



Centers for Medicare & Medicaid Services

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TO: Medicare Advantage Organizations

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Subject: Calendar Year 2023 Preliminary Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component of the Medicare Advantage Value-Based Insurance Design Model

Background and General Information

Beginning in calendar year (CY) 2021, within the Value-Based Insurance Design (VBID) Model's Hospice Benefit Component, the Centers for Medicare & Medicaid Services (CMS) is testing the impact on quality and program expenditures of incorporating the Medicare Part A hospice benefit into the Medicare Advantage (MA) program with the goal of creating a seamless continuum of care for Part A and Part B services. In voluntarily participating in this Model component, Medicare Advantage Organizations (MAOs) are incorporating the Medicare hospice benefit into MA-covered benefits while offering comprehensive palliative care services outside the hospice benefit for enrollees with serious illness. In addition, participating MAOs are able to provide individualized, clinically appropriate transitional concurrent care through in-network providers and offer hospice-specific supplemental benefits.¹

On April 9, 2021, CMS released the CY 2022 Final Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component² (referred to henceforth as the CY 2022 Final Actuarial Methodology), the CY 2022 Hospice Capitation Ratebook,³ and the CY 2022 Data Book for the Hospice Benefit Component.⁴ The CY 2022 Final Actuarial Methodology reflects CMS'

¹ For additional details on the Hospice Benefit Component, please refer to the CY 2023 Request for Applications, available at <https://innovation.cms.gov/innovation-models/vbid>.

² The CY 2022 Final Actuarial Methodology is available on the CMS website at <https://innovation.cms.gov/media/document/vbid-hospice-final-actuarial-2022-meth>.

³ The CY 2022 Hospice Capitation Ratebook is published at <https://innovation.cms.gov/media/document/vbid-hospice-final-2022-cap-ratebook>.

⁴ The CY 2022 Final Hospice Benefit Component Data Book for year-1 rates is available at <https://innovation.cms.gov/media/document/vbid-hospice-final-2022-yr1> and for year-2 rates is available at <https://innovation.cms.gov/media/document/vbid-hospice-final-2022-yr2>.

continued commitment to maintaining the full Medicare hospice benefit while providing MAOs with the flexibility to develop and implement innovative approaches to serious illness care.

For CY 2023, the actuarial methodology will be consistent with that used for CY 2022, except for preliminary changes identified in this memorandum's CY 2023 Preliminary Hospice Capitation Payment Rate Actuarial Methodology (referred to henceforth as the CY 2023 Preliminary Actuarial Methodology). Additionally, in developing the hospice capitation rates for CY 2023, CMS will consider policy objectives that are similar to those used in developing such rates for CY 2022, including the following:

- To the extent possible, maintaining a simple, transparent, and clear payment structure and cost-neutral rates so that, for CY 2023, the aggregate 2023 capitation rate equals the aggregate estimated 2023 Medicare fee-for-service (FFS) payment (plus an administrative load);
- Continuing to ensure accuracy of rates to the extent possible while moving from a granular four-level per diem FFS payment structure, which automatically adjusts for length of stay and service intensity, to a monthly capitation rate, with capitation offering opportunities for improved quality management;
- Primarily measuring accuracy on an aggregate basis by Core-Based Statistical Areas (CBSAs);
- To the extent possible and appropriate, developing rates as MA benchmarks are developed while following actuarial guidance and practices; and
- Aligning payment structure with Model policy objectives to (i) promote hospice enrollment early enough in the disease trajectory to allow for the delivery of the range of services necessary to promote comfort, while also discouraging very short stays (which provide little time for an enrollee with a terminal illness to benefit from hospice services and which occur after significant costs with acute medical care have often been incurred); and (ii) reduce the financial incentive for very long stays that are present in the current FFS payment system⁵ to help ensure appropriate access and utilization of the Medicare hospice benefit under the Model.

In April 2022, CMS will release the CY 2023 Final Hospice Capitation Payment Rate Actuarial Methodology, the CY 2023 Hospice Capitation Ratebook, and the CY 2023 Data Book for the Hospice Benefit Component.

Consistent with CY 2022, CMS continues to expect that increased usage of the Hospice Benefit Component in CY 2023 will result in improvements in financial accountability for the hospice benefit and timely access to high-quality palliative and hospice care for Medicare beneficiaries. CMS is looking forward to continuing to work with stakeholders to achieve the shared goals of transforming and improving serious illness care for these beneficiaries.

As part of these collaborative efforts, CMS will offer stakeholders an opportunity to discuss the CY 2023 Preliminary Actuarial Methodology with CMS staff during the Overview of the 2023

⁵ Medicare Payment Advisory Commission (MedPAC). Report to Congress: Medicare Payment Policy, Chapter 12: Hospice Services. March 2020. Retrieved from https://www.medpac.gov/wp-content/uploads/import_data/scrape_files/docs/default-source/reports/mar20_medpac_ch12_sec.pdf.

VBID Request for Applications webinar, which is scheduled for Thursday, March 10, 2022 at 3:00 PM Eastern Time. Registration details are available at <https://acumenllc.webex.com/acumenllc/onstage/g.php?MTID=e8a2ee786ad10babc3e4c10c60c30db7f>.

To submit comments or questions electronically regarding the CY 2023 Preliminary Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component, email VBID@cms.hhs.gov. In order to receive consideration prior to the release of the CY 2023 Final Hospice Capitation Payment Rate Actuarial Methodology, comments must be received by 6:00 PM Eastern Time on Friday, March 25, 2022.

Key Preliminary Updates from the CY 2022 Final Actuarial Methodology

Below, CMS identifies the key updates to the CY 2022 Final Actuarial Methodology to reflect the CY 2023 hospice capitation rate-setting process, including refinements to the pricing calculations to enhance the accuracy of the CY 2023 hospice capitation rates.

Base Data for CY 2023 Hospice Capitation Rates

- CMS will continue to use a 3-year experience period in the base data, as described in section 2.3 of the CY 2022 Final Actuarial Methodology, but will advance this period 1 year— from a 3-year period of CY 2017 through CY 2019 to that of CY 2018 through CY 2020.
- In CY 2022, as described in section 2.3 of the CY 2022 Final Actuarial Methodology, there were two distinct rates: (i) use of hospice stays that begin in each of the calendar years (year-1 rates) and (ii) use of hospice stays that begin in each of the calendar years and the prior year (year-2 rates).

For CY 2023, CMS intends to continue with the development of two sets of rates. Consistent with CY 2021 and CY 2022, CMS will develop year-1 rates, which will be drawn only from hospice episodes that begin in each base year. The experience supporting the second set of rates (referred to henceforth as mature-year experience or mature-year rates) will include in the base experience hospice episodes that started in all years. CMS' preliminary analysis shows that the national average month 2+ rate will be 2.9 percent lower for the mature-year Model experience than for the year-1 Model experience.

In order to operationalize this rating structure, CMS plans to use mature-year Model experience in counties where the Hospice Benefit Component was offered in CY 2022 and to use year-1 rates in counties where the Hospice Benefit Component was not offered in CY 2022. This method will still result in one ratebook for the Hospice Benefit Component; however, rates will be independently developed to reflect year-1 and mature-year rates depending on whether a plan benefit package (PBP) participated in a county offering the Hospice Benefit Component in CY 2022.

Refinements to Repricing

For CY 2023, CMS will reprice the CY 2018–2020 historical hospice FFS-paid claims experience to FY 2022. The repricing of these claims will use the FY 2022 per diem payment rates for four levels of care—routine home care (RHC), continuous home care (CHC), inpatient respite care (IRC), and general inpatient care (GIP)—and the FY 2022 Hospice Wage Index.

Consistent with the 2022 rates, the repricing will be based on the provider CBSA for IRC and GIP and on the place of residence for RHC and CHC. Repricing for CHC will be based on CHC units and the published FY 2022 hourly rate for CHC.

CBSA Changes

As stated in the FY 2022 Hospice Wage Index and Payment Rate Update Final Rule (CMS-1754-F),⁶ there were no changes in the mapping of counties to CBSAs from FY 2021 to FY 2022. Accordingly, the development of the CY 2023 VBID hospice rates at the CBSA level will be based on the same county-to-CBSA mappings as were the CY 2022 VBID hospice rates.

Labor Shares of Related Payments

Based on 2018 Medicare cost report data, the FY 2022 labor shares of hospice payments have been revised from the FY 2021 payments. The updated labor shares are included in table 1 of the FY 2022 final hospice regulation and are reflected in the table below. CMS is proposing to use the FY 2022 labor shares in the tabulation of the CY 2023 VBID hospice rates.

Table 1. Labor Shares of Hospice Payments

Description	FY 2021 Labor Shares	FY 2022 Labor Shares
Routine Home Care (Days 1–60)	68.71%	66.00%
Routine Home Care (Days 61+)	68.71%	66.00%
Continuous Home Care	68.71%	75.20%
Inpatient Respite Care	54.13%	61.00%
General Inpatient Care	64.01%	63.50%

Update to the Hospice Provider Inpatient and Aggregate Caps

For CY 2023, CMS will use the same methodology to recognize the hospice provider inpatient and aggregate caps, but this methodology will reflect hospice experience during 2018–2020 rather than during 2017–2019.

Claim Completion Factors

CMS will use the same methodology as described in section 2.4d of the CY 2022 Final Actuarial Methodology to update the hospice FFS-paid claim and non-hospice FFS-paid claim completion

⁶ CMS. Medicare Program; FY 2022 Hospice Wage Index and Payment Rate Update (CMS-1754-F). Retrieved from <https://www.govinfo.gov/content/pkg/FR-2021-08-04/pdf/2021-16311.pdf>.

factors for 2018–2020.

Updates to Trends for Hospice FFS-Paid Claims (Related per Diem Payment Rates)

CMS will apply a trend to increase repriced 2022 per diem payment rates from FY 2022 to FY 2023 (for claims incurred in January through September) and from FY 2022 to FY 2024 (for claims incurred in October through December). Thus, the trending of the hospice claims will be based on the incurred month of the claim; that is, if the claim was incurred in the first 9 months of the calendar year, a 1-year trend will be applied, and if it was incurred in the last 3 months of the calendar year, a 2-year trend will be applied. Table 2 includes the annual trend rates applied to the hospice claims. These values are based on the latest CMS projection of the inpatient hospital market basket offset by the legislated multifactor productivity adjustment.

Table 2. Preliminary Trends for Hospice FFS-Paid Claims

Fiscal Year	Trend
2022 to 2023	2.70%
2023 to 2024	2.70%

Updates to Trends for Non-Hospice FFS-Paid Claims

Table 3 shows the preliminary trend factors for the non-hospice FFS-paid claims using the FFS United States per capita cost (USPCC) – Non-ESRD trends from the CY 2023 Advance Notice.⁷

Table 3. Preliminary Trends for Non-Hospice FFS-Paid Claims

Calendar Year	Trend
2018 to 2019	3.80%
2019 to 2020	-4.10%
2020 to 2021	10.67%
2021 to 2022	8.82%
2022 to 2023	5.48%

⁷ CMS. Advance Notice of Methodological Changes for Calendar Year (CY) 2023 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies. Retrieved from <https://www.cms.gov/files/document/2023-advance-notice.pdf>.

Updates to Service Mix Change

Using a methodology similar to that described in section 2.4b of the CY 2022 Final Actuarial Methodology, CMS studied the 2017–2020 mature-year experience for average number of service days and weighted per diem amounts, based on FY 2022 per diem rates.

The experience and trends are summarized in table 4. For purposes of analysis, the service days in column a, and the weighted per diem amounts in column g, were multiplied by each other to arrive at a composite value in column h.

A component of the analysis is a comparison of the 2017–2020 annual trend in the service days per stay month and the differences in the distribution of services by type. CMS determined that, for some items, the trends and differences for 2019–2020 were not consistent with those for 2017–2018 and 2018–2019. It is likely that these variations are due in part to the COVID-19 pandemic and will not be present to the same extent in payment year CY 2023. Accordingly, the following adjustments were made to the 2020 experience:

- Service days per stay month were changed from 23.00 to 23.27.
- Distribution of services for IRC was changed from 0.19 percent to 0.33 percent.
- Distribution of services for GIP was changed from 0.98 percent to 1.03 percent.
- Distribution of services for CHC was changed from 0.13 percent to 0.14 percent.
- To offset the adjustments made to IRC, GIP, and CHC, a value of 0.10 was subtracted from the distribution of services for RHC 1–60 and RHC 61+.

Use of the adjusted 2020 value yields the following adjustments proposed for the base experience:

- 2018 experience: 0.37 percent
- 2019 experience: 0.15 percent
- 2020 experience: 1.71 percent

Finally, consistent with the VBID hospice actuarial methodology for the CY 2021 and CY 2022 rates, no additional trend will be applied from 2020 to 2023.

Table 4. Service Day Utilization and Intensity Adjustment, Mature-Year Rates

Period	Service Days Per Stay Month (a)	Mix of Service Days					Weighted Per Diem (g)	Composite (h) = a * g
		RHC 1-60 (b)	RHC 61+ (c)	IRC (d)	GIP (e)	CHC (f)		
FY 2022 Per Diem		\$203.40	\$160.74	\$473.25	\$1,068.28	\$1,462.52		
Service days and weighted per diem								
	<i>Value</i>	<i>Distr.</i>	<i>Distr.</i>	<i>Distr.</i>	<i>Distr.</i>	<i>Distr.</i>	<i>Value</i>	<i>Value</i>
CY 2017	22.62	32.58%	65.53%	0.32%	1.37%	0.20%	\$190.68	\$4,313.08
CY 2018	22.80	32.09%	66.17%	0.33%	1.23%	0.18%	\$188.97	\$4,308.44
CY 2019	23.05	31.22%	67.16%	0.33%	1.12%	0.16%	\$187.32	\$4,317.75
CY 2020	23.00	30.32%	68.38%	0.19%	0.98%	0.13%	\$184.85	\$4,251.65
CY 2020 (adjusted)	23.27	30.22%	68.28%	0.33%	1.03%	0.14%	\$185.83	\$4,324.26
Annual trend / difference								
	<i>Trend</i>	<i>Diff.</i>	<i>Diff.</i>	<i>Diff.</i>	<i>Diff.</i>	<i>Diff.</i>	<i>Trend</i>	<i>Trend</i>
2017-2018	0.80%	-1.00	0.64%	0.01%	-0.14%	-0.02%	-0.90%	-0.11%
2018-2019	1.10%	-1.00	0.99%	0.00%	-0.11%	-0.02%	-0.87%	0.22%
2019-2020	-0.22%	-1.00	1.22%	-0.14%	-0.14%	-0.03%	-1.32%	-1.53%
2019-2020 (adjusted)	0.95%	-1.00	1.12%	0.00%	-0.09%	-0.02%	-0.79%	0.15%
Annual trend / difference								
CY 2018 experience (change in composite value from 2018 to 2020 adjusted)								0.37%
CY 2019 experience (change in composite value from 2019 to 2020 adjusted)								0.15%
CY 2020 experience (change in composite value from 2020 undadjusted to 2020 adjusted)								1.71%

Change in the Month 1 Tier Adjustment

CMS intends to maintain the month 1 tiers for the year-1 rates listed in table 1a of the CY 2022 Final Actuarial Methodology. These tiers, which are shown below, are expected to result in the composite month 1 tier experience equaling the month 1 aggregate year-1 experience:

- 1-6 days: 0.3400 monthly rating factor
- 7-15 days: 0.6400 monthly rating factor
- 16+ days: 1.0030 monthly rating factor

For mature-year rates, CMS proposes the following tiers, which are expected to result in the composite month 1 tier experience equaling the month 1 aggregate mature-year experience:

- 1–6 days: 0.3501 monthly rating factor
- 7–15 days: 0.6590 monthly rating factor
- 16+ days: 1.0328 monthly rating factor

Update to the Administrative Expense

The administrative load, or claims processing cost as a fraction of benefits, will be updated using figures from the CY 2023 Rate Announcement, in alignment with section 2.9 of the CY 2022 Final Actuarial Methodology. The preliminary Medicare Part A administrative load is 0.001038, and the Medicare Part B administrative load is 0.002708.