

# **Medicare-Medicaid Alignment Initiative**

## **CY 2015 Final Rate Report**

### **March 20, 2015**

The Illinois Department of Healthcare and Family Services (HFS), in conjunction with the Centers for Medicare and Medicaid Services (CMS), is releasing the Medicaid and Medicare components of the CY 2015 rates for the Medicare-Medicaid Alignment Initiative (MMAI).

The general principles of the rate development process for the Demonstration have been outlined in the Memorandum of Understanding (MOU) between CMS and the State of Illinois, and in the three-way contract between CMS, the State of Illinois, and the Demonstration Plans.

Included in this report are final CY 2015 Medicaid capitation rates by rate cell and Medicare county base rates.

#### **I. Components of the Capitation Rate**

CMS and the State of Illinois will each contribute to the global capitation payment. CMS and the State of Illinois will each make monthly payments to Demonstration Plans for their components of the capitated rate. Demonstration Plans will receive three monthly payments for each enrollee: one amount from CMS reflecting coverage of Medicare Parts A/B services, one amount from CMS reflecting coverage of Medicare Part D services, and a third amount from the HFS reflecting coverage of Medicaid services.

The Medicare Parts A/B rate component will be risk adjusted using the Medicare Advantage CMS-HCC and CMS HCC-ESRD models. The Medicare Part D payment will be risk adjusted using the Part D RxHCC model. To adjust the Medicaid component, the State assigns each enrollee to a rating category (RC) according to the individual enrollee's setting of care, age and geographic service area for the purposes of risk adjusting the Medicaid payment.

Section II of this report provides information on the Medicaid component of the capitation rate. Section III provides information on Medicare Parts A/B and Medicare Part D components of the rate. Section IV includes information on the savings percentages and quality withholds.

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## II. Medicaid Component of the Rate – CY 2015

This section provides an overview of the capitation rate development for the Medicaid component of the Medicare-Medicaid Alignment Initiative for CY 2015 and has been developed to address the requirements outlined under 42 CFR 438.6(c) related to actuarial soundness of the capitation rates. The basis for the Medicaid rates began with costs developed prior to the application of the Medicare and Medicaid composite savings percentages established by the state and CMS, informed by estimates from CMS and its contractors. The final Medicaid capitation rates were set consistent with 42 CFR 438.6(c) in combination with a qualification that the Medicare capitation rates were established by CMS and the Medicare and Medicaid composite savings percentages were established by the state and CMS.

The following table illustrates the proposed monthly capitation rates for each rate cell for MMAI Medicaid benefits. The 1% shared savings percentage for the first year of the program, as outlined in the Memorandum of Understanding (MOU) and Three-Way Contract, has been applied to these rates. The 1% quality withhold for the first year of the program has not been applied to the rates below.

<b>MMAI Medicaid Component Demonstration Capitation Rates Effective Calendar Year 2015</b>		
<b>Rate Cell</b>	<b>Greater Chicago</b>	<b>Central Illinois</b>
<b>Age 21-64</b>		
Community	\$ 143.82	\$ 141.18
Community – Plus Rate	340.23	302.12
Nursing Facility	3,402.32	3,021.15
Other Waiver	1,792.49	1,604.32
Other Waiver – Plus Rate	2,865.71	2,548.88
<b>Age 65+</b>		
Community	\$ 59.51	\$ 69.12
Community – Plus Rate	338.56	291.22
Nursing Facility	3,385.64	2,912.19
Other Waiver	1,096.16	1,061.51
Other Waiver – Plus Rate	2,622.48	2,295.30

The CY 2015 Medicaid component capitation rates are based upon previously certified actuarially sound capitation rates documented in the April 11, 2014 Milliman MMAI rate certification report for CY 2014 rates. The CY 2015 capitation rates were updated to reflect emerging medical trends and experience for the population eligible to enroll in the MMAI.

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## **TREND ADJUSTMENTS**

Trend rates were developed to adjust the previously certified capitation rates to reflect changes in medical cost inflation. The trend rate adjustments were applied from the midpoint of the previous rate period (July 1, 2014) to the midpoint of the updated rate period (July 1, 2015).

<b>MMAI Medicaid Component Demonstration Capitation Rates Selected Utilization and Cost Trends</b>			
<b>Service Category</b>	<b>Utilization</b>	<b>Unit Cost</b>	<b>PMPM</b>
Inpatient Hospital Crossover	(0.5%)	2.5%	5.1%
Outpatient Hospital Crossover	(2.0%)	5.0%	2.9%
Professional Crossover	11.0%	0.8%	11.9%
Pharmacy	1.5%	(2.0%)	(0.5%)
Other Ancillary	(2.5%)	(2.5%)	(4.9%)
Mental Health Rehab Option	(1.5%)	(0.5%)	(2.0%)
Nursing Facility	1.0%	0.0%	1.0%
Waiver Services	1.0%	1.0%	2.0%

## **DATA RELIANCE**

The following information was provided by HFS to develop the actuarially sound capitation rates for the calendar year 2015 contract period.

- Data and information provided for 2014 actuarially sound capitation rate development;
- Monthly data extract of claim and eligibility information for the FFS program for state fiscal years 2011 through 2014; and,
- Projected MMAI eligibility and enrollment by rate cell and region.

Although the data were reviewed for reasonableness, we have accepted the data without audit. To the extent the data were incomplete or otherwise inaccurate, the information presented will need to be modified.

It should be emphasized that capitation rates are a projection of future costs based on a set of assumptions. Results will differ if actual experience is different from the assumptions. No guarantee is provided, either written or implied, that the data and information is 100% accurate or error free. The capitation rates provided will change to the extent that there are material errors in the information that was provided.

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#### III. Medicare Components of the Rate – CY 2015

##### *Medicare A/B Services*

CMS has developed baseline spending (costs absent the Demonstration) for Medicare A and B services using estimates of what Medicare would have spent on behalf of the enrollees absent the Demonstration. With the exception of specific subsets of enrollees as noted below, the Medicare baseline for A/B services is a blend of the Medicare Fee-for-Service (FFS) Standardized County Rates and the Medicare Advantage projected payment rates for each year, weighted by the proportion of the target population that would otherwise be enrolled in each program in the absence of the Demonstration. The Medicare Advantage baseline spending includes costs that would have occurred absent the Demonstration, such as quality bonus payments for applicable Medicare Advantage plans.

Both baseline spending and payment rates under the Demonstration for Medicare A/B services are calculated as PMPM standardized amounts for each Demonstration county. Except as otherwise noted, the Medicare A/B portion of the baseline is updated annually based on the annual FFS estimates and benchmarks released each year with the annual Medicare Advantage and Part D rate announcement, and Medicare Advantage bids for the applicable year for products in which potential MMAI enrollees would be enrolled absent the MMAI .

*Medicare A/B Component Payments:* CY 2015 Medicare A/B Baseline County rates are provided below. The rates represent the weighted average of the CY 2015 FFS Standardized County Rates, updated to incorporate the adjustments noted below, and the Medicare Advantage projected payment rates for CY 2015 based on the expected enrollment of beneficiaries from Medicare FFS and Medicare Advantage in CY 2015 at the county level. The rates weight the FFS and Medicare Advantage components at the same weighting as used to set 2014 rates. However, CMS has updated the Medicare Advantage component based on 2015 Medicare Advantage bids for products that serve (or would have served) potential MMAI enrollees.

The Medicare A/B component of the rate includes the following adjustment:

- The FFS component of the CY 2015 Medicare A/B baseline rate has been updated to reflect a 1.71% upward adjustment to account for the disproportionate share of bad debt attributable to Medicare-Medicaid enrollees in Medicare FFS (in the absence of the Demonstration). This 1.71% adjustment applies for CY 2015 and will be updated for subsequent years of the Demonstration.

The FFS component of the CY 2015 Medicare A/B baseline rates has been updated to fully incorporate the most current hospital wage index and physician geographic practice cost index. In contrast to MMAI rate-setting for 2014, when CMS made an adjustment specific to MMAI, these adjustments are fully included in the 2015 standardized FFS county rates. As such, no MMAI-specific adjustment is necessary for 2015.

*Coding Intensity Adjustment:* CMS annually applies a coding intensity factor to Medicare Advantage risk scores to account for differences in diagnosis coding patterns between the Medicare Advantage

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and the Original Fee-for-Service Medicare programs. The adjustment for CY 2015 in Medicare Advantage is 5.16%. For CY 2014, based on the special enrollment processes for MMAI, CMS established the FFS component of the Medicare A/B baseline in a manner that did not lead to lower amounts due to this coding intensity adjustment.

As described in the three-way contract, in CY 2015 CMS will apply a coding intensity adjustment based on the anticipated proportion of Demonstration enrollees in CY 2015 with prior Medicare Advantage experience and/or Demonstration experience based on the Demonstration's enrollment phase-in as of September 30, 2014. CMS' calculations take into account planned passive enrollment and rates of opt-out and engagement in the passive enrollment process. For MMAI, the 2015 coding intensity adjustment is 1.73%.

Operationally, due to systems limitations, CMS will still apply the full coding intensity adjustment factor to the risk scores but has increased the FFS component of the Medicare A/B baseline for non-ESRD beneficiaries and the Medicare A/B baseline for beneficiaries with an ESRD status of functioning graft to offset this (by increasing these amounts by a corresponding percentage). The coding intensity factor will not be applied to risk scores for enrollees with an ESRD status of dialysis or transplant during the Demonstration, consistent with Medicare Advantage policy.

After 2015, CMS plans to apply the full prevailing Medicare Advantage coding intensity adjustment.

*Impact of Sequestration:* Under sequestration, for services beginning April 1, 2013, Medicare payments to providers for individual services under Medicare Parts A and B, and non-exempt portions of capitated payments to Part C Medicare Advantage Plans and Part D Medicare Prescription Drug Plans are reduced by 2%. These reductions are also applied to the Medicare components of the integrated rate. Therefore, under MMAI CMS will reduce non-exempt portions of the Medicare components of the integrated rate by 2%, as noted in the sections below.

*Default Rate:* The default rate will be paid when a beneficiary's address on record is outside of the service area. The default rate is specific to each Demonstration Plan and is calculated using an enrollment-weighted average of the rates for each county in which the Demonstration Plan participates.

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<b>2015 Medicare A/B Baseline PMPM, Non-ESRD Beneficiaries, Standardized 1.0 Risk Score, by Demonstration County<sup>1</sup></b>						
<b>County</b>	<b>2015 Published FFS Standardized County Rate<sup>2</sup></b>	<b>2015 Updated Medicare A/B FFS Baseline</b>  (updated by CY 2015 bad debt adjustment)	<b>2015 Medicare A/B Baseline Preliminary</b>  (increased to offset application of modified coding intensity adjustment factor in 2015) <sup>3</sup>	<b>2015 Updated Medicare A/B Baseline</b>  (incorporating updated Medicare A/B FFS baseline and Medicare Advantage component)	<b>2015 Medicare A/B Baseline PMPM, Savings Percentage Applied</b>  (after application of 1% savings percentage)	<b>2015 Final Medicare A/B PMPM Payment</b>  (2% sequestration reduction applied and prior to quality withhold)
Champaign	\$658.31	\$669.57	\$693.35	\$695.25	\$688.30	\$674.53
Christian	729.83	742.31	768.68	768.46	760.77	745.56
Cook	858.02	872.69	903.69	899.55	890.55	872.74
DeWitt	682.26	693.93	718.57	719.42	712.22	697.98
DuPage	776.69	789.97	818.03	815.94	807.78	791.62
Ford	793.33	806.90	835.56	833.78	825.44	808.93
Kane	802.58	816.30	845.30	841.92	833.50	816.83
Kankakee	795.42	809.02	837.76	837.51	829.14	812.56
Knox	731.18	743.68	770.10	768.42	760.74	745.53
Lake	798.64	812.30	841.15	840.76	832.35	815.71
Logan	702.38	714.39	739.76	739.56	732.17	717.53
McLean	657.68	668.93	692.69	694.31	687.37	673.62
Macon	674.08	685.61	709.96	710.01	702.91	688.85
Menard	655.51	666.72	690.40	690.68	683.77	670.10
Peoria	658.49	669.75	693.54	695.26	688.31	674.55
Piatt	712.16	724.34	750.07	750.07	742.56	727.71
Sangamon	656.84	668.07	691.80	692.27	685.35	671.64
Stark	662.12	673.44	697.36	697.36	690.39	676.58

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<b>2015 Medicare A/B Baseline PMPM, Non-ESRD Beneficiaries, Standardized 1.0 Risk Score, by Demonstration County<sup>1</sup></b>						
<b>County</b>	<b>2015 Published FFS Standardized County Rate<sup>2</sup></b>	<b>2015 Updated Medicare A/B FFS Baseline</b>  (updated by CY 2015 bad debt adjustment)	<b>2015 Medicare A/B Baseline Preliminary</b>  (increased to offset application of modified coding intensity adjustment factor in 2015) <sup>3</sup>	<b>2015 Updated Medicare A/B Baseline</b>  (incorporating updated Medicare A/B FFS baseline and Medicare Advantage component)	<b>2015 Medicare A/B Baseline PMPM, Savings Percentage Applied</b>  (after application of 1% savings percentage)	<b>2015 Final Medicare A/B PMPM Payment</b>  (2% sequestration reduction applied and prior to quality withhold)
Tazewell	683.17	694.85	719.53	721.33	714.11	699.83
Vermillion	683.27	694.95	719.64	720.33	713.12	698.86
Will	843.28	857.70	888.16	884.98	876.13	858.61

<sup>1</sup>Rates do not apply to beneficiaries with ESRD or those electing the Medicare hospice benefit. See Section IV for information on savings percentages.

<sup>2</sup>This is fully “repriced,” and therefore this rate report does not show the repricing adjustments shown in the CY 2014 rate report.

<sup>3</sup>For CY 2015 CMS established a coding intensity adjustment based on the anticipated proportion of Demonstration enrollees in CY 2015 with prior Medicare Advantage experience and/or Demonstration experience based on the Demonstration’s enrollment phase-in as of September 30, 2014. Operationally, due to systems limitations, CMS will still apply the coding intensity adjustment factor to the risk scores but has increased the FFS component of the Medicare A/B baseline for non-ESRD beneficiaries to offset this. Specifically, CMS will increase the Medicare A/B baseline by a corresponding percentage; the CY 2015 Medicare FFS A/B Baseline is divided by [1-(the standard CY 2015 coding intensity adjustment factor of 5.16% minus the Illinois-specific modified CY 2015 coding intensity adjustment factor of 1.73%)] to determine the CY 2015 Final Medicare FFS A/B Baseline.

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The Medicare A/B PMPMs above will be risk adjusted at the beneficiary level using the existing CMS-HCC risk adjustment model.

There is a downward movement in the CY 2015 FFS standardized county rates compared to the CY 2014 FFS standardized county rates. However, this downward movement is partly offset by methodological changes CMS made to calculate risk adjustment normalization factors. This update in the methodology has an effect of increasing the risk scores. For more information on normalization factors, please refer to the Rate Announcement letter from April 07, 2014, located at:

<http://www.cms.gov/Medicare/Health-Plans/MedicareAdvtgSpecRateStats/Downloads/Announcement2015.pdf>.

*Beneficiaries with End-Stage Renal Disease (ESRD):* Separate Medicare A/B baselines and risk adjustment applies to enrollees with ESRD. The Medicare A/B baselines for beneficiaries with ESRD vary by the enrollee's ESRD status: dialysis, transplant, and functioning graft, as follows:

- **Dialysis:** For enrollees in the dialysis status phase, the Medicare A/B baseline is the CY 2015 Illinois ESRD dialysis state rate, updated to incorporate the impact of sequestration-related rate reductions. The CY 2015 ESRD dialysis state rate for Illinois is \$6,978.26 PMPM; the updated CY 2015 ESRD dialysis state rate incorporating a 2% sequestration reduction and prior to the application of the quality withhold is \$6,838.69 PMPM. This applies to applicable enrollees in all counties and will be risk adjusted using the existing HCC-ESRD risk adjustment model.
- **Transplant:** For enrollees in the transplant status phase (inclusive of the 3-months post-transplant), the Medicare A/B baseline is the CY 2015 Illinois ESRD dialysis state rate updated to incorporate the impact of sequestration-related rate reductions. The CY 2015 ESRD dialysis state rate for Illinois is \$6,978.26 PMPM; the updated CY 2015 ESRD dialysis state rate incorporating a 2% sequestration reduction and prior to the application of the quality withhold is \$6,838.69 PMPM. This applies to applicable enrollees in all counties and will be risk adjusted using the existing HCC-ESRD risk adjustment model.
- **Functioning Graft:** For enrollees in the functioning graft status phase (beginning at 4 months post-transplant) the Medicare A/B baseline is the Medicare Advantage 3.5-star county rate/benchmark (see table below). This Medicare A/B component will be risk adjusted using the existing HCC-ESRD risk adjustment model.

A savings percentage will not be applied to the Medicare A/B baseline for enrollees with ESRD (inclusive of those enrollees in the dialysis, transplant and functioning graft status phases).



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<b>2015 Medicare A/B Baseline PMPM, Beneficiaries with ESRD Functioning Graft Status, Standardized 1.0 Risk Score, by Demonstration County</b>			
<b>County</b>	<b>2015 3.5-Star County Rate (Benchmark)</b>	<b>2015 Final Medicare A/B PMPM Baseline</b> <small>(increased to offset application of modified coding intensity adjustment factor in 2015)*</small>	<b>2015 Sequestration-Adjusted Medicare A/B Baseline</b> <small>(after application of 2% Sequestration reduction)</small>
Champaign	\$738.31	\$764.53	\$749.24
Christian	729.83	755.75	740.64
Cook	845.15	875.17	857.67
DeWitt	744.06	770.49	755.08
DuPage	765.04	792.21	776.37
Ford	793.33	821.50	805.07
Kane	790.54	818.62	802.25
Kankakee	783.49	811.32	795.09
Knox	744.00	770.43	755.02
Lake	786.66	814.60	798.31
Logan	734.22	760.30	745.09
McLean	743.89	770.31	754.90
Macon	745.02	771.49	756.06
Menard	725.85	751.63	736.60
Peoria	780.31	808.02	791.86
Piatt	741.47	767.80	752.44
Sangamon	727.29	753.12	738.06
Stark	762.45	789.54	773.75
Tazewell	777.46	805.07	788.97
Vermillion	743.09	769.48	754.09
Will	830.63	860.13	842.93

\*For CY 2015 CMS established a coding intensity adjustment based on the anticipated proportion of Demonstration enrollees in CY 2015 with prior Medicare Advantage experience and/or Demonstration experience based on the Demonstration's enrollment phase-in as of September 30, 2014. Operationally, due to systems limitations, CMS will still apply the coding intensity adjustment factor to the risk scores but has increased the Medicare A/B baseline for beneficiaries with an ESRD status of functioning graft to offset this. Specifically, CMS has increased the Medicare A/B baseline by a corresponding percentage; as above, the CY 2015 Updated Medicare A/B Baseline is divided by [1- (the standard CY 2015 coding intensity adjustment factor of 5.16% minus the Illinois-specific modified CY 2015 coding intensity adjustment factor of 1.73%)] to determine the CY 2015 Final Medicare A/B Baseline. For beneficiaries with an ESRD status of functioning graft, the prospective payment does not include the adjustment to offset the application of coding intensity adjustment factor; this payment adjustment will be made on a retrospective basis.

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*Beneficiaries Electing the Medicare Hospice Benefit:* If an enrollee elects to receive the Medicare hospice benefit, the enrollee will remain in the Demonstration but will obtain the hospice services through the Medicare FFS benefit. The Demonstration Plans will no longer receive the Medicare A/B payment for that enrollee. Medicare hospice services and all other Original Medicare services will be paid under Medicare FFS. Demonstration Plans and providers of hospice services will be required to coordinate these services with the rest of the enrollee's care, including with Medicaid and Part D benefits and any additional benefits offered by the Demonstration Plans. Demonstration Plans will continue to receive the Medicare Part D and Medicaid payments, for which no changes will occur.

#### ***Medicare Part D Services***

The Part D plan payment is the risk adjusted Part D national average monthly bid amount (NAMBA) for the payment year, adjusted for payment reductions resulting from sequestration applied to the non-premium portion of the NAMBA. The non-premium portion is determined by subtracting the applicable regional Low-Income Premium Subsidy Amount from the risk adjusted NAMBA. To illustrate, the NAMBA for CY 2015 is \$70.18 and the CY 2015 Low-Income Premium Subsidy Amount for Illinois is \$28.23. Thus, the updated Illinois Part D monthly per member per month payment for a beneficiary with a 1.0 RxHCC risk score applicable for CY 2015 is \$69.34. This amount incorporates a 2% sequestration reduction to the non-premium portion of the NAMBA.

CMS will pay an average monthly prospective payment amount for the low income cost-sharing subsidy and Federal reinsurance amounts; these payments will be 100% cost reconciled after the payment year has ended. These prospective payments will be the same for all counties, and are shown below:

- Illinois low income cost-sharing: \$116.96 PMPM
- Illinois reinsurance: \$63.23 PMPM

The low-income cost sharing and reinsurance subsidy amounts are exempt from mandatory payment reductions under sequestration.

A savings percentage will not be applied to the Part D component of the rate. Part D payments will not be subject to a quality withhold.

**Additional Information:** More information on the Medicare components of the rate under the Demonstration may be found online at: <http://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/Downloads/JointRateSettingProcess.pdf>

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## IV. Savings Percentages and Quality Withholds

### *Savings Percentages*

One of the components of the capitated financial alignment model is the application of aggregate savings percentages to reflect savings achievable through the coordination of services across Medicare and Medicaid. This is reflected in the rates through the application of aggregate savings percentages to both the Medicaid and Medicare A/B components of the rates.

CMS and Illinois established composite savings percentages for each year of the Demonstration, as shown in the table below. The savings percentage will be applied to the Medicaid and Medicare A/B components of the rates, uniformly to all population groups, unless otherwise noted in this report. The savings percentage will not be applied to the Part D component of the joint rate. Note: the dates below reflect the terms of the three-way contract but have changed since the CY 2014 rate report.

<b>Year</b>	<b>Calendar dates</b>	<b>Savings percentage</b>
Demonstration Year 1	March 1, 2014 through December 31, 2015	1%
Demonstration Year 2	January 1 through December 31, 2016	3%
Demonstration Year 3	January 1 through December 31, 2017	5%

### *Quality Withhold*

In Demonstration Year 1, a 1% quality withhold will be applied to the Medicaid and Medicare A/B components of the rate. The quality withhold will increase to 2% in Demonstration Year 2 and 3% in Demonstration Year 3. More information about the quality withhold methodology is available at: <http://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/FinancialAlignmentInitiative/Downloads/DY1QualityWithholdGuidance060614.pdf>