

Medicare Managed Care Manual

Chapter 18 Subchapter C

Cost Apportionment for HCPPs

Table of Contents

- 10 - Cost Apportionment for HCPPs
 - 10.1 - Objectives of Apportionment
- 20 - HCPP Services Furnished Nonenrolled Medicare Patients
- 30 - Apportionment of Physician and Other Part B Services
- 40 - Apportionment of Medical Services Furnished Directly and Under Arrangements
 - 40.1 - Services Furnished Directly
 - 40.2 - Services Furnished Under Arrangements
- 50 - Emergency and Urgently Needed Medical Services and Other Covered Medical Services for which the HCPP Assumes Financial Responsibility
- 60 - Apportionment of Administrative and General Costs Not Directly Associated With Providing Medical Care
- 70 - Allocation and Distribution of Other Administrative and General Costs
- 80 - Alternate Allocation and Apportionment Methods

10 - Cost Apportionment for HCPPs

(Rev. 30 09-05-03)

The term apportionment, as used here, refers to the process of distributing allowable costs among various groups of cost-based HCPP patients. This chapter sets forth instructions for apportionment of the total allowable direct and indirect costs of the HCPP among Medicare beneficiaries enrolled in the HCPPs, other enrollees, and any nonenrolled patients. Certain costs incurred by HCPPs for the purpose of meeting special Medicare program requirements are separately identified and paid in full by Medicare. These are discussed in Chapter 18, Subchapter B.

10.1 - Objectives of Apportionment

(Rev. 30, 09-05-03)

The objectives of the apportionment process are to assure that:

- Costs of covered care to Medicare enrollees will not be borne by non-Medicare enrollees and nonenrolled patients of the HCPP; and
- Costs of services to non-Medicare enrollees and nonenrolled patients will not be borne by Medicare enrollees.

20 - HCPP Services Furnished Nonenrolled Medicare Patients

(Rev. 30, 09-05-03)

The HCPP may furnish services to Medicare beneficiaries who are not enrolled in the HCPP's prepayment plan. Since the agreement with CMS is limited to Medicare beneficiaries actually enrolled in the HCPP, the cost apportionment process distinguishes between Medicare enrollees of the HCPP and nonenrolled Medicare patients. For services furnished Medicare patients not enrolled in the HCPP, Medicare payment is made through the Part A intermediary or Part B carrier, outside the scope of the cost-based HCPP agreement with CMS.

30 - Apportionment of Physician and Other Part B Services

(Rev. 30, 09-05-03)

The following sections set forth the requirements for apportionment of the allowable costs of physician services and other Part B services. In general, medical services are furnished through the HCPP's medical service facility or through arrangements with a medical group or IPA.

40 - Apportionment of Medical Services Furnished Directly and Under Arrangements

(Rev. 30, 09-05-03)

The apportionment rules contained in this section shall apply to HCPPs.

40.1 - Services Furnished Directly

(Rev. 30, 09-05-03)

The total allowable cost of Part B physician and supplier services (see Chapter 18, Subpart B, §§20) furnished directly shall be apportioned to Medicare on the basis of the

ratio of covered Part B services furnished to Medicare enrollees to total services furnished to all the organizations' enrollees and nonenrolled patients.

The HCPP must use a method for reporting costs and statistics that is approved by CMS. The CMS will base its approval on findings that the method:

- Results in an accurate and equitable allocation of allowable costs; and
- Is justifiable from an administrative and cost efficiency standpoint.

For example, if the HCPP elects to use a relative value system to apportion costs, the HCPP must use the entire system as described by the designer of the system, and obtain CMS approval before implementation.

40.2 - Services Furnished Under Arrangements

(Rev. 30, 09-05-03)

The Part B physician and supplier services that the HCPP furnishes under arrangement are grouped into two categories for apportionment purposes. The basis the HCPP uses to pay for a service determines in which category the service is grouped. The two categories are:

- Services furnished under an arrangement that provides for the HCPP to pay for the service on a fee-for-service basis; and
- Services furnished under an arrangement that provides for the HCPP to pay for the service on some basis other than fee-for-service.

If the arrangement provides for the HCPP to pay for these services on a FFS basis, the total cost for the services furnished under such arrangement shall be apportioned between Medicare enrollees and others based on the ratio of charges for Medicare-covered services furnished to Medicare enrollees to total charges for services furnished to all enrollees and nonenrolled patients. (See payment limitations contained in Chapter 18, Subchapter B, §§30.) If apportionment on this basis would result in Medicare bearing the cost of furnishing services to individuals who are not Medicare enrollees, the Medicare share must be determined on another basis (approved by CMS) to ensure that Medicare pays only for services furnished to Medicare enrollees.

If the arrangement provides for the HCPP to pay for these services on some basis other than FFS, the reasonable cost the HCPP pays, under the financial arrangement for the services furnished, shall be apportioned between Medicare enrollees and others based on the ratio of Medicare-covered services furnished to Medicare enrollees to total services furnished to all enrollees and nonenrolled patients. If apportionment on this basis would result in Medicare bearing the cost of furnishing services to individuals who are not Medicare enrollees, the Medicare share must be determined on another basis (approved by CMS) to ensure that Medicare pays only for services furnished to Medicare enrollees.

50 - Emergency and Urgently Needed Medical Services and Other Covered Medical Services for which the HCPP Assumes Financial Responsibility

(Rev. 30, 09-05-03)

Payments for services to nonplan physicians and suppliers for purchased services, such as emergency or urgently needed care outside the HCPP or unusual specialty services not available within the HCPP, are apportioned to Medicare enrollees in accordance with the principles set forth in [§40](#) of this chapter. In most cases, this will limit CMS' payment to the HCPP to what the FFS system would have paid for the service in that area.

60 - Apportionment of Administrative and General Costs Not Directly Associated With Providing Medical Care

(Rev. 30, 09-05-03)

Enrollment and marketing costs (as defined in Chapter 18, Subchapter B, §50), membership costs (as defined in Chapter 18, Subchapter B, §70), as well as other administrative and general costs of the HCPP that benefit the total enrolled population of the HCPP which are not directly associated with providing medical care, are apportioned on the basis of a ratio of Medicare enrollment to total HCPP enrollment. These costs are classified as Plan Administration costs. Examples of such costs are:

- Directors' salaries and fees;
- Executive and staff administrative salaries;
- Organizational costs; and
- Other costs of administering the plan.

70 - Allocation and Distribution of Other Administrative and General Costs

(Rev. 30, 09-05-03)

Administrative and General (A&G) costs other than those described in [§60](#) of this chapter which bear a significant relationship to the services rendered are not apportioned to Medicare directly. Instead, these costs are allocated or distributed to the components of the HCPP which, in turn, are then apportioned to Medicare in accordance with the rules contained in this chapter. The allocation or distribution process occurs in two steps:

1. The total allowable costs of a separate entity or department that performs administrative services (e.g., centralized purchasing, accounting, data processing) that can be quantitatively measured, should be allocated or distributed to each

- component of the HCPP in reasonable proportion to the benefits received by that component.
2. Those remaining service-related administrative costs that cannot otherwise be distributed or allocated in reasonable proportion to the benefits received by the components, must be allocated to the components on the basis of a ratio of total incurred and distributed cost of the component to total incurred and distributed cost to all components.

80 - Alternate Allocation and Apportionment Methods

(Rev. 30, 09-05-03)

A method of apportionment or basis for allocation of costs other than the methods prescribed in this chapter may be used, provided the desired change results in a more accurate and equitable apportionment or allocation of costs and is justifiable from an administrative cost standpoint. An HCPP that desires to use an alternative method of apportionment or basis for allocation of costs which represents a departure from the method used in the previous cost reporting period, must submit its request to CMS in writing at least 90 days prior to the beginning of the period in which the different method or basis of allocation is to be used. The HCPP's request would state the specific change it desires and explain how this will result in a more accurate and equitable apportionment or allocation.

The CMS' approval of a request to change methods will be given to the HCPP in writing and is binding as of the approval date. Once approval is given, the HCPP is bound to this method for the cost reporting period to which the request applies and all subsequent periods, unless CMS approves a subsequent request to change methods.