



Centers for Medicare & Medicaid Services

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TO: Medicare Advantage Organizations

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Subject: Calendar Year 2025 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 11, 2023, CMS released the CY 2024 Final Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component² (referred to henceforth as the CY 2024 Final Actuarial Methodology), the CY 2024 Hospice Capitation Ratebook,³ and the CY 2024 Data Book for the Hospice Benefit Component.⁴ The CY 2024 Final Actuarial Methodology reflects CMS'

¹ For additional details on the Hospice Benefit Component, please refer to the CY 2025 VBID Model Request for Applications, available at <https://www.cms.gov/files/document/vbid-cy25-hospice-rfa.pdf>

² The CY 2024 Final Actuarial Methodology is available on the CMS website at <https://www.cms.gov/priorities/innovation/media/document/vbid-cy24-final-hospice-cap-rate-act-methodology>

³ The CY 2024 Hospice Capitation Ratebook is published at <https://www.cms.gov/priorities/innovation/media/document/vbid-cy24-final-hospice-cap-pymt-ratebook>

⁴ The CY 2024 Final Hospice Benefit Component Data Book for year 1 rates is available at <https://www.cms.gov/priorities/innovation/media/document/vbid-cy24-final-hospice-benefit-yr1-rates-data-book> and for mature year rates is available at <https://www.cms.gov/priorities/innovation/media/document/vbid-cy24-final-hospice-databook-mature-yr-rates>

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 2025, the actuarial methodology will be consistent with that used for CY 2024, except for preliminary changes identified in this memorandum's CY 2025 Preliminary Hospice Capitation Payment Rate Actuarial Methodology (referred to henceforth as the CY 2025 Preliminary Actuarial Methodology). Additionally, in developing the hospice capitation rates for CY 2025, CMS will consider policy objectives that are similar to those used in developing such rates for CY 2024, including the following:

- To the extent possible, maintaining a simple, transparent, and clear payment structure and cost-neutral rates so that, for CY 2025, the aggregate 2025 capitation rate equals the aggregate estimated 2025 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.

Consistent with CY 2024, with adequate Model participation, CMS continues to expect that the Hospice Benefit Component in CY 2025 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 interested parties to achieve the shared goals of transforming and improving serious illness care for these beneficiaries.

As part of these collaborative efforts, CMS will offer interested parties an opportunity to discuss the CY 2025 Preliminary Actuarial Methodology with CMS staff during the VBID Model - CY 2025 Request for Application (RFA) webinar, which is scheduled for Thursday, February 15, 2024

⁵ Medicare Payment Advisory Commission (MedPAC). Report to Congress: Medicare Payment Policy, Chapter 10: Hospice Services. March 2023. Retrieved from https://www.medpac.gov/wp-content/uploads/2023/03/Ch10_Mar23_MedPAC_Report_To_Congress_SEC.pdf

at 3:00 PM Eastern Time. Registration details are available at <https://www.cms.gov/vbid-cy2025-rfa-webinar>.

To submit comments or questions electronically regarding the CY 2025 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 2025 Final Hospice Capitation Payment Rate Actuarial Methodology, comments must be received by 6:00 PM Eastern Time on Friday, March 15, 2024.

Key Preliminary Updates from the CY 2024 Final Actuarial Methodology

Below, CMS identifies the key updates to the CY 2024 Final Actuarial Methodology to reflect the CY 2025 hospice capitation rate-setting process, including refinements to the pricing calculations to enhance the accuracy of the CY 2025 hospice capitation rates.

Base Data for CY 2025 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 2024 Final Actuarial Methodology but will advance this period 1 year— from a 3-year period of CY 2019 through CY 2021 to that of CY 2020 through CY 2022.
- In CY 2024, as described in section 1.1 of the CY 2024 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 base experience calendar years or in prior years (mature-year rates).

For CY 2025, CMS intends to continue with the development of two sets of rates consistent with the CY 2024 rates: (i) year-1 rates; and (ii) mature-year rates. 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 is estimated to be 3.0 percent lower for the mature-year Model experience than for the year-1 Model experience.

Similar to CY 2024 payments, CMS plans to use mature-year Model experience in counties where the Hospice Benefit Component was offered in CY 2024 and to use year-1 rates in counties where the Hospice Benefit Component was not offered in CY 2024. 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 participated in a county offering the Hospice Benefit Component in CY 2024.

Refinements to Repricing

For CY 2025, CMS will reprice the CY 2020–2022 historical hospice FFS-paid claims experience to FY 2024. The repricing of these claims will use the FY 2024 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 2024 Hospice Wage Index.

Consistent with the 2024 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 2024 hourly rate for CHC.

Claim Completion Factors

CMS will use the same methodology as described in section 2.4d of the CY 2024 Final Actuarial Methodology to update the hospice FFS-paid claim and non-hospice FFS-paid claim completion factors for 2020–2022.

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

CMS will apply a trend to increase repriced 2024 per diem amounts from FY 2024 to FY 2025 (for claims incurred in January through September) and from FY 2024 to FY 2026 (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 1 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 1. Preliminary Trends for Hospice FFS-Paid Claims

Fiscal Year	Trend
2024 to 2025	2.80%
2025 to 2026	2.90%

Updates to Trends for Non-Hospice FFS-Paid Claims

Table 2 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 2025 Advance Notice.⁶

⁶ CMS. Advance Notice of Methodological Changes for Calendar Year (CY) 2025 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies. Retrieved from <https://www.cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents/2025-advance-notice>

Table 2. Preliminary Trends for Non-Hospice FFS-Paid Claims

Calendar Year	Trend
2020 to 2021	10.91%
2021 to 2022	3.97%
2022 to 2023	7.06%
2023 to 2024	4.11%
2024 to 2025	3.78%

Updates to Service Mix Change

Using a methodology similar to that described in section 2.4b of the CY 2024 Final Actuarial Methodology, CMS studied the 2019–2022 mature-year experience for average number of service days and weighted per diem amounts, based on FY 2024 per diem rates.

The experience and trends are summarized in Table 3. 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.

The resulting annual trends in the composite values are -0.44 percent for 2020-2021 and +0.16 percent 2021-2022. The negative trend for 2021 is driven by a reduction in the distribution of services with relatively high per diem rates: inpatient respite care (IRC), general inpatient care (GIP), and continuous home care (CHC). The resulting trends proposed for the 2025 rates, from base years 2020 and 2021 to 2022 are

- CY 2020 – CY 2022: -0.28 percent $[(1 - .0044) * (1 + 0.016) - 1]$
- CY 2021 – CY 2022: +0.16 percent

Finally, consistent with the VBID hospice actuarial methodology for the CY 2022 through CY 2024 rates, no additional trend for changes in service mix will be applied from 2022 to 2025.

Table 3. 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 2024 Per Diem		\$218.33	\$172.35	\$507.71	\$1,145.31	\$1,565.46		
Service days and weighted per diem								
	<u>Value</u>	<u>Distr.</u>	<u>Distr.</u>	<u>Distr.</u>	<u>Distr.</u>	<u>Distr.</u>	<u>Value</u>	<u>Value</u>
CY 2019	23.04	31.27%	67.11%	0.33%	1.12%	0.16%	\$200.94	\$4,629.74
CY 2020	22.98	30.48%	68.22%	0.20%	0.98%	0.13%	\$198.40	\$4,559.20
CY 2021	22.94	30.79%	67.91%	0.26%	0.95%	0.09%	\$197.88	\$4,539.28
CY 2022	23.06	30.99%	67.77%	0.27%	0.88%	0.08%	\$197.16	\$4,546.60
Annual trend / difference								
	<u>Trend</u>	<u>Diff.</u>	<u>Diff.</u>	<u>Diff.</u>	<u>Diff.</u>	<u>Diff.</u>	<u>Trend</u>	<u>Trend Value</u>
2019-2020	-0.26%	-0.79%	1.11%	-0.13%	-0.14%	-0.03%	-1.27%	-1.52%
2020-2021	-0.17%	0.31%	-0.31%	0.06%	-0.03%	-0.04%	-0.26%	-0.44%
2021-2022	0.52%	0.20%	-0.14%	0.01%	-0.07%	-0.01%	-0.36%	0.16%
Annual trend / difference								
CY 2020 experience (change in composite value from 2020 to 2022)								-0.28%
CY 2021 experience (change in composite value from 2021 to 2022)								0.16%
CY2022 experience								0.00%

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 2024 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

To ensure budget neutrality, the mature year month 1 rating tiers for CY 2025 may be revised from the CY 2024 tiers listed here:

- 1-6 days: 0.3507 monthly rating factor
- 7-15 days: 0.6602 monthly rating factor
- 16+ days: 1.0347 monthly rating factor

Update for Penalty for Non-compliance of Quality Reporting

As reflected in the final FY 2024 hospice regulation⁷, section 1814(i)(5)(A)(i) of the Act was amended by section 407(b) of Division CC, Title IV of the CAA, 2021 (Pub. L. 116–260) to change the payment reduction for failing to meet hospice quality reporting requirements from 2 to 4 percentage points beginning with FY 2024 payments.

The base experience supporting the VBID hospice rates reflects the pre-2024 payment reduction of 2 percent. Accordingly, an adjustment will be applied to the rate development to account for the increase in the payment reduction for non-compliance with the quality reporting requirements. As reflected in table 4, the proposed reduction in the 2025 hospice capitation rates due to the increase in this payment reduction will be 0.15 percent.

Table 4. Estimated Impact of FY 2024 Increase in Payment Reduction for Failure to Meet Hospice Quality Reporting Requirements

Item	Impact
a. Estimated national payment reduction for failure to meet hospice quality reporting requirements, FY 2024 (millions)	\$41.2
b. Estimated hospice spending, FY 2024 (millions)	\$27,745.8
c. National impact of increase payment reduction for failure to meet hospice quality reporting requirements $-\frac{a}{a+b}$	-0.15%

Update to the Hospice Provider Inpatient Caps

For CY 2025, CMS will use the same methodology to recognize the hospice provider inpatient caps, but this methodology will reflect hospice experience during 2020–2022 rather than during 2019–2021, which was the basis for the 2024 rates.

Update to the Hospice Provider Aggregate Caps

As explained in the 2024 VBID hospice methodology report, 2023 provider cap adjustment factors were applied in the development of the 2024 hospice capitation rates. This approach was used since the updated tabulation of provider cap adjustment factors supporting the 2024 rates were determined to be inconsistent with the factors used in the 2021 – 2023 hospice capitation rates.

We have resolved the data issues and recent national aggregate cap recoveries, and the corresponding hospice spending are summarized in table 5. As reflected in this table, the aggregate

⁷ CMS. Medicare Program; FY 2024 Hospice Wage Index and Payment Rate Update and Hospice Quality Reporting Requirements (CMS-1787-F). Retrieved from <https://www.cms.gov/medicare/medicare-fee-service-payment/hospice/hospice-regulations-and-notice/1041017703/cms-1787-f>

cap adjustment has increased considerably in the past few years in both absolute and relative terms. This trend is consistent with that reported by MedPAC.⁸

The data in this table illustrates that national aggregate cap payments for the most recent year, 2022, appear to be incomplete. Accordingly, we are proposing to exclude 2022 experience from the tabulation of the CBSA-level aggregate cap adjustment factors and use aggregate cap data for 2020-2021 to develop the aggregate cap adjustment factors for the 2025 hospice rates.

Table 5. National Aggregate Cap Recoveries and Hospice Spending by Cap Year, 2015-2022

Cap Year	Aggregate cap (millions)	Hospice spending (millions)	Cap ratio
2015	\$180.0	\$15,953.1	1.13%
2016	\$181.3	\$17,106.8	1.06%
2017	\$184.6	\$18,020.7	1.02%
2018	\$285.0	\$19,107.0	1.49%
2019	\$391.2	\$20,811.8	1.88%
2020	\$418.2	\$22,212.5	1.88%
2021	\$468.4	\$22,997.1	2.04%
2022	\$106.1	\$23,604.5	0.45%

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 2025 Rate Announcement, in alignment with section 2.5 of the CY 2024 Final Actuarial Methodology.⁹ The preliminary Medicare Part A administrative load is 0.001102, and the Medicare Part B administrative load is 0.002916.

⁸ Medicare Payment Advisory Commission (MedPAC). Report to Congress: Medicare Payment Policy, Chapter 10: Hospice Services. table 10-6, March 2023. Retrieved from: https://www.medpac.gov/wp-content/uploads/2023/03/Ch10_Mar23_MedPAC_Report_To_Congress_SEC.pdf

⁹ CMS. Advance Notice of Methodological Changes for Calendar Year (CY) 2025 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies. Retrieved from <https://www.cms.gov/files/document/2025-advance-notice.pdf>