

March 1, 2002

**NOTE TO: Medicare+Choice Organizations and Other Interested Parties**

**SUBJECT: Announcement of Calendar Year (CY) 2003 Medicare+Choice Payment Rates**

In accordance with section 1853(b)(2) of the Social Security Act (the Act), we are notifying you of the annual Medicare+Choice capitation rate for each Medicare+Choice payment area for 2003, and the risk and other factors to be used in adjusting such rates. Attached is a spreadsheet containing the capitation rate tables for CY 2003, which include the rescaling factors that will be used with the risk-adjusted portion of payment in 2003. The rates are also posted on the Centers for Medicare & Medicaid Services (CMS) web site at <http://www.hcfa.gov/stats/hmorates/aapccpg.htm>. As discussed in Enclosure I, the final estimate of the increase in the National Per Capita Medicare+Choice Growth Percentage for aged beneficiaries is -2.96 percent. This percentage applies to the area-specific rates used in calculating the CY 2002 rates (announced on March 1, 2001).

For 2003, virtually all county rates reflect the minimum percentage increase of 2 percent under section 1853(c)(1)(C)(ii) of the Act. This is because, under section 1853(c)(1) of the Act, Medicare+Choice payments are to be based on the highest of three amounts: a "blended rate," a "floor" amount, and a 2 percent increase over the prior years' rate. Both the blended rate and floor amounts for aged beneficiaries are lower than the 2 percent minimum increase in virtually all counties. The "floor" amounts for aged beneficiaries are \$547.54 for counties in MSAs with a population of 250,000 or more and \$495.39 for other areas, (or, if lower, the 2002 floor increased by the National Per Capita Medicare+Choice Growth Percentage for areas outside of the 50 States and the District of Columbia). County demographic tables will be sent under separate cover.

Enclosure II provides a set of tables that summarizes many of the key Medicare assumptions used in the calculation of the national per capita Medicare+Choice growth percentage. The instructions you need to complete the Adjusted Community Rate Proposals (ACRs) for contract periods beginning January 1, 2003 will be forthcoming.

Section 1853(b)(4) of the Act (added by Section 514 of the BBRA) requires CMS to release county-specific per capita fee-for-service expenditure information on an annual basis, beginning with March 1, 2001. Due to unforeseen data complications, release of these data will be delayed.

We received two letters of comment on the January 15, 2002 Advance Notice of Methodological Changes for the CY 2003 Payment Rates. Enclosure III presents our responses to these comments.

Questions on the capitation rate tables and the National Per Capita Medicare+Choice Growth Percentage can be directed to Sol Mussey at (410) 786-6386. Questions on the submission of ACR proposals can be directed to Phil Doerr at (410) 786-1059. Questions on the risk adjustment methodology can be directed to Anne Hornsby at (410) 786-1181.

/ s /

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Enclosures

## Enclosure I

### Final Estimate of the Increase in the National Per Capita Growth Percentages for 2003

The first table below shows the National Per Capita Medicare+Choice Growth Percentages (NPCM+CGP) used to determine the area-specific rates for 2003. Since the current payment methodology requires determining payment rates based on the 1997 rates for the area-specific rates, we are also showing the increases in the per capita rates from 1997 forward. These growth percentages reflect adjustments of -0.8 percent in 1998, -0.5 percent in 1999 to 2001, and -0.3 percent in 2002 as required by section 1853(c)(6)(B) of the Act. In addition, the increases for 1997 to 2002 reflect adjustments of -3.86 percent, -2.76 percent, -2.25 percent and -3.76 percent for aged, disabled, ESRD, and combined aged and disabled, respectively, in order to account for corrections to prior estimates, as required under section 1853(c)(6)(C). The combined aged and disabled increase is used in the development of the risk-adjusted ratebook. The second table shows information for the determination of the floor payment rates. Since the BIPA 2000 reestablished the floor payments in 2001, there are adjustments only for 2002 for corrections to prior estimates. Finally, the third table shows the monthly actuarial value of the Medicare deductible and coinsurance for 2002 and 2003. These data were furnished by the Office of the Actuary.

#### Increase in the National Per Capita M+C Growth Percentages for 2003

	Prior Increases	Current Increases			NPCM+CGP for 2003 With Sec.1853(c)(6)(C) adjustment <sup>1</sup>
	1997 to 2002	1997 to 2002	2002 to 2003	1997 to 2003	
Aged	18.09%	13.53%	0.93%	14.59%	-2.96%
Disabled	16.90	13.67	0.92	14.72	-1.86
ESRD	-9.46	-11.50	2.07	-9.66	-0.22
Aged+Disabled	17.71	13.28	0.90	14.29	-2.91

<sup>1</sup>Current increases for 1997 to 2003 divided by the prior increases for 1997 to 2002.

#### Increase in the Floor Payment Rate for 2003

	Prior Increases	Current Increases			NPCM+CGP for 2003 With Sec.1853(c)(6)(C) adjustment <sup>1</sup>
	2001 to 2002	2001 to 2002	2002 to 2003	2001 to 2003	
Aged	5.34%	3.33%	0.93%	4.29%	-1.00%
Disabled	5.32	3.34	0.92	4.28	-0.99
ESRD	1.47	-3.80	2.07	-1.81	-3.23
Aged+Disabled	5.30	3.30	0.90	4.22	-1.03

<sup>1</sup>Current increases for 2001 to 2003 divided by the prior increases for 2001 to 2002.

#### Monthly Actuarial Value of Medicare Deductible and Coinsurance for 2002 and 2003

	2002	2003	Change
Part A Benefits	\$26.16	\$26.47	1.2%
Part B Benefits <sup>2</sup>	79.15	75.14	-5.1
Total Medicare	105.31	101.61	-3.5

<sup>2</sup>Includes the amounts for outpatient psychiatric charges.

## **Enclosure II**

### **KEY ASSUMPTIONS AND FINANCIAL INFORMATION**

Attached is a table that compares the published United States Per Capita Costs (USPCC) with current estimates for 1997 to 2002. In addition, this table shows the current projections of the USPCCs through 2005. We are also providing an attached set of tables that summarizes many of the key Medicare assumptions used in the calculation of the USPCCs. The USPCCs are the basis for the National Per Capita Medicare+Choice Growth Percentages. Most of the tables include information for the years 1997 through 2005. Caution should be employed in the use of this information. It is based upon nationwide averages, and local conditions can differ substantially from conditions nationwide.

## Comparison of Current Estimates of the USGCC with Published Estimates

### PART A:

Calendar Year	Aged			Disabled			Aged and Disabled		
	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio
1997	\$288.08	\$297.81	1.034	\$234.16	\$251.92	1.076	\$281.40	\$292.02	1.038
1998	\$258.70	\$271.26	1.049	\$214.15	\$224.86	1.050	\$253.01	\$265.22	1.048
1999	\$257.95	\$277.67	1.076	\$214.16	\$236.27	1.103	\$252.19	\$272.14	1.079
2000	\$263.10	\$286.18	1.088	\$215.04	\$230.48	1.072	\$256.61	\$278.61	1.086
2001 <sup>1</sup>	\$280.08	\$288.62	1.030	\$224.59	\$235.50	1.049	\$272.35	\$281.25	1.033
2001 <sup>2</sup>	\$280.08	\$298.43	1.066	\$224.59	\$242.00	1.078	\$272.35	\$290.59	1.067
2002	\$288.92	\$294.46	1.019	\$231.85	\$242.06	1.044	\$280.85	\$287.10	1.022
2003	\$290.50	\$290.50	1.000	\$234.89	\$234.89	1.000	\$282.50	\$282.50	1.000
2004	\$302.66	--	--	\$243.48	--	--	\$293.97	--	--
2005	\$314.95	--	--	\$252.71	--	--	\$305.65	--	--

### PART B:

Calendar Year	Aged			Disabled			Aged and Disabled		
	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio
1997	\$156.64	\$169.14	1.080	\$145.29	\$149.06	1.026	\$155.30	\$166.82	1.074
1998	\$183.22	\$200.88	1.096	\$171.11	\$177.27	1.036	\$181.79	\$198.06	1.089
1999	\$186.63	\$206.31	1.105	\$171.97	\$175.90	1.023	\$184.85	\$202.57	1.096
2000	\$200.87	\$218.78	1.089	\$182.08	\$195.91	1.076	\$198.54	\$216.03	1.088
2001 <sup>1</sup>	\$219.69	\$217.57	0.990	\$202.30	\$191.99	0.949	\$217.46	\$214.32	0.986
2001 <sup>2</sup>	\$219.69	\$223.83	1.019	\$202.30	\$198.69	0.982	\$217.46	\$220.63	1.015
2002	\$228.99	\$244.17	1.066	\$210.56	\$218.23	1.036	\$226.57	\$240.76	1.063
2003	\$232.24	\$232.24	1.000	\$211.58	\$211.58	1.000	\$229.47	\$229.47	1.000
2004	\$239.81	--	--	\$217.82	--	--	\$236.80	--	--
2005	\$251.88	--	--	\$228.59	--	--	\$248.63	--	--

### PART A & PART B:

Calendar Year	Aged			Disabled			Aged and Disabled		
	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio	Current Estimate	Published Estimate	Ratio
1997	\$444.72	\$466.95	1.050	\$379.45	\$400.98	1.057	\$436.70	\$458.84	1.051
1998	\$441.92	\$472.14	1.068	\$385.26	\$402.13	1.044	\$434.80	\$463.29	1.066
1999	\$444.58	\$483.98	1.089	\$386.13	\$412.17	1.067	\$437.04	\$474.71	1.086
2000	\$463.97	\$504.96	1.088	\$397.12	\$426.39	1.074	\$455.15	\$494.64	1.087
2001 <sup>1</sup>	\$499.77	\$506.19	1.013	\$426.89	\$427.49	1.001	\$489.81	\$495.57	1.012
2001 <sup>2</sup>	\$499.77	\$522.26	1.045	\$426.89	\$440.69	1.032	\$489.81	\$511.22	1.044
2002	\$517.91	\$538.63	1.040	\$442.41	\$460.29	1.040	\$507.42	\$527.86	1.040
2003	\$522.74	\$522.74	1.000	\$446.47	\$446.47	1.000	\$511.97	\$511.97	1.000
2004	\$542.47	--	--	\$461.30	--	--	\$530.77	--	--
2005	\$566.83	--	--	\$481.30	--	--	\$554.28	--	--

<sup>1</sup>Applies to M+C ratebook for January to February, 2001

<sup>2</sup>Applies to M+C ratebook for March to December, 2001

**Comparison of Current Estimates of the USGCC with Published Estimates- continued**

PART A:

Calendar Year	ESRD		
	Current Estimate	Published Estimate	Ratio
1997	\$1,507.83	\$1,485.79	0.985
1998	\$1,362.75	\$1,051.64	0.772
1999	\$1,330.64	\$1,217.99	0.915
2000	\$1,390.06	\$1,443.13	1.038
2001 <sup>1</sup>	\$1,503.76	\$1,541.76	1.025
2001 <sup>2</sup>	\$1,503.76	\$1,597.34	1.062
2002	\$1,562.56	\$1,435.62	0.919
2003	\$1,596.58	\$1,596.58	1.000
2004	\$1,665.13	--	--
2005	\$1,745.87	--	--

PART B:

Calendar Year	ESRD		
	Current Estimate	Published Estimate	Ratio
1997	\$2,202.53	\$2,375.41	1.078
1998	\$1,786.31	\$2,182.05	1.222
1999	\$1,730.46	\$2,353.11	1.360
2000	\$1,555.00	\$2,436.13	1.567
2001 <sup>1</sup>	\$1,992.87	\$1,875.57	0.941
2001 <sup>2</sup>	\$1,992.87	\$1,921.53	0.964
2002	\$1,811.67	\$2,014.79	1.112
2003	\$1,847.53	\$1,847.53	1.000
2004	\$1,888.44	--	--
2005	\$1,947.58	--	--

PART A & PART B:

Calendar Year	ESRD		
	Current Estimate	Published Estimate	Ratio
1997	\$3,710.36	\$3,861.20	1.041
1998	\$3,149.06	\$3,233.69	1.027
1999	\$3,061.10	\$3,571.10	1.167
2000	\$2,945.06	\$3,879.26	1.317
2001 <sup>1</sup>	\$3,496.63	\$3,417.33	0.977
2001 <sup>2</sup>	\$3,496.63	\$3,518.87	1.006
2002	\$3,374.23	\$3,450.41	1.023
2003	\$3,444.11	\$3,444.11	1.000
2004	\$3,553.57	--	--
2005	\$3,693.45	--	--

<sup>1</sup>Applies to M+C ratebook for January to February, 2001

<sup>2</sup>Applies to M+C ratebook for March to December, 2001

## Summary of Key Projections Under Present Law<sup>1</sup>

### Part A

Year	Calendar Year CPI Percent Increase	Fiscal Year PPS Update Factor	FY Part A Total Reimbursement (Incurred)
1997	2.3	2.0	8.9
1998	1.3	0.0	-2.4
1999	2.2	0.5	-3.3
2000	3.5	1.1	-0.4
2001	2.8	3.4	7.3
2002	1.8	2.8	5.9
2003	2.3	2.3	1.3
2004	2.3	2.8	5.1
2005	2.3	3.0	5.2

### Part B<sup>2</sup>

Calendar Year	Physician Fee Schedule		Part B Hospital	Total
	Fees	Residual		
1997	0.6	1.5	6.5	9.6
1998	2.9	1.9	-0.9	0.4
1999	2.7	0.9	5.6	5.2
2000	5.9	4.1	0.8	6.1
2001	6.0	1.8	6.4	8.6
2002	-4.3	3.8	2.6	5.9
2003	-5.6	4.2	5.6	-0.6
2004	-5.7	4.6	4.7	5.5
2005	-2.8	3.9	7.6	4.1

<sup>1</sup>Percent change over prior year.

<sup>2</sup>Percent change in charges per Aged Part B enrollee.

## Medicare Enrollment Projections Under Present Law (In Millions)

### Non-ESRD

Calendar Year	Part A		Part B	
	Aged	Disabled	Aged	Disabled
1997	33.124	4.686	32.038	4.142
1998	33.288	4.875	32.170	4.306
1999	33.388	5.052	32.268	4.461
2000	33.569	5.241	32.412	4.586
2001	33.771	5.464	32.530	4.771
2002	33.992	5.596	32.698	4.960
2003	34.265	5.756	32.901	5.102
2004	34.586	5.949	33.145	5.268
2005	34.939	6.130	33.417	5.429

ESRD Part A

Calendar Year	Part A			
	Aged	Disabled	299I <sup>1</sup>	Total
1997	0.114	0.084	0.091	0.289
1998	0.123	0.091	0.095	0.309
1999	0.131	0.095	0.100	0.326
2000	0.144	0.103	0.105	0.352
2001	0.156	0.110	0.109	0.375
2002	0.166	0.116	0.112	0.394
2003	0.174	0.122	0.115	0.411
2004	0.181	0.127	0.117	0.425
2005	0.187	0.133	0.119	0.439

ESRD Part B

Calendar Year	Part B			
	Aged	Disabled	299I <sup>1</sup>	Total
1997	0.112	0.073	0.080	0.265
1998	0.120	0.078	0.081	0.279
1999	0.128	0.082	0.083	0.293
2000	0.141	0.089	0.087	0.317
2001	0.152	0.095	0.090	0.337
2002	0.162	0.100	0.093	0.355
2003	0.170	0.105	0.095	0.370
2004	0.176	0.110	0.097	0.383
2005	0.182	0.114	0.098	0.394

<sup>1</sup> Individuals who qualify for Medicare based on ESRD only.

**Part A Projections Under Present Law <sup>1</sup>**

Calendar Year	Inpatient Hospital		SNF		Home Health		Managed Care		Hospice: Total Reimbursement (in Millions)	
	Aged	Disabled	Aged	Disabled	Aged	Disabled	Aged	Disabled	Aged	Disabled
1997	\$2,242.90	\$2,384.56	\$361.79	\$126.20	\$471.31	\$318.51	\$464.46	\$206.54	\$1,977	\$104
1998	2,185.13	2,327.40	357.28	124.58	295.16	210.36	513.86	238.46	2,074	109
1999	2,208.17	2,335.67	287.90	96.73	176.51	127.57	577.89	274.33	2,446	129
2000	2,224.94	2,333.47	313.00	102.80	101.43	72.25	592.45	288.47	2,820	148
2001	2,367.22	2,436.10	374.16	120.24	137.67	96.18	571.98	284.89	3,328	175
2002	2,467.62	2,521.56	378.70	120.46	168.54	116.90	553.52	284.85	3,631	191
2003	2,537.52	2,579.29	340.17	107.38	176.21	121.24	543.88	284.76	3,881	204
2004	2,646.13	2,676.26	363.93	114.10	190.63	130.30	532.93	282.64	4,133	218
2005	2,757.81	2,781.68	388.25	121.29	200.32	136.44	533.32	285.94	4,385	231

<sup>1</sup> Average reimbursement per enrollee on an incurred basis, except where noted.

### Part B Projections Under Present Law<sup>1</sup>

Calendar Year	Physician Fee Schedule		Part B Hospital		Durable Medical Equipment	
	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD
1997	\$873.18	\$792.22	\$252.26	\$283.50	\$109.70	\$163.71
1998	886.85	815.39	220.95	255.72	103.72	164.84
1999	910.40	837.51	234.67	258.77	107.32	167.47
2000	1,005.77	925.87	225.12	262.02	118.94	187.92
2001	1,111.39	1,008.13	271.16	324.30	135.78	213.39
2002	1,126.70	1,012.96	281.60	342.24	148.31	230.61
2003	1,115.40	997.57	303.09	366.41	160.52	248.33
2004	1,105.47	984.40	325.47	391.77	172.30	265.41
2005	1,121.75	995.04	372.51	445.77	184.40	282.97

Calendar Year	Carrier Lab		Other Carrier		Intermediary Lab	
	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD
1997	\$63.32	\$58.88	\$151.23	\$137.88	\$39.25	\$48.94
1998	55.52	54.34	161.32	150.22	39.52	48.90
1999	54.85	55.38	174.69	165.00	43.86	54.76
2000	58.59	58.13	202.12	185.73	46.98	59.95
2001	63.38	62.63	236.03	216.03	50.14	66.93
2002	66.52	65.45	265.87	229.56	52.40	69.61
2003	70.28	68.80	297.18	242.53	55.37	73.20
2004	74.10	72.21	330.27	256.00	58.36	76.83
2005	78.09	75.79	364.96	270.21	61.48	80.65

Calendar Year	Other Intermediary		Home Health		Managed Care	
	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD	Aged	Disabled Non-ESRD
1997	\$131.24	\$148.04	\$7.42	\$0.00	\$312.30	\$158.47
1998	123.05	150.63	4.65	0.00	458.13	224.65
1999	100.23	129.39	51.79	39.91	508.95	241.70
2000	119.41	115.82	130.82	102.30	534.23	248.00
2001	146.25	121.59	179.49	137.35	502.63	235.91
2002	148.16	129.83	220.04	164.56	488.74	237.57
2003	129.87	92.78	230.46	170.71	483.38	237.43
2004	138.15	99.54	249.81	183.70	472.69	235.27
2005	146.35	106.78	263.03	192.34	473.86	238.16

<sup>1</sup>Average reimbursement per enrollee on an incurred basis.



### Claims Processing Costs as a Fraction of Benefits

Calendar Year	Part A	Part B
1997	0.001933	0.015712
1998	0.002066	0.015203
1999	0.002129	0.015741
2000	0.002195	0.014790
2001	0.001862	0.013223
2002	0.001862	0.013223
2003	0.001862	0.013223

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### Approximate Calculation of the USPCC and the National Medicare+Choice Growth Percentage for Aged Beneficiaries

The following procedure will approximate the actual calculation of the USPCCs from the underlying assumptions for the contract year for both Part A and Part B.

#### Part A:

The Part A USPCC for aged beneficiaries can be approximated by using the assumptions in the tables titled "Part A Projections Under Present Law" and "Claims Processing Costs as a Fraction of Benefits." Information in the "Part A Projections" table is presented on a calendar year per capita basis. First, add the per capita amounts for the aged over all types of providers (excluding hospice). Next, multiply this amount by 1 plus the loading factor for administrative expenses from the "Claims Processing Costs" table. Then, divide by 12 to put this amount on a monthly basis. The last step is to multiply by .96713 to get the USPCC for the aged non-ESRD. This final factor is the relationship between the total and non-ESRD per capita reimbursements in 2001. This factor does not necessarily hold in any other year.

#### Part B:

The Part B USPCC can be approximated by using the assumptions in the tables titled "Part B Projections Under Present Law" and "Claims Processing Costs as a Fraction of Benefits." Information in the "Part B Projections" table is presented on a calendar year per capita basis. First, add the per capita amounts for the aged over all types of providers. Next, multiply by 1 plus the loading factor for administrative expenses and divide by 12 to put this amount on a monthly basis. Then multiply by .96660 to get the USPCC for the aged non-ESRD.

#### The National Per Capita Medicare+Choice Growth Percentage:

The national per capita Medicare+Choice Growth Percentage for 2003 (before adjustment for prior years' over/under estimates) is calculated by adding the USPCCs for Part A and Part B for 2003, dividing by the sum of the current estimates of the USPCCs for Part A and Part B for 2002.

### Enclosure III

We received two letters of comment on the January 15, 2002 Advance Notice of Methodological Changes for the CY 2003 Payment Rates. One letter came from two Medicare+Choice (M+C) organizations, and the other from a national association representing managed care plans with frail elderly enrollees.

**Comment.** One commenter requests that CMS change the methodology used in calculating the actuarial value of fee-for-service deductibles, coinsurance, and copayments. The commenter contends that CMS's approach of using national data to calculate an average per capita actuarial value of fee-for-service cost-sharing (which is the limit on beneficiary liability) is no longer feasible, given recent increases of 10 to 12 percent annually in medical costs and enrollee utilization. This limit on beneficiary cost-sharing is especially a problem for plans serving counties that not only have rates higher than the national average, but also have only received the 2 percent minimum update in recent years.

The commenter proposes that CMS calculate the average per capita actuarial value of fee-for-service cost-sharing at a regional (e.g., SMSA) or county-level, because this would more closely reflect actual costs in regional or local markets.

**Response.** Section 1854(e)(1) of the Act stipulates that for coordinated care plans in the M+C program, CMS must calculate each year an average per capita actuarial value of deductibles, coinsurance, and copayments under Original Medicare. An M+C plan's aggregate premium and cost-sharing charges for basic and additional benefits may not exceed this average actuarial value.

We recognize that the use of a nationally-derived average value for Medicare's limit on beneficiary cost-sharing (in connection with the ACR construction rules) has different consequences for M+C organizations. Specifically, the impact depends on the relationship between the actual local fee-for-service experience and an M+C organization's cost projections for covering Medicare-covered services. We further recognize that one consequence is that the nationally-derived value could potentially preclude an M+C organization's ability to impose additional cost-sharing even if the actual local fee-for-service experience were to yield a cost-sharing average higher than the national value.

However, it would not be feasible to calculate an average actuarial value at the county or MSA level because the estimates would be unstable and unreliable in many areas due to small numbers of beneficiaries. CMS would also face major technical barriers in attempting to tabulate fee-for-service data in a time-sensitive way using the commenter's suggested approach.

**Comment.** The second commenter contends that Medicare payments to organizations participating in the PACE program are inadequate. (The PACE program, which serves beneficiaries who meet their State's eligibility for nursing home care, is separate from the M+C program, though payments under PACE are based in part on M+C payment rates.) The commenter argues that Medicare payments to PACE sites are not reflective of Medicare's costs for a comparable fee-for-service population. The 2 percent increase in 2003 M+C rates that PACE rates are built upon is inadequate relative to cost increases facing PACE providers, thus expanding the gap between Medicare payments and the cost of providing care. The commenter also is concerned about the appropriateness of the current 2.39 payment adjuster and about the delay in development and implementation of a new frailty adjustment methodology for PACE. Provider entities making decisions about PACE participation need assurance that future payments will be appropriate. The commenter suggests that CMS's current payment adjuster of 2.39 be increased to 3.0 or higher until an appropriate frailty adjustment methodology is implemented for PACE.

**Response.** Section 1853(c) of the Act establishes the BBA methodology where the highest of three rates in a payment area (a floor amount, minimum percent update to the previous year's rate, and a blended rate) becomes the M+C capitation rate for the calendar year. In recent years, some counties have received the minimum percent update for several years. Under section 1894(d)(2), payments to PACE providers are to be "based upon payment rates established for purposes of payments under section 1853." Thus, when the rate of increase in M+C payments under section 1853 is limited to 2 percent, this limit governs the base rates used to determine payments to PACE providers as well.

Since the above section 1853(c) payment formula is set by the Congress, CMS would need a statutory change to calculate the base payment rates in a new way. This is why the President's 2003 budget includes a proposal to strengthen the M+C program by modifying the payment formula to better reflect increases in actual healthcare cost and to allocate additional resources in 2003 to counties that have received only minimum updates. Specifically, the President proposes that all M+C plans will receive payment increases equivalent to national fee-for-service cost growth minus 0.5 percent. In addition, plans in counties that received the minimum update of 2 percent in 2002 would receive a 6.5 percent increase in payment rates for 2003 under the President's proposal. The budget also proposes incentive payments for new types of plans that enter the M+C program, to encourage a variety of new managed care plans (e.g., PPOs).

With respect to the commenter's concern about the appropriateness of the current 2.39 adjuster, we believe this is an appropriate interim adjuster. We will continue to investigate the adequacy of this adjuster. With respect to the implementation of a new frailty adjustment methodology for PACE, we are investigating ways to properly adjust payments to account for the comparative frailty of PACE enrollees.