Medicare Advantage Final Announcement and Call Letter 2017

Key positive Changes done by CMS for PR:

(A) Impact in 2017 Funding – total estimated mitigation of potential 7.7% incremental cuts is approximately $260-$300 million.

- Zero-claim adjustment of 4.4%
- Incorporation of Part A rate increase estimated at 0.8%.

(B) Impact in 2018 Funding

- Estimation of an LIS proportion in PR to apply the socio-economic status (SES) adjustment in STARs.
- Medication adherence weighted at 0, but still used for improvement measure.
- Estimated that several plans/contracts could increase ½ STAR for 2017 STARs, 2018 impact.

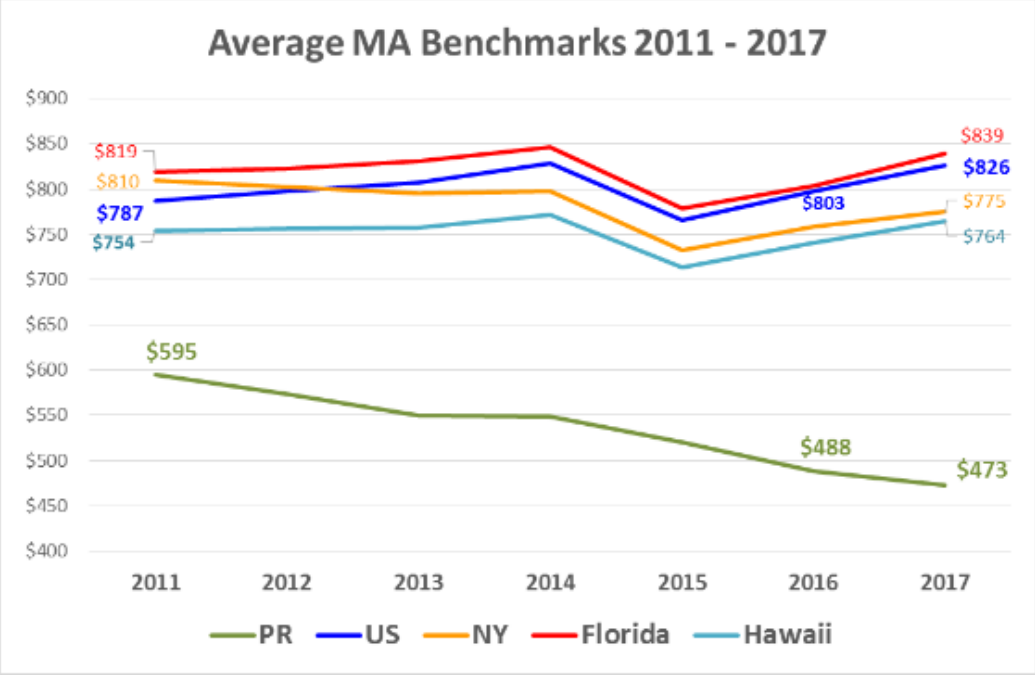
(C) National policies and trends that helped PR

- National growth rate
- Changes to risk scores for duals, resulting in an average 2% increase for PR.

Factors creating reductions for PR:

1. 2017 is the 6th year of the phase in of the new formula.
   a. Now the MA rates are 100% based on estimated FFS costs, and that generates a reduction.
   b. The MA ratebook 2017 reports a PR FFS cost of $411 pmpm, about 2% higher than the 2016 estimate.
   c. The MA ratebook 2017 reports that the Pre-ACA rate for PR would be $650 pmpm, the 2017 MA rate is $473, 27% lower.
2. The Part A uncompensated care payments were reduced for PR hospitals, which created a reduction in MA rates.
3. FFS cost rebasing seems to have created a negative impact, given the overall -3% change in the MA benchmarks.
4. Not accounting for partial duals could have the effect of under-predicting the cost of the non-dual population in PR. The new model will create a small reduction in the non-dual risk scores.

In relation to PR's MA rates relative position for 2017:



- PR was 24% ($192pmpm) below the US average in 2011, and in 2017 is 43% ($352pmm) below the US average MA benchmark.

- PR was 21% ($160pmpm) below the lowest state (Hawaii) in 2011, and in 2017 is 38% ($291pmpm) below the Hawaii MA benchmark.