A Deeper Look at FFS Normalization in the CY 2025 Medicare Advantage Advance Notice

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In the January 31, 2024, CY 2025 Advance Notice[1], the Centers for Medicare & Medicaid Services (CMS) proposed to use a new method for calculating the fee-for-service (FFS) normalization factor for Part C risk adjustment models in payment year (PY) 2025.

The new method proposed by CMS uses a multiple regression model that includes a variable to account for the impact of the COVID-19 pandemic on Part C risk scores. Table 1 summarizes the CY 2025 FFS Normalization factors compared with CY2024.

Table 1: Proposed CY 2025 and Final CY 2024 FFS Normalization Factors

Model	CY 2025	CY 2024	Impact to Risk Scores
2024 CMS-HCC (v28)	1.045	1.015	-2.8%
2020 CMS-HCC (v24)	1.153	1.146	-0.6%
2017 CMS-HCC	1.157	1.159	0.1%
2023 ESRD Dialysis	1.044	1.022	-2.1%
2019 ESRD Dialysis	1.103	1.100	-0.3%
2023 ESRD Functioning Graft	1.074	1.028	-4.3%
2019 ESRD Functioning Graft	1.159	1.159	0.0%

CMS will continue to blend v24 and v28 models according to the phase-in schedule announced in the March 31, 2023, Final Announcement[2]. The blend for CY2025 will be 33%/67% for v24/v28, respectively.

In this White Paper, we explore the analysis supporting this proposed approach presented by CMS and offer additional analyses to provide further insight.

[1] https://www.cms.gov/files/document/2025-advance-notice.pdf

[2] https://www.cms.gov/files/document/2024-announcement-pdf.pdf

Proposed Method to Calculate the Part C FFS Normalization Factor

Historically, the Part C FFS normalization factor has been calculated by fitting a linear regression model to five years of historical normalization factor risk scores calculated for the given model to be in effect in the contract year.

The COVID pandemic in 2020 resulted in unusually low FFS risk scores in 2021, and to a lesser extent, 2022 because of the significant reduction in utilization and therefore diagnoses codes submitted.

For CY2023 and CY2024, CMS continued to use the linear regression approach to calculating FFS normalization factors but ignored 2021 scores in doing so.

Rather than continue to ignore 2021 FFS risk scores, CMS is proposing to use a multiple regression model that adds a variable that takes COVID into account. The regression formula is proposed as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2$$

The variables are defined as follows:

Y = Predicted FFS risk score for a given year (i.e., Normalization Factor)

β_0 = Intercept

β_1 = Regression coefficient for the average annual change in FFS risk scores

x_1 = The specific year to be predicted

β_2 = Regression coefficient for the impact of the COVID-19 pandemic on FFS risk scores

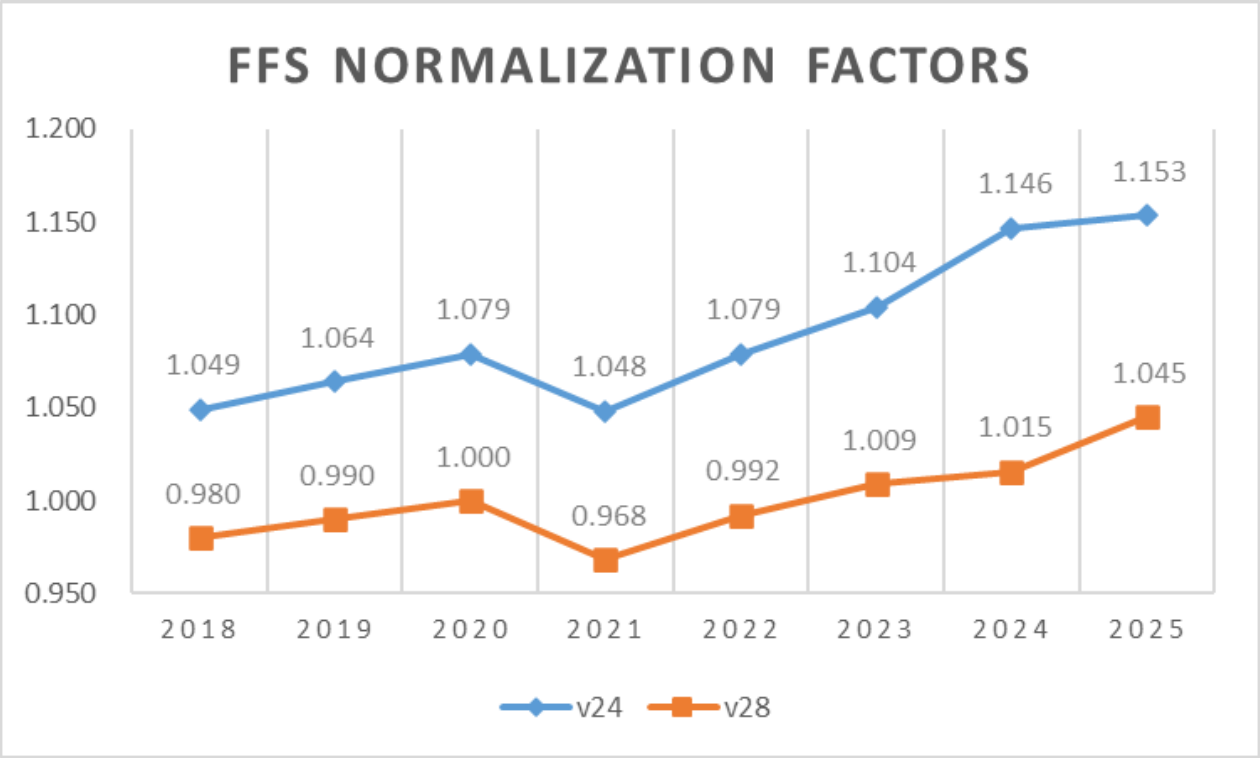
x_2 = COVID-19 flag (0 for years before CY 2021, 1 for CY2021 and onwards)

Using this model, CMS derived the coefficients for β_0, β_1, and β_2. The coefficients and resulting FFS normalization factors for the non-PACE, non-ESRD Part C risk models are shown in Table 2.

Table 2: Multiple Regression Model Coefficients

	2024 CMS-HCC Model	2020 CMS-HCC Model
Intercept (β_0)	-36.1638	-50.2238
Average Change in FFS Risk Scores (β_1)	0.0184	0.0254
COVID-19 Flag (β_2)	-0.0513	-0.0580
Proposed 2025 normalization factor	1.045	1.153

The chart below shows the final CY2024 factors, 2023 and prior factors as published in the CY2025 Advance Notice, and the proposed factors for CY2025.



The proposed 2025 FFS normalization factors imply a year-over-year reduction to risk scores of 0.6% and 2.8% for v24 and v28, respectively.

Impact and Implications of the Proposed CY2025 FFS Normalization Factors

In the January 31, 2024, Advance Notice Fact Sheet[3], CMS estimated that the that the combined effect of the change in blend of the v24 and v28 models, change in FFS normalization, and change in raw risk scores for 2025 Part C scores is -2.45%.

CMS further notes that the impact of the raw risk adjustment model revisions phase-in is -4.44% and the impact of the change in FFS normalization is +1.99%. The risk adjustment model revision of -4.44% represents the change in v24/v28 blending weights combined with the raw risk score difference between v24 and v28. The change in FFS normalization of +1.99% is the inverse of the ratio of the blended factors based on the ratio of the 2025 factors using 2025 weights (i.e. 33%/67% v24/v28) and the 2024 factors using 2024 weights (i.e. 67%/33% v24/v28). The impact is the inverse because raw risk scores are divided by the FFS Normalization factor.

[3] https://www.cms.gov/newsroom/fact-sheets/2025-medicare-advantage-and-part-d-advance-notice-fact-sheet

Wakely attempted to replicate assumptions that would produce an implied impact of -2.45% from 2024 to 2025. While other assumptions may also have been valid, our method revealed that the normalized non-ESRD, non-PACE risk scores from v28 (0.985) are about 4.4% below v24 (1.027).

Table 3 shows the underlying assumptions in this analysis.

Table 3: Estimated Raw Risk Score Difference for v24 and v28

Year	Component	v24	v28	Blended [1]
2024	Raw Score	1.178	1.000	1.119
	FFS Normalization	1.146	1.015	1.103
	Normalized Score	**1.027**	**0.985**	**1.014**

Annual FFS Risk Score Trend	1.44%	0.88%

Year	Component	v24	v28	Blended [2]	2025/2024
2025	Raw Score	1.194	1.009	1.070	-4.37%
	FFS Normalization	1.153	1.045	1.081	2.05%
	Normalized Score	**1.036**	**0.965**	**0.989**	**-2.45%**

[1] 2024: 67%/33% v24/v28
[2] 2025: 33%/67% v24/v28

Another implication of the analysis in Table 3 is the impact to risk scores in CY2026 if the same method and assumptions persisted. Extending the analysis in Table 3 to CY2026 results in a year-over-year impact to risk scores of -3.05%. Similar to CY2025, part of this negative impact is due to the change in v24/v28 weights (i.e. going from 33%/67% in 2025 to 0%/100% in 2026); however, an additional cause is the lower trend on v28 scores, which further compounds the year-over-year decrease for CY2026.

Alternative FFS Normalization Methods

To provide additional perspective on the proposed CY2025 FFS normalization factors using the multiple regression method, CMS presented three alternative methods in the Advance Notice, summarized below.

Method 1: Linear Regression using 2019 through 2023, excluding 2021.

Method 2: Linear Regression using 2019 through 2023, excluding 2021 and 2022.

Method 3: Linear Regression using only 2022 and 2023.

Methods 1 and 2 produce lower FFS Normalization factors than the CMS proposed method; whereas Method 3 results in much higher factors for CY2025. Based on results from these three methods, CMS concludes that a linear regression approach does not produce reasonable projections and is no longer

supportable. More specifically, CMS made this conclusion noting that the alternative methods produced factors that implied unchanged or lower values than prior years (Methods 1 and 2) or much higher factors than historical data showed (Method 3).

Wakely analyzed possible alternative methods using CMS's proposed multiple regression model by varying the COVID indicator associated with β_2. We tested the following alternative methods:

Wakely Method A: CMS Multiple Regression but assign 2023 as non-COVID (i.e. indicator of 0).

Wakely Method B: CMS Multiple Regression but assign 2022 and 2023 factors of 0.52 and 0.39, respectively for v24 and 0.57 and 0.38 for v28. These factors were derived by taking ratios of the 2022 and 2023 year-over-year trends to the average from 2016/2017 through 2020 for v24/v28, which are all periods prior to COVID. Table 4 shows this calculation.

Table 4: Derivation of 2022 and 2023 Alternative COVID Indicators

Year	v24 Normalization Factor	v24 Y/Y Trend	v28 Normalization Factor	v28 Y/Y Trend
2016	1.020			
2017	1.031	1.1%	0.969	
2018	1.049	1.7%	0.980	1.1%
2019	1.064	1.4%	0.990	1.0%
2020	1.079	1.4%	1.000	1.0%
2021	1.048	-2.9%	0.968	-3.2%
2022	1.079	3.0%	0.992	2.5%
2023	1.104	2.3%	1.009	1.7%
Average Trend Pre 2021		**1.4%**		**1.1%**
2022 COVID Indicator (1- Average ÷ 22/21 Trend)		**0.52**		**0.57**
2023 COVID Indicator (1- Average ÷ 23/22 Trend)		**0.39**		**0.38**

Wakely Method C: CMS Multiple Regression but assign 2022 and 2023 factors of 0.60 and 0.30. This is similar to Method B but uses round factors.

With the exception of CMS Method 3, all the alternative FFS Normalization factor methods produced lower factors than that proposed by CMS in the Advance Notice. Table 5 summarizes these factors for the non-ESRD, non-PACE Part C model.

Table 5: CY 2025 FFS Normalization Factors Using Different Methods

Method	Description	FFS Normalization Factor v24	FFS Normalization Factor v28	Relative to Advance Notice v24	Relative to Advance Notice v28	Estimated 2025/ 2024 Impact
Advance Notice	**Multiple Regression; COVID flag 0 for 2019-2020 and 1 for 2021-2023**	**1.153**	**1.045**			-2.45%
CMS Method 1	Linear: 2019-2023, excl 2021	1.083	1.015	-6.1%	-2.9%	1.00%
CMS Method 2	Linear: 2019-2023, excl 2021, 2022	1.100	1.022	-4.6%	-2.2%	0.14%
CMS Method 3	Linear: 2022-2023 only	1.280	1.088	11.0%	4.1%	-7.51%
Wakely Method A	2023 COVID Indicator = 0	1.129	1.023	-2.1%	-2.1%	-0.71%
Wakely Method B	COVID weights for 2022/2023 based on trend comparisc	1.138	1.033	-1.3%	-1.2%	-1.45%
Wakely Method C	COVID weights of 0.60/0.30 for 2022/2023	1.144	1.036	-0.8%	-0.8%	-1.79%

Data and Methodology

The following assumptions and data were based on information and data in the January 31, 2024, Advance Notice:

- FFS Normalization factors based on v24 and v28 models for 2016 through 2023.
- Coefficients in the multiple regression model using CMS assumptions regarding COVID indicators are also based on the Advance Notice.
- FFS Normalization factors based on alternative models using Linear regression.

The Wakely analysis of implications of the CMS multiple regression method with respect to v24 versus v28 risk score differences and 2026 impact used the following assumptions:

- Coding trend from 2024 to 2025 is based on implied annualized trends from the proposed 2025 FFS normalization factors. For v24, the trend is 1.44%, and the trend is 0.88% for v28.
- FFS normalization factors for CY 2026 would continue to use the same multiple regression model such that 2021 through 2023 would have a COVID indicator of 1.
- Coding trend from 2025 to 2026 is based on implied annualized trends from the derived 2026 FFS normalization factors (1.179/1.063 for v24/v28). For v24, the 2026/2025 trend is 1.51%, and the comparable trend for v28 is 1.03%.

The Wakely analysis of alternative models using the multiple regression model relied on our calculation of the coefficients based 2019 through 2023 factors and a 95% confidence level. Please note that we were able to replicate the coefficients used by CMS for the proposed method in the Advance Notice using this calculation. Table 6 shows the coefficients for the alternative models.

Table 6: Multiple Regression Coefficients by Method

Method	Description	v24 β_0	v24 β_1	v24 β_2	v28 β_0	v28 β_1	v28 β_2
Advance Notice	**Multiple Regression; COVID flag 0 for 2019-2020 and 1 for 2021-2023**	**(50.224)**	**0.025**	**(0.058)**	**(36.164)**	**0.018**	**(0.051)**
Wakely Method A	2023 COVID Indicator = 0	(20.704)	0.011	(0.028)	(9.949)	0.005	(0.024)
Wakely Method B	COVID weights for 2022/2023 based on trend comparison	(26.913)	0.014	(0.045)	(15.520)	0.008	(0.040)
Wakely Method C	COVID weights of 0.60/0.30 for 2022/2023	(25.509)	0.013	(0.043)	(14.243)	0.008	(0.038)

For questions or to follow up on any of the concepts presented, please contact Tim Courtney at tim.courtney@wakely.com or Rachel Stewart at rachel.stewart@wakely.com.

OUR STORY

Five decades. Wakely began in 1969 and eventually evolved into several successful divisions. In 1999, the actuarial arm became the current-day Wakely Consulting Group, LLC, which specializes in providing actuarial expertise in the healthcare industry. Today, there are few healthcare topics our actuaries cannot tackle.

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Our Mission: We empower our unique team to serve as trusted advisors with a foundation of robust data, advanced analytics, and a comprehensive understanding of the health care industry.

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