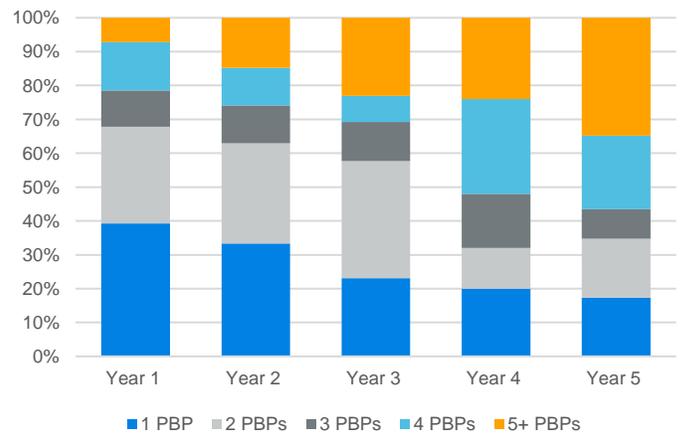
## What percentage of MAOs increase their plan offerings in the first five years?

Similar to the service area expansion we observed, MAOs also typically expanded their plan offerings throughout their first five years in the market. Of the MAOs in our study, about 70% expanded their plan counts during the first five years of operation.

In year one, the average MAO offered 2.6 plans (also known as plan benefit packages or PBPs), although the range was as low as one and as high as 10. This grew to an average of 4.6 plans in year five, with a range from one plan to 16 plans. Figure 2 shows the distribution of MAO plan offerings by year where:

- In year one, it was most common for new entrants to offer only one or two plans, with about 40% offering one and about 30% offering two. Less than 10% of the MAOs in our study offered five or more plans in year one.
- In their second year in the market, about 35% of MAOs offered only one plan, with progressively fewer MAOs offering only a single plan each year thereafter. In year five, less than 20% of MAOs in our study offered only a single plan.
- By their fifth year in the market, approximately 65% of the MAOs in our study offered three or more plans, with about 35% of the organizations offering five or more plans.

FIGURE 2: DISTRIBUTION OF PLAN COUNTS



<sup>2</sup> CMS (February 7, 2018). 2019 Application Cycle Past Performance Review Methodology Final. Retrieved January 21, 2021, from <https://www.cms.gov/Medicare/Compliance-and-Audits/Part-C-and-Part-D-Compliance-and-Audits/Downloads/2019ApplicationCyclePastPerformanceFinalMethodology.pdf>.

Similar to service area expansion trends, the most common year for an MAO to expand its plan count was year four. Specifically, about 15% of the MAOs added plans in year two, about 35% added plans in year three, nearly 50% added plans in year four, and about 25% added plans in year five. In our study, while it was most common to see plan count expansion, a few MAOs reduced their plan counts at some point over the five-year period.

Appendix A shows the number of plans for year one and year five for each MAO.

## What percentage of MAOs increase their product offerings (i.e., HMO, PPO) in the first five years?

As mentioned previously, in year one of our study, 26 MAOs had an HMO contract with CMS and five had a preferred provider organization (PPO) contract. Note that the MA program allows LPPOs and regional PPOs (RPPOs). The PPOs in our study included only LPPOs because no new MAOs launched in 2015 or 2016 offered an RPPO during their first five years. Further, CMS allows MAOs to offer an HMO-POS product, which is an HMO plan design with some ability for enrollees to receive care at out-of-network providers. Only one MAO offered an HMO-POS product in year one. Of the 28 MAOs, about 80% offered only “pure” HMO products, about 10% offered HMO and PPO products, and less than 10% offered only PPO products.

We did not observe a significant amount of product change over the five-year period, but did note the following of the 23 MAOs in our study as of year five:

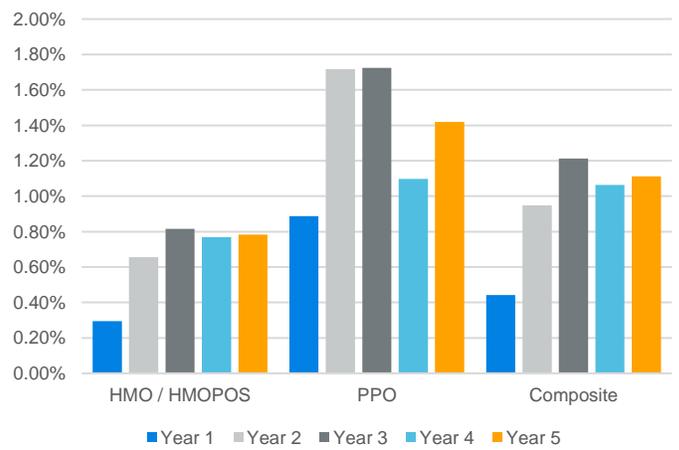
- About 65% of MAOs offered only “pure” HMOs for all five years.
- About 75% did not increase or decrease the types of products they offered.
- Roughly 10% started as HMO-only, but added a PPO product by year five.
- Roughly 10% started as PPO-only, but added an HMO product by year five. Interestingly, this indicates there were no PPO-only MAOs in year five of our study.
- Less than 10% started with both an HMO and a PPO, but dropped the PPO by year five.
- Less than 10% started with only HMO products, but added an HMO-POS plan during the first five years.

## PPO ENROLLMENT GROWTH IS STRONGER THAN HMO

Over their first five years in the market, PPOs generally experienced higher-than-average enrollment growth rates as a percentage of Medicare eligibles in their service areas compared to HMOs.

Figure 3 shows the average enrollment new MAOs achieved as a percentage of Medicare eligibles by year and product type.

**FIGURE 3: AVERAGE ENROLLMENT AS A PERCENTAGE OF MEDICARE-ELIGIBLE FOR NEW MAOS**



As shown in Figure 3, the five PPOs launched in year one experienced much higher enrollment rates than the HMO and HMO-POS plans over the first three years. However, for the sample of PPOs in our study, enrollment as a percentage of Medicare eligibles decreased substantially in year four, which was largely driven by a single MAO. The PPO with the highest year three enrollment as a percentage of Medicare eligibles (8.1%), expanded its service area in year four, more than doubling its county footprint, which reduced its year four enrollment as a percentage of Medicare eligibles to 4.1%.

While our analysis focused on startups in 2015 and 2016, enrollment growth in PPOs continues to be strong the last few years, especially among those with a \$0 member premium.<sup>3</sup>

<sup>3</sup> Timm, M.D. & Klein, M.B. (April 2020). PPO Plans With \$0 Member Premium Gaining Traction in Medicare Advantage. Milliman White Paper. Retrieved January 21, 2021, from <https://us.milliman.com/en/insight/ppo-plans-with-0-member-premium-gaining-traction-in-medicare-advantage>.

## What are some key strategic considerations?

While adding counties or expanding the product portfolio may help MAOs grow, such actions should be done thoughtfully to maximize chances for success. There is no guarantee that expanded service areas or plan offerings will necessarily yield enrollment growth. The following list includes some key strategic items that must be considered before making changes to a service area or product portfolio.

- **Network adequacy:** CMS requires MAOs to meet network adequacy standards in each county. The network adequacy criteria include having sufficient provider and facility access within specified time and distance standards.<sup>4</sup> Thus, the MAO will need to ensure it has a robust provider network in place for any expansion counties to meet the network adequacy requirements.
- **Available enrollment in expansion counties:** The MAO should understand the available enrollment in any expansion counties. It can be a considerable effort to expand into a new county and meet the network adequacy requirements. The MAO should understand whether the available enrollment in a new county is sufficient to justify the effort to expand. Further, the MAO should understand the current MA penetration (a ratio of the number of individuals enrolled in MA to the total number of Medicare eligibles) of any new counties to understand how popular the MA program is in new areas and the extent of the existing MA competition.
- **Risk profile of potential enrollees:** It is important to understand the risk profile of the enrollees who may move from traditional Medicare or a competitor's plan into the MAO's expanded service areas. Consider whether there is any reason to believe the Medicare eligibles available to enroll in the new counties are higher-cost or lower-cost compared to the MAO's current enrollees. It is also important to consider current risk scores. If the expansion counties have relatively low MA penetration, risk scores may be lower than average (MA risk scores tend to be higher than traditional Medicare risk scores, all else equal, because MA organizations invest in optimizing risk score coding efforts). An MAO expanding into a county with low MA penetration should recognize it may need to focus risk score coding efforts on any new enrollees.
- **Plan ratings and benefit offerings of competitors:** It is important for an MAO to understand the star ratings and benefits offered by the competition, and to ensure that any products offered are competitive and meet a market need. Understanding the landscape of plan offerings in any

expansion area may be aided by market intelligence tools like the Milliman Medicare Advantage Competitive Value Added Tool (Milliman MACVAT®).

## What are these results based on?

In performing this analysis, we relied on MA plan offerings in 2014 through 2020, as published by CMS. We summarized information from the Milliman MACVAT, which uses publicly available MA information from CMS, including enrollment information from February of each year and plan details (e.g., plan type, parent organization, etc.). The values presented reflect organizations available in each respective contract year. We identified new MAOs in 2015 and 2016 by identifying MA contracts and parent organizations that were not in the prior year's database. We excluded Medicare-Medicaid Plans (MMPs/dual demonstration plans), Cost plans, Prescription Drug Plans (PDPs), Program of All-Inclusive Care of the Elderly (PACE) plans, and Employer Group Waiver Plans (EGWPs) from this analysis. We also did not include any organizations that acquired contracts with previously established plans.

We relied on the Public Use Files (PUFs) from CMS for the February enrollment and market penetration in each year (downloaded as of January 2021). The MAO enrollment is at a county/plan level and, as such, could be missing small enrollee counts as CMS does not publish enrollment if the count is under 10 enrollees.

## What are the key takeaways?

Throughout the initial years of an MAO, enrollment growth is usually a primary goal. MAOs can employ many strategies to achieve enrollment growth. Two of those strategies, service area expansion and plan count expansion, are often elected by startup MAOs as a means to gain additional enrollment. While not used with the same frequency, product expansion is also a strategy used by startup MAOs to help grow enrollment. These strategies require careful analysis before implementation; we recommend any MAO considering these strategies to be well versed in the network adequacy requirements of potential expansion counties, the available enrollment in expansion counties (e.g., understand the current MA market penetration among Medicare eligibles), the risk profile of the available enrollment, and the plan benefit offerings of its competitors. Though careful consideration is required, when thoughtfully executed the expansion approaches outlined in this article can play a large role in enrollment growth.

<sup>4</sup> CMS (June 17, 2020). Medicare Advantage and Section 1876 Cost Plan Network Adequacy Guidance. Retrieved January 21, 2021, from <https://www.cms.gov/files/document/medicareadvantageandsection1876costplannetworkadequacyguidance6-17-2020.pdf>.

## Caveats, limitations, and qualifications

This paper was developed to examine the ways in which organizations expand their service areas and product portfolios during their first five years in the market. This information may not be appropriate, and should not be used, for other purposes. We do not intend this information to benefit, and assume no duty or liability to, any third party that receives this work product. Any third-party recipient of this paper that desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its specific needs.

In preparing our analysis, we relied upon public information released by CMS and other publications listed and footnoted above.

We are not attorneys and do not intend to provide any legal advice or expertise related to the topics discussed here. The opinions included here are ours alone and not necessarily those of Milliman.

We are actuaries for Milliman, members of the American Academy of Actuaries, and meet the qualification standards of the Academy to render the actuarial opinion contained herein. To the best of our knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.



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## Appendix A: MAO Enrollment, Service Area, and Plan Count Data

MAO	MAO Enrollment as of February		Medicare Eligible Lives in Service Area		Percentage of Medicare Eligible Lives		Counties in Service Area		Number of Plans Offered	
	Year 1	Year 5	Year 1	Year 5	Year 1	Year 5	Year 1	Year 5	Year 1	Year 5
1	0	1,225	101,835	520,909	0.0%	0.2%	1	5	1	1
2	0	n/a	1,863,821	n/a	0.0%	n/a	8	n/a	2	n/a
3	0	1,786	534,981	3,394,359	0.0%	0.1%	10	35	1	4
4	0	221	1,635,162	1,784,886	0.0%	0.0%	7	7	1	2
5	0	1,159	335,728	629,224	0.0%	0.2%	30	75	1	2
6	0	2,060	462,311	522,343	0.0%	0.4%	1	1	1	2
7	14	1,524	1,789,606	1,942,109	0.0%	0.1%	7	7	4	5
8	58	2,293	41,001	202,546	0.1%	1.1%	3	17	1	4
9	62	264	200,646	286,277	0.0%	0.1%	5	17	1	2
10	62	4,084	244,782	630,605	0.0%	0.6%	1	3	1	6
11	146	n/a	393,169	n/a	0.0%	n/a	5	n/a	1	n/a
12	188	n/a	1,268,346	n/a	0.0%	n/a	5	n/a	3	n/a
13	213	2,145	90,053	1,617,550	0.2%	0.1%	5	66	1	4
14	633	2,544	102,650	193,216	0.6%	1.3%	1	9	3	3
15	694	3,817	714,395	1,756,235	0.1%	0.2%	48	49	4	3
16	812	n/a	293,728	n/a	0.3%	n/a	33	n/a	2	n/a
17	867	6,040	165,782	305,977	0.5%	2.0%	7	13	3	9
18	987	2,477	179,104	252,040	0.6%	1.0%	4	16	1	1
19	1,263	15,897	375,632	881,823	0.3%	1.8%	14	64	4	16
20	1,608	5,097	600,921	708,664	0.3%	0.7%	3	3	2	1
21	1,702	12,560	309,459	360,903	0.5%	3.5%	9	10	2	4
22	1,913	7,776	258,624	337,132	0.7%	2.3%	13	16	4	4
23	2,100	5,649	649,258	873,710	0.3%	0.6%	13	15	2	1
24	2,294	12,062	412,625	1,085,602	0.6%	1.1%	10	10	10	8
25	3,951	21,258	629,183	736,090	0.6%	2.9%	11	12	2	5
26	5,814	15,704	167,189	418,621	3.5%	3.8%	4	13	2	5
27	6,955	n/a	301,476	n/a	2.3%	n/a	9	n/a	2	n/a
28	12,981	32,087	2,057,703	2,278,446	0.6%	1.4%	80	83	10	13

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