

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
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**CENTER FOR MEDICARE**

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**DATE:** October 2, 2020  
**TO:** All PACE Organizations  
**FROM:** Jennifer R. Shapiro, Director, Medicare Plan Payment Group  
**SUBJECT: Payment Adjustments to PACE Organizations for Calendar Years 2010 - 2020**

The Centers for Medicare & Medicaid Services (CMS) is notifying Program of All-Inclusive Care for the Elderly (PACE) organizations of a correction that will be made to the PACE payment rates for PACE participants who are End-Stage Renal Disease (ESRD) beneficiaries for calendar years 2010 through 2020. This correction will result in PACE organizations receiving a positive payment adjustment from CMS. As required by section 1894(d)(3) of the Social Security Act (Act), and discussed in more detail below, PACE capitation rates are not subject to a statutory phase-out of indirect medical education (IME) costs from Medicare Advantage (MA) capitation rates. However, CMS incorrectly applied the IME phase-out to PACE payments for ESRD beneficiaries in dialysis and transplant statuses for calendar years 2010 through 2020 and for ESRD beneficiaries in functioning graft status for calendar years 2010 and 2011. We have published revised PACE state-level ESRD rates for the applicable years on the CMS website: <https://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Ratebooks-and-Supporting-Data>. The PACE state-level ESRD rates and the PACE non-ESRD county rates are contained in the same file. As the PACE non-ESRD county rate files already reflect the correct calculations, we have only revised the PACE state-level ESRD rates. From 2021 onward, all PACE payment rates will be calculated without application of the IME phase-out.

**Background**

*Rate Development in Medicare Advantage and PACE*

Pursuant to section 1853(a)(1)(H) of the Act, CMS establishes separate rates of payment for ESRD beneficiaries for MA plans. MA plans are paid a statewide ESRD rate, multiplied by a beneficiary's risk score, for beneficiaries in dialysis status. For those beneficiaries in transplant status, the payments are calculated by multiplying the appropriate transplant factor by the applicable state rate. MA plans are paid a non-ESRD county benchmark rate, multiplied by a beneficiary's risk score, for beneficiaries in functioning graft status. MA state ESRD rates for enrollees in dialysis or transplant status are based on historical FFS reimbursement and enrollment data for beneficiaries in dialysis status for each state.

As required by section 1853(k)(4) of the Act, enacted in section 161 of the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) (Pub. L. 110-275), CMS began

phasing out IME amounts from MA county benchmarks and the MA ESRD state rates in 2010. Previously, MA capitation rates included the amounts that FFS Medicare paid for the higher patient costs associated with teaching hospitals relative to non-teaching hospitals.

Section 1894 of the Act establishes that PACE organizations are reimbursed through prospective monthly capitation amounts, in the same manner and from the same sources as payments are made to MA organizations under section 1853. However, section 1894(d)(3) of the Act provides that PACE organization payments are not subject to the IME phase-out under section 1853(k)(4) of the Act.

Since 2010, CMS mistakenly paid incorrect amounts to PACE organizations because it paid them ESRD state rates developed for MA plans that reflected the IME phase-out, for those beneficiaries who are in dialysis and transplant statuses and are enrolled in PACE organizations. For 2010 and 2011, CMS paid PACE organizations using the MA county rates for beneficiaries enrolled in PACE organizations who are in functioning graft status, which also reflected the IME phase-out.

### **Payment Adjustment**

CMS will include in its future payments to PACE organizations a PACE ESRD payment adjustment for calendar years 2010 through 2020 for dialysis and transplant beneficiaries, and for calendar years 2010 and 2011 for functioning graft beneficiaries, to reflect the corrected ESRD PACE rates that include the IME amounts. This will result in PACE organizations receiving a positive payment adjustment from CMS. At this time, we anticipate that we will be able to make the payment adjustment by December 2020. Please refer to the monthly payment memos for the specific month in which the adjustments are made.