

January 15, 2000

**NOTE TO:** Medicare+Choice Organizations and Other Interested Parties

**SUBJECT:** Advance Notice of Methodological Changes for Calendar Year (CY) 2001 Medicare+Choice (M+C) Payment Rates

In accordance with Section 1853(b)(2) of the Social Security Act, we are required to notify you of any proposed changes in the M+C capitation rate methodology, or risk adjustment methodology, for CY 2001. A preliminary estimate of the national per capita M+C growth percentage for aged Medicare beneficiaries, and the methodology changes for CY 2001, are attached.

Comments or questions may be addressed to:

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In order to receive consideration prior to the March 1, 2000, announcement of M+C capitation rates, comments must be received by January 31, 2000.

/ s /

Robert A. Berenson, M.D.  
Director  
Center for Health Plans and Providers

/ s /

Solomon Mussey, A.S.A.  
Director  
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Attachments

## Attachment 1

### Preliminary Estimate of the National Per Capita Growth Percentage for Calendar Year (CY) 2001

The Balanced Budget Act of 1997 (BBA) changed the payment methodology for determining payments to Medicare+Choice (M+C) organizations. This payment methodology is based in part on increases in the national per capita M+C growth percentage as defined in Section 1853(c)(6) of the Social Security Act (the Act). In this notice, we provide preliminary estimates of: (1) the national per capita M+C growth percentage for aged enrollees in CY 2001, and (2) the increase in the floor payment rate for aged beneficiaries in CY 2001. Each of these estimates reflects the components required by the BBA: an underlying trend change for CY 2001, a statutory adjustment of -0.5 percent (as required by section 1853(c)(6)(B) of the Act), and an adjustment for changes in the estimates of prior years' growth percentages.

The current estimate of the change in the national per capita M+C growth percentage for aged enrollees in CY 2001 is -1.3 percent. This estimate reflects an underlying trend change for CY 2001 in per capita costs of 6.0 percent, an adjustment of -0.5 percent (as required by section 1853(c)(6)(B) of the Act), and an adjustment for the fact that the current estimate of prior years' cumulative aged M+C growth percentages (for CYs 1998, 1999, and 2000) is 6.5 percent lower than the estimates actually used in calculating the CY 2000 capitation rate book (as required by Section 1853(c)(6)(C) of the Act). Since the preliminary estimate of the national per capita M+C growth percentage for CY 2001 is significantly lower than 2 percent, county rates not at the floor payment will likely increase by the 2 percent minimum increase as required by Section 1853(c)(1)(C) of the Act. (In the absence of the BBA provision of an annual 2 percent minimum increase, these estimates suggest that the rates for many counties would have decreased significantly in 2001 as a result of the overstatement of the calendar year 2000 ratebook.)

The preliminary estimate of the floor for aged beneficiaries in CY 2001 is \$414.90, which represents a 3.3 percent increase over the CY 2000 floor of \$401.61. As with the estimate of the national per capita M+C growth percentage, this estimate reflects an underlying trend change for CY 2001 in per capita costs of 6.0 percent and an adjustment of -0.5 percent (as required by section 1853(c)(6)(B) of the Act). This estimate of the rate of change for the floor also includes an adjustment for revised estimates of prior years' aged M+C growth percentages used in calculating the CY 2000 rate book (for CYs 1999 and 2000) of -2.1 percent. Unlike the prior years' adjustment for the area-specific rates, the prior years' adjustment for the floor does not include an adjustment for CY 1998. This is because CY 1998 was the statutory base year for the floor (Section 1853(c)(1)(B)(i) of the Act). We correct only for estimates in the rates of increase after the base year.

The following table summarizes the estimates for the change in national per capita M+C growth percentage and in the floor increase:

	National Per Capita Growth Percentage (for Blend)	Floor Increase
2001 Trend Change	6.0%	6.0%
BBA Adjustment	-0.5%	-0.5%
Revision to CY 1998 Estimate	-4.5%	N/A
Revision to CY 1999 Estimate	-3.6%	-3.6%
Revision to CY 2000 Estimate	1.5%	1.5%
Total Change	-1.3%	3.3%

NOTE: These numbers are multiplicative, not additive. The numbers are also not exact, due to rounding.

These estimates are preliminary and could change before the final rates are announced on March 1. Further details on the derivation of the national per capita M+C growth percentage will also be presented in the March 1 announcement.

## **Attachment 2**

### **Changes in Methodology Since Calendar Year (CY) 2000 Rates**

#### **A. Risk Adjustment System**

There are no revisions to the Principal Inpatient-Diagnostic Cost Group (PIP-DCG) risk adjustment methodology or the risk factor tables for CY 2001. The risk factor tables and the PIP-DCG payment model software can be found on the HCFA Web site. The risk factor tables are located at: <http://cms.hhs.gov/healthplans/rates/2000/cover-03.asp>. The PIP-DCG payment model software is at: <http://cms.hhs.gov/healthplans/rates/>; click on the link for [pipprogs.zip](#).

#### **B. Risk Adjustment Transition**

In the January 15, 1999, Advance Notice of Methodological Changes for the CY 2000 Medicare+Choice (M+C) Payment Rates, we announced that the Health Care Financing Administration (HCFA) would include a transition period as a component of our risk adjustment methodology, using a blend of payment amounts under the demographic adjustment system and the PIP-DCG risk adjustment methodology. Under the blend, payment amounts for each enrollee are separately determined using the demographic and risk methodologies (i.e., taking the separate demographic rate and the rescaled risk rate and applying the demographic and risk adjustments, respectively). Those payment amounts are then blended according to the designated percentages for the transition year.

Section 511(a)(2)(ii)(I) of the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (P.L. 106-113) provides that the risk adjustment blend percentage for CY 2001 will be 10 percent. During CY 2001, therefore, payment for each beneficiary will consist of 90 percent of the payment amount determined under the demographic-adjustment methodology and 10 percent of the payment amount determined under the risk adjustment methodology.

#### **C. M+C Payments for Beneficiaries Enrolled as Qualifying Individuals**

The Balanced Budget Act of 1997 (BBA) established "Qualified Individuals" for CY 1998 through 2002. Qualified Individuals are low-income Medicare beneficiaries for whom state Medicaid programs cover all or a portion of Medicare Part B premiums. Qualified Individuals, by definition, have higher incomes than other groups for whom Medicaid pays Medicare cost sharing and premiums.

As announced in the January 1999 notice, the M+C payment rates established by the BBA are adjusted in two ways for CY 2001--using demographic factors alone and risk adjustment factors in combination with demographic factors. Both sets of adjustments include a Medicaid factor, and both types of payment adjustments result in additional payments for beneficiaries with Medicaid coverage. While the overall costs of Qualified Individuals are accounted for in the risk adjustment model, these new categories of individuals eligible for assistance under the Medicaid program were not considered in the specific calibration of the existing Medicaid factors, making application of these Medicaid factors to Qualified Individuals incorrect. Further, we do not have the authority to modify the CY 1997 payment rates on which M+C payments are based to reflect the distribution of Qualified Individuals among the Medicare residents of each county. For these reasons, we believe capitation payments for Qualified Individuals at Medicaid amounts are inappropriate. To the extent that payments have been made at the Medicaid rate for these individuals, this will no longer occur in CY 2001. We will analyze the Medicare costs of Qualified Individuals compared with those for other Medicare beneficiaries in the context of our work on future improvements to risk adjustment under M+C.

In CY 2001, Medicare will not make Medicaid adjustments to the M+C capitation rates when computing payments for M+C enrollees whom states identify to us as Qualified Individuals. All other factors will apply as usual. HCFA will identify Qualified Individuals to the extent possible from the data submitted by the States. M+C organizations may not present such individuals as eligible for Medicaid payment adjustments. This policy applies to payments under both the demographic adjustment system and the PIP-DCG risk adjustment system.

Explicit program guidance on the timing of this change in CY 2000 will be forthcoming.

#### **D. Treatment of Certain Demonstrations**

Certain demonstration projects involve the provision of care to special populations, such as the frail elderly. These projects include Evercare, the Program of All-inclusive Care for the Elderly (PACE), the Social Health Maintenance Organization (SHMO) demonstration, the Minnesota Senior Care Project, and the Wisconsin Partnership Demonstration. These projects currently provide enhanced benefit packages and are paid based on adjustments to M+C capitation rates that are specific to each demonstration model. In the January 1999 notice, we announced that because of the unique features of these projects, we had decided to delay implementation of a risk adjusted payment system for organizations participating in these demonstrations until we had additional information.

We continue to study refinements to the risk adjustment methodology that would address the special circumstances of these demonstrations. Payment approaches that rely upon any of a number of possible data sources are under consideration. We have begun collecting encounter data and survey-based data from the Evercare, PACE, and SHMO demonstrations. We are analyzing these data to help us assess the appropriateness of various payment approaches.

The analyses will not be completed in time to apply any recommended refinements in CY 2001. Therefore, we have decided to continue to delay implementation of M+C risk adjustment for organizations participating in these demonstrations. We will temporarily maintain the present payment approaches and not use the M+C risk adjustment model for payment to these demonstrations in CY 2001.

#### **Future Refinements to M+C Payment: Supplemental Payment for Outpatient Management of Congestive Heart Failure**

In previous discussions of the Medicare+Choice payment system, we indicated that we would continue to consider refinements prior to the implementation of a comprehensive risk adjustment system in CY 2004. We have received many comments raising concern about the need to reimburse plans for the outpatient management of certain chronic conditions, especially Congestive Heart Failure (CHF). As one of the most frequently billed inpatient diagnoses, CHF is unique in its prevalence and the degree to which it can be successfully managed on an outpatient basis. In response to the comments we have received on this matter, we have consulted with experts in CHF, disease management, and risk adjustment on whether and how payments could be refined to provide for recognition of outpatient management of CHF until a comprehensive risk adjustment model is ready for implementation in 2004. We are working to develop an approach to this issue, which could be implemented for payment in CY2002. The Health Care Financing Administration will meet with industry and CHF experts during 2000 to identify specific criteria for recognition of outpatient management of CHF. Any changes in the Medicare+Choice payment methodology will be announced in the January 15, 2001, Advance Notice of Methodological Changes for the CY 2002, and would apply only to payments in 2002 and 2003.