

**ANNOUNCEMENT OF CALENDAR YEAR (CY) 2007 MEDICARE ADVANTAGE
CAPITATION RATES AND MEDICARE ADVANTAGE AND PART D PAYMENT POLICIES
FACT SHEET**

- **Average MA Rate Increase: The average MA rate increase for 2007 will be 4%.** After taking into account the budget neutrality factor, restandardization of the risk ratebooks due to recalibration of the CMS-HCC risk adjustment model, and the National Per Capita MA Growth Percentage, CMS has determined that the risk rates, on average, will increase by approximately 4% in 2007. Assuming that plans' risk scores in 2007 are approximately the same as in 2006, we expect plan payments will increase, on average, by approximately 1.1%. This is the net result of an average 4% increase in payment rates and the reduction in plan risk scores by the 2.9% fee-for-service normalization factor (discussed below). If a plan's risk score increases between 2006 and 2007, the increase in their payment would be greater than 1.1 percent.
- **National Per Capita MA Growth Percentage for CY 2007: The final estimate of the 2007 growth percentage is 7.1%.** This MA Growth Percentage is used to determine the minimum percentage increase rate. The pre-BN 2007 rate in each county is either the newly tabulated pre-BN FFS rate or the 2006 pre-BN rate increased by the growth percentage. Because some counties end up with increases of greater than 7.1%, the overall average increase in pre-BN rates is 7.8% over 2006 pre-BN rates.
- **Budget Neutrality Adjustment: The budget neutrality (BN) adjustment to the rates for 2007 is 3.9%.** As required by the DRA, 2007 is the first of four phase-out years; 55% of the total budget neutrality factor of 1.071 is applied to the risk rates. The size of the total BN factor is determined by the health status of the enrollees in the MA organizations, relative to enrollees in FFS Medicare. The BN factor is calculated as the estimated difference between payments to MA organizations at 100% of the demographic rates and payments at 100% of the risk rates.
- **Fee-For-Service Normalization: The fee-for-service normalization factor for 2007 is 1.029.** Because average predicted FFS expenditures increase after the model calibration year, CMS applies a FFS normalization factor to adjust beneficiaries' risk scores so that the average risk score is 1.0 in any particular year. The CMS-HCC model to be used in 2007 is normalized to a 1.0 risk score for 2005. In order to apply FFS normalization for the period between 2005 and the 2007 payment year, CMS will apply the FFS normalization factor to beneficiaries' risk scores when calculating 2007 plan payments. If a plan's risk score increases in 2007, as has been the trend in recent years, then payments will be higher.
- **Other changes for 2007:**
 - **The relative risk factors in the CMS-HCC risk adjustment model were recalibrated.** CMS used more recent diagnosis and claims data to update the relative risk factors used to produce risk scores for all Medicare beneficiaries. The recalibrated model reflects more recent trends in utilization and coding.

- **FFS rates were rebased.** Rebasement of the FFS rates means that CMS retabulates the per capita FFS expenditures for each county so that the FFS rates reflect more recent county growth trends in FFS expenditures. CMS uses the most recent complete FFS claims data available when retabulating FFS expenditures. For the 2007 rates, the geographic index for each county (the ratio of county to national per capita county FFS expenditures) is based on the average of 5 years of FFS data (2000 through 2004). The county geographic index is applied to the projected FFS USPCC to get the new FFS rate. If a county's 2007 FFS rate is greater than its 2007 minimum percentage increase rate, then the final 2007 capitation rate for that county is the FFS rate. This year, 6% of counties received FFS rates.
- **The risk ratebooks were restandardized.** CMS restandardizes the risk rates when the risk adjustment model is recalibrated. CMS adjusts county capitation rates to align with the relative health status of beneficiaries living in each county, compared to the national average of 1.0. To restandardize the rates, the average rate in each county is divided by the county average risk score.

For further information, please refer to the complete *Announcement of Calendar Year (CY) 2007 Medicare Advantage Capitation Rates and Medicare Advantage and Part D Payment Policies* on the CMS Web site at

<http://www.cms.hhs.gov/MedicareAdvtgSpecRateStats/AD/list.asp?filtertype=none&datefiltertype=&datefilterinterval=&datafiltertypename=Rate+Year&datafiltertype=1&datafiltervalue=2007&keyword=&cmdFilterList=Refresh+List>

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