

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

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**DATE:** August 30, 2018

**TO:** Medicare-Medicaid Plans Operating in CY 2019

**FROM:** Lindsay P. Barnette  
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Medicare-Medicaid Coordination Office

**SUBJECT:** Updates to MMP Medicare A/B Rate Methodology for CY 2019

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**Background**

The July 11, 2018 HPMS memorandum titled “Proposed Update to MMP Medicare A/B Rate Methodology for CY 2019” described a proposed change to the Medicare A/B rate methodology beginning in CY 2019 for Medicare-Medicaid Plans (MMPs) participating in capitated demonstrations under the Financial Alignment Initiative. CMS solicited feedback from MMPs and other stakeholders on this approach, and received comments from a number of interested parties. We appreciate commenters’ thoughtful feedback. This HPMS memo summarizes and responds to those comments, and provides information on CMS’ decision to implement this approach, as proposed, in CY 2019.

**Additional Information Regarding the Proposed Approach**

A few commenters requested additional information on the proposed methodology, specifically clarification on which rate components would be updated, how the Medicare Advantage (MA) versus Fee-for-Service (FFS) weighting was calculated, and what population was included in the analysis. We are providing additional information to address those questions.

When calculating the Medicare A/B capitation rates for MMPs for non-ESRD beneficiaries, CMS blends the FFS rate component and the MA rate component at the county level. The FFS rate component is the Medicare standardized FFS county rate, with a bad debt adjustment applied for most demonstrations. The MA rate component is calculated based on the amounts that would have been paid to MA plans for Medicare A/B services in the absence of the demonstration, including MA rebates based on county benchmarks that incorporate quality bonuses. To date, the FFS and MA rate components have been weighted by the proportion of the demonstration-eligible population in original Medicare versus MA plans prior to the demonstration start. Also to date, the MA rate component has been based on amounts from the

MA plans in which demonstration-eligible individuals were enrolled prior to the demonstration start, and trended forward to the applicable payment year.

We proposed updating both the MA rate component and the MA versus FFS weighting based on the status of actual MMP enrollees, rather than demonstration-eligible individuals. This approach examines enrollees in each demonstration, by county, and assesses whether they were in MA or original Medicare prior to enrolling in their current MMP. In addition, this approach determines which specific MA plans MMP enrollees were previously enrolled in, if applicable, and uses this plan-specific information to develop the MA rate component. This approach is not limited to individuals who have had continuous demonstration eligibility or MMP enrollment since the beginning of the program, but instead looks at all MMP enrollees at a point in time (as of April 2018 in the development of 2019 rates). Individuals who were in a different MMP prior to enrollment in their current MMP are excluded from the analysis. We are also clarifying that for counties in which there is no MMP enrollment at the time of our analysis, the MMP rate will be based solely on the standardized FFS county rate and will not incorporate an MA component.

Table 1 below shows sample calculations of the Medicare A/B rate under the current approach and the proposed approach, to illustrate which variables would change (the MA rate component and the MA versus FFS weighting) under the proposed approach. As an example, under the current approach, the FFS rate component is \$850 and comprises 85% of the total rate, while the MA rate component is \$785 and comprises 15% of the total rate, resulting in a final rate of \$840 ( $\$850 \times 85\%$  plus  $\$785 \times 15\%$ ). With updates to the methodology under the proposed approach, the FFS rate component remains at \$850 and now comprises 75% of the total rate, while the MA component is updated to \$775 and now comprises 25% of the total rate, resulting in a final rate of \$831 ( $\$850 \times 75\%$  plus  $\$775 \times 25\%$ ). The rate change is a result of both the change in MA versus FFS weighting and the change in the MA rate component.

Background information on the rate setting methodology used in the capitated demonstrations under the Financial Alignment Initiative is available at: <https://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination/Office/FinancialAlignmentInitiative/Downloads/JointRateSettingProcess042517.pdf>.

### **Stakeholder Comments and CMS Responses**

A number of commenters expressed concerns with the proposed methodology, particularly given that it would reduce rates in a number of counties. Commenters expressed concern that rate reductions could impact plan stability, as well as investments MMPs have made in value-based purchasing, quality improvement initiatives, and community-based services. Commenters also expressed concern regarding the timing of this potential change, as commitments for CY 2019 participation were made prior to notification of this proposed rate change. One commenter also expressed concern about implementing this change in demonstrations that are scheduled to end in 2019.

Several commenters expressed concern that focusing only on actual MMP enrollees would

negatively bias the results, and raised concerns regarding the high levels of enrollee turnover in some demonstrations. One commenter questioned using enrollee-only data in demonstrations with low enrollment. Other commenters expressed concern that the proposed update would have an impact on the demonstration evaluation.

Commenters suggested a variety of alternatives including retaining the current approach, not implementing this change in the counties where it would reduce rates, not implementing the change in demonstrations that are ending in 2019, reducing the demonstration savings percentages, delaying the implementation of the proposed approach until 2020, and phasing in the new approach over several years.

While this rate update does result in lower rates for a number of counties, we believe it is an important update to improve rate setting accuracy under the Financial Alignment Initiative. Specifically, this change ensures that the rates more accurately reflect costs absent the demonstrations, a key principle of the Financial Alignment Initiative rate-setting methodology. Based on the status of the capitated model demonstrations and the fact that the initial enrollment phases have long concluded, we believe looking at actual enrollees as of 2018, rather than demonstration-eligible individuals from three to five years ago, is a more appropriate way to reflect costs absent the demonstrations.

We do not believe it is appropriate to only implement this change in the counties where it would have a positive impact on rates or only in certain demonstrations, as that would be methodologically inconsistent. We are open to considering further refinement to this approach for setting rates for 2020, including examining a longer look-back period than the current point-in-time analysis. We note commenters' concerns regarding the timing of notification of this proposed change and the importance of dialogue on future rate changes as early as possible.

One commenter supported the proposed change, but asked that CMS consider additional factors in the MMP rate development process. Other commenters raised concerns regarding the rate approach under the demonstrations more broadly. The concerns included: rates based on MA payments not reflecting the cost of providing MMP benefits; whether FFS county benchmarks are appropriate for the MMP population; concern that current risk scores may not capture all risk associated with the highly complex dual eligible population; the rate approach not addressing MMP-specific administrative expenses; and the approach not reflecting the acuity of MMP members. Commenters provided several alternatives, including using an actuarial build-up of the costs based on actual experience; or using the greater of MA or Special Needs Plans (SNP) rates in determining payments to MMPs. We appreciate this feedback and will continue to explore options for improving the rate-setting approach for the capitated model demonstrations under the Financial Alignment Initiative. We look forward to engaging with stakeholders in discussions of potential options going forward.

## **Next Steps**

CMS will be finalizing the changes to the rate methodology as proposed in the July 11, 2018 HPMS memorandum. CMS expects to distribute final CY 2019 Medicare rate letters to MMPs in September 2018. For any further questions, please contact the Medicare-Medicaid Coordination Office at [mmcocapsmodel@cms.hhs.gov](mailto:mmcocapsmodel@cms.hhs.gov).

**Table 1. Sample Calculation Illustrating Proposed Rate Methodology Change**

		(A)	(B)	(C)	(D)	(E)
		FFS Rate Component, Savings Percentage Applied	MA Rate Component, Savings Percentage Applied	FFS Rate Weight	MA Rate Weight	Final Rate
<b>Current Approach</b>	<b>Value</b>	\$850	\$785	85%	15%	\$840
	<b>Methodology</b>	Standardized FFS County Rate, with Demonstration-Specific Adjustments	MA Rate Component, Based on Demonstration Eligible Individuals	FFS Weight, Based on Demonstration Eligible Individuals	MA Weight, Based on Demonstration Eligible Individuals	$=(A * C) + (B * D)$
<b>Proposed Approach</b>	<b>Value</b>	\$850	\$775	75%	25%	\$831
	<b>Methodology</b>	Standardized FFS County Rate, with Demonstration-Specific Adjustments (no change)	MA Rate Component, Based on Demonstration Enrollees	FFS Weight, Based on Demonstration Enrollees	MA Weight, Based on Demonstration Enrollees	$=(A * C) + (B * D)$