Integrated Care Resource Center

Financial Alignment Demonstration Capitated Model Medicare Rate Methodology

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The Integrated Care Resource Center is a joint technical assistance initiative of the Centers for Medicare & Medicaid Services' Medicare-Medicaid Coordin*ation Office and the Center for Medicaid and CHIP Services. Technical assistance is coordinated by Mathematica Policy Research and the Center for Health Care Strategies.*

Guiding Principles

- Medicare and Medicaid components of rates based on baseline spending (what would have been spent absent the Demonstration)
- Medicare methodology will be consistent across all States participating in the Demonstration
- Medicare methodology builds off of existing Medicare payment and risk adjustment approaches

Overview of Medicare Component of Demonstration Rate

- Medicare Part A/B Baseline
  - Fee for Service (FFS)
  - Medicare Advantage (MA)
  - County Baselines Based on Projected Enrollment
- Medicare Part D
- Risk Adjustment
- Savings Target
- Quality Withhold

Baseline – FFS

- For beneficiaries coming from Medicare FFS
- Uses Medicare standardized FFS county rates (reflect historical costs of Medicare FFS population in that county)
- Standard FFS county rates are established each calendar year (CY 2014 rates released in April 2013)
- Baseline for beneficiaries coming from FFS may be modified for significant program changes
- Additional adjustments made for coding intensity factor (initial period only) and bad debt percentage

Baseline –CY 2014 FFS

Washington Medicare A/B FFS Baseline - Non ESRD Beneficiaries

(A)	(B)	(C)	(D)	(E)	(F) = (C)x(D)/(E)	(G)	(H)	(I) = (F)/[1-(G)]*[1+(H)]
State	County	2014 FFS Rate excluding Phase-out IME [1]	2014 AGA factor (Including full repricing for geographic indices) [2]	2014 AGA factor (Blended 50%/50%) [2]	Updated Medicare A/B FFS Baseline for 2014	Coding Intensity Factor for 2014	Bad debt percentage for 2014	Adjusted Medicare A/B FFS Baseline for 2014
WA	KING	$708.93	0.91219	0.90499	$714.57	4.91%	1.89%	$765.67
WA	SNOHOMISH	$705.01	0.89105	0.88455	$710.19	4.91%	1.89%	$760.98

Note: All rates are standardized to a 1.0 risk score. The CMS-HCC risk adjustment model will be applied to these standardized rates. A separate rate schedule applies for beneficiaries with ESRD.

[1] For CY2014 rates go to http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Ratebooks-and-Supporting-Data-Items/2014Rates.html. For the 2014 Standardized FFS county rate, select 2014 Rate Calculation Data under the Downloads and open "risk2014.csv". The relevant column is R (2014 FFS Rate excluding Phase Out IME) for the specific county.

[2] For CY2014 rates go to http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Ratebooks-and-Supporting-Data-Items/2014Rates.html. To identify the Average Geographic Adjustment (AGA) factors for the applicable county open "2014 FFS Rates comparison file.csv". The relevant columns are column F - 2014 AGA factor (Including full repricing for geographic indices) and column H - 2014 AGA factor (Blended 50%/50%).

Baseline – Medicare Advantage

- For beneficiaries coming from Medicare Advantage
- CY2014 baseline reflects MA plan payments for CY2014, including Part C rebates
- Baseline includes rebates derived from star ratings, averaged across MA plans in the county weighted by beneficiary enrollment
- Rates are normalized for a 1.0 risk score
- Generally follows the current MA rate setting process with a few exceptions
- Rates updated annually, consistent with current MA rate process

Baseline – County Baselines

- Each county baseline is a weighted average of the FFS and MA baseline costs based on the expected proportion of enrollment from FFS and MA
- The same county baseline will apply to all Demonstration plans operating in that county

Medicare Part D

- Set at the Part D national average monthly bid amount (NAMBA) for the payment year
  - Not based on bids submitted by each individual Part D plan, as is done outside the Demonstration
  - NAMBA is announced in August for the following year ($75.88 for CY 2014)
- Payments will be reconciled after the end of each payment year, as in the current Part D process
- CMS will estimate average monthly payment for low-income cost sharing and Federal reinsurance subsidy amounts, which will also be cost reconciled

County Baseline Example

County Baseline Calculation - FOR ILLUSTRATIVE PURPOSES ONLY
King County, Washington

		Base Year CY2013	Projected CY2014	Projected CY2015	Projected CY2016
(A)	MA penetration for Demonstration population in county	10%	10%	10%	10%
(B)	FFS county rate [1]		$765.67	$781.00	$797.00
(C)	Weighted average MA plan rate in county[2]		$770.00	$785.00	$801.00
(D)	Medicare A/B Baseline Demonstration Rate [(A*C)+((1-A)*B)]		$766.10	$781.40	$797.40
(E)	Medicare Part D NAMBA		$75.88	$76.00	$78.00
(F)	Total Medicare Baseline Demonstration Rate [D+E]		**$841.98**	**$857.40**	**$875.40**

Note: Numbers are presented for illustrative purposes only. Actual assumptions and rates will be developed by CMS for the Demonstration years.

[1] Estimated CY2014 rates are calculated based on the 2014 FFS standard rates posted by CMS adjusted for the average geographic factors. Additional adjustments will be made for coding intensity.

[2] Weighted average MA plan rate in county for plans in which beneficiaries would have enrolled, including Part C rebates

To be developed by CMS from county specific data
To be published by CMS OACT annually
To be projected by CMS

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Risk Adjustment

- Medicare payments will be risk adjusted based on profile of each enrolled beneficiary
- Medicare A/B based on CMS-HCC or CMS-HCC ESRD risk model
- Medicare Part D Direct Subsidy component based on RxHCC risk model
- HCC and RxHCC use demographic information (age, sex, disability, reason for Medicare eligibility-age/disability, Medicaid enrollment) and medical conditions to predict costs
- HCC and RxHCC also used to risk adjust Medicare Advantage and Part D payments outside of the Demonstration

Savings Target

- CMS assumes Demonstrations can achieve overall savings through improved care management, administrative efficiencies
- State and CMS will develop aggregate savings target based on CMS modeling, input from State and other factors
- Varies by State and Demonstration year, and specified in each State's MOU
- Same target applied to both Medicare A/B and Medicaid for each Demonstration year
- No savings assumed for Medicare Part D (Part D costs will be monitored closely)

Quality Withhold

- Portion of payment will be withheld to incent quality improvement
- Applies to Medicaid and Medicare A/B components of rate
- Part D payments not subject to quality withhold
- CMS and states will withhold a portion of the capitation payments that participating health plans can earn back if they meet certain quality thresholds
- Threshold measures to be combination of certain core quality measures, determined by State and CMS as part of MOU process
- Withhold amount will vary by year (1% in Year 1, 2% in Year 2, 3% in Year 3)
- CMS and State to assess plan performance and calculate payments

Demonstration Rate Example

		Medicare A/B	Medicare D [3]	Medicaid	Total
(A)	CY14 County Baseline	$766.10	$75.88	$1,000.00	$1,841.98
(B)	Risk adjustment[1]	1.1	1.2	1.0	
(C)	Savings factor[2]	1%	0%	1%	
(D)	Total CY14 Demonstration Rate [A*B*(1-C)]	$834.29	$91.06	$990.00	$1,915.34
(E)	Quality withhold	1%	0%	1%	
(F)	Quality withhold amount [D*E]	$8.34	$0.00	$9.90	$18.24
(G)	Total CY14 Demonstration Rate Net of Withhold Amount [D-F]	$825.94	$91.06	$980.10	$1,897.10

Note: Numbers are presented for illustrative purposes only. Actual assumptions and rates will be developed by CMS and the State for the Demonstration years.

(1)Actual risk adjustment factor will vary at the beneficiary level and by Medicare A/B, Medicare D and Medicaid

(2)Actual savings factor will vary by state and reflected in the CMS/State MOU

(3)Does not include Part D reinsurance or low-income cost-sharing amounts, for which average monthly prospective payments will be developed and 100% cost reconciled after the payment year

Comparison to Current Medicare Advantage Approach

- Key differences
  - No Medicare bid process – selection of participating plans subject to state procurement, CMS application
  - Use of national average Medicare Part D bid
  - Aggregate savings target
  - Quality withhold
- Key similarities
  - Baseline costs reflective of projected future costs for enrolled population
  - Use of risk adjustment to better match payment to risk
  - Plans allowed to offer enhanced benefits to attract members

State Technical Assistance

- The ***Integrated Care Resource Center*** was established by CMS to advance integrated care models for Medicaid beneficiaries with high costs and high needs
- Provides technical assistance (TA) to states at all levels of readiness to pursue integrated care for individuals who are dually eligible for Medicare and Medicaid
- TA coordinated by Mathematica Policy Research and the Center for Health Care Strategies
- Visit www.integratedcareresourcecenter.com to submit a TA request and/or to download resources, including briefs and practical tools to help address implementation, design and policy challenges