

CMS's 2027 Medicare Advantage Rate Bump Looks Like a Gift. The Real Story Is What It Postpones.

Healthcare CFO & Chief Analytics Officer | 30+ Years in Medical Economics, Analytics & AI | \$1B+ Impact
| FACHE, HFMA

September 4, 2026

By Raghu Santhanam, MBA, MHA, HFMA, FACHE | VBC Advisor | Healthcare CFO & Analytics Executive

Medicare Advantage insurer stocks jumped in after-hours trading the moment CMS released its final 2027 rate announcement in April, and it is easy to see why. The headline 2.48 percent average payment increase was more than 27 times the 0.09 percent increase CMS had floated just ten weeks earlier in its January advance notice (CMS, January 2026; CMS, April 2026). Analysts called the reversal "hard to overstate" (Jefferies, cited in Healthcare Dive, 2026). For an industry that has spent two years absorbing Star Ratings cuts and the V28 risk model phase-in, that headline reads like relief. I do not think the 2.48 percent is the number that should have health plan finance leaders' full attention. The number that matters more is the one CMS chose not to change, and what postponing it actually sets up for 2028.

The Headline Understates the Real Number, and That Is Not the Point

CMS's own fact sheet shows the 2.48 percent figure understates the actual payment impact. Once the expected risk score trend of roughly 2.50 percent is layered in, the effective increase to plans reaches 4.98 percent, on an effective growth rate of 5.33 percent year over year (CMS, April 2026). That is the number that flows into bid models, not the rounded figure every trade headline led with.

But doubling the number does not change the more important structural fact. Nearly all of the swing from the January proposal to the April final came from one decision, not from a sudden improvement in underlying cost trend. CMS chose to keep the 2024 risk adjustment model in place rather than adopt the recalibrated model it had proposed just months earlier (CMS, April 2026).

What CMS Actually Shelved

The January advance notice proposed recalibrating the Part C risk model from 2018 diagnoses and 2019 expenditures to 2023 diagnoses and 2024 expenditures, a routine update meant to keep risk scores tied to current cost experience (CMS, January 2026). CMS also proposed excluding audio-only encounter diagnoses and unlinked chart review records from risk scoring.

In the final rule, CMS kept the audio-only and chart review exclusions but explicitly declined to move forward with the recalibration, stating it wanted to give "the MA market more time to adjust to the recently completed phase-in of the 2024 MA risk adjustment model" (CMS, April 2026). TD Cowen analysts offered a different read, suggesting the administration was wary of coverage disruptions for seniors ahead of the midterm elections (TD Cowen, cited in Healthcare Dive, 2026), while the Better Medicare Alliance, which led the industry's lobbying push, called the outcome a direct response to beneficiary and organizational pressure (Better Medicare Alliance, cited in Healthcare Dive, 2026). Both readings can be true at once, and neither changes the actuarial reality underneath them: a recalibration to more current data was proposed, drafted, and then paused. It was not withdrawn as unnecessary.

A Deferred Correction Is Not a Canceled One

This is the part of the story I think gets lost in the "gift to insurers" framing. Anyone who has built a Medicare Advantage bid off actuarial data knows risk model recalibrations exist because risk scores drift from actual cost experience over time as coding practices, encounter types, and population mix evolve. Pausing a recalibration does not stop that drift. It means the 2018 to 2019 baseline keeps running one more year past its intended shelf life.

I directed Medicare Advantage bid strategy and CMS-HCC risk-adjustment forecasting for many years, and I have watched this pattern before. CMS holds a correction back for a cycle, the industry treats the reprieve as durable, and the deferred adjustment eventually lands all at once in a later bid year with far less lead time to build medical cost trend and benefit design around it. The fact that CMS phased the 2024 model in over three years specifically to soften its impact is itself proof the agency knows abrupt recalibrations are disruptive to plan pricing (CMS, April 2026). A one-year pause on the next recalibration does not eliminate that disruption risk. It concentrates it into whatever year CMS finally acts, most likely with less warning than this cycle gave the market.

The Star Ratings Signal Nobody Is Talking About

Quietly buried in the same announcement is a detail I think deserves more attention than it has gotten. Star Ratings adjustments are expected to reduce 2027 payments by 0.03 percent (CMS, April 2026). That is a small number in isolation, but it confirms Quality Bonus Payment pressure has not eased even as base rates rose. I wrote earlier this year that Medicare Advantage bid strategy had gotten harder and most plans were still using an old playbook, and this is another data point for that argument. Plans that assume a friendlier rate environment also means friendlier quality bonus dynamics are working from the wrong assumption.

What This Means for 2027 and 2028 Bid Strategy

Health plan finance and actuarial leaders should treat the 2.48 percent, and the 4.98 percent effective increase behind it, as a one-year tailwind built on a paused correction, not a new baseline. I think three things follow directly. Benefit design and medical cost trend assumptions for 2027 bids should not be built on the expectation that this rate environment repeats in 2028. Plans should independently model what the shelved 2023 to 2024 data recalibration would mean for their specific risk score mix, rather than waiting for CMS to reintroduce it without warning. And value-based and risk-based contracts with provider partners should carry enough flexibility to absorb a payment correction that arrives later and larger than this year's reprieve suggests.

The plans that come out ahead when this correction eventually lands will be the ones that priced conservatively into the calm rather than the ones that spent the windfall. CMS did not decide the industry's cost experience had improved this cycle. It decided to postpone recognizing where that experience actually sits, and the finance leaders who bake this year's number into multi-year strategy without accounting for what sits behind it are pricing off a figure that was never meant to be permanent.

References

1. Centers for Medicare & Medicaid Services, 2027 Medicare Advantage and Part D Advance Notice Fact Sheet, January 2026.

2. Centers for Medicare & Medicaid Services, 2027 Medicare Advantage and Part D Rate Announcement Fact Sheet, April 2026.

3. Healthcare Dive, CMS finalizes higher Medicare Advantage rates for 2027 in gift to insurers, April 2026.

4. TechTarget Healthcare Payers, Insurers get a 2.48% MA pay bump after close call with a flat rate, April 2026.