January 16, 2004

NOTE TO: Medicare Advantage Organizations and Other Interested Parties

SUBJECT: Revised Medicare Advantage Payment Rates for Calendar Year (CY) 2004

In accordance with Section 211 of the Medicare Prescription Drug Improvement and Modernization Act of 2003, we are releasing revised Medicare Advantage (MA -- formerly known as Medicare+Choice) payment rates for 2004. These rates apply for payments to managed care plans for March through December of 2004. Payments for February will be adjusted to reflect the increases in the revised rates for January and February.

Section 211 provides for several immediate improvements to the payment methodology. The old "greater of 3" methodology is replaced by a "greater of 4" factors approach. The fourth prong in the new methodology is based on 100% of the projected average fee-for-service amount in the county. (This amount excludes direct medical education costs but includes indirect medical education costs. An adjustment is intended for VA/DoD costs; however, at this time CMS is unable to obtain reliable data to properly make a VA/DoD adjustment.)

There are several changes to the other 3 prongs in the MA payment methodology. For 2004 and later, the minimum increase will be the larger of 102% of the previous year's rate or the prior year's rate increased by the national per capita growth percentage, also known as the USPCC. For 2004, the budget neutrality requirement for the blend capitation rate is eliminated. Also, the county floor payments will change due to updated national per capita growth percentages, which reflect the impact of the legislation and adjustments for prior year's over/under estimates. The attached table shows the latest growth assumptions.

In the revised demographic ratebook for the aged, about 66 percent of the counties will be getting the floor rates, about 4 percent will be getting the minimum percentage update, about 3 percent will be getting blended rates, and about 27 percent will be getting rates based on estimated fee-for-service costs.

The new risk adjusted ratebook includes a revised risk adjustment budget neutrality factor. The latest budget neutrality calculation is based on actual data submitted by all plans for payments in 2004. The prior adjustment used for the ratebook announced last May was based on estimator data submitted by only a subset of organizations. The new budget neutrality adjustment is 1.0829. When applied with an adjustment for fee-for-service normalization of 1.05, the resulting adjustment is 1.0313, i.e. the adjusted risk payment rates are about 3.13 percent higher than the unadjusted risk rates.

The Medicare modernization act also includes two new or modified benefit coverages for 2004. Plans might be interested in the estimated impacts of these provisions. Section 624 of the legislation provides for the suspension of financial limits on incurred expenses for physical/occupational/speech pathology therapy services. The estimated per-member-per-month

impact for 2004 is $1.18. Section 642 provides for intravenous immune globulin (IVIG) for treatment of primary immune deficiency diseases in the home. The estimated per-member-per-month impact is negligible.

The revised MA payment rates are posted on the CMS website at http://www.cms.hhs.gov/healthplans/rates/.

/ s /
Solomon Mussey, A.S.A.
Director
Medicare and Medicaid Cost Estimates Group
Office of the Actuary

Revised Estimate of the Increase in the National Per Capita Growth Percentages for 2004

The first of the attached tables shows the revised National Per Capita Medicare Advantage Growth Percentages (NPCMAGP) used to determine the area-specific rates for 2004. Since the new payment methodology for 2004 continues to base area specific payment rates on the 1997 capitation ratebook, 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 Social Security Act. In addition, the increases for 1997 to 2003 reflect adjustments of 6.22 percent, 11.53 percent, 17.79 percent and 6.85 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 Benefits Improvement and Protection Act of 2000 reestablished the floor payments in 2001, there are adjustments only for 2002 and 2003 for corrections to prior estimates. The new minimum update percentage does not provide for adjustments to prior year's growth percentages before 2004. The minimum growth percentage for 2004 is 6.30 percent, 5.33 percent, 4.52 percent, and 6.10 percent for aged, disabled, ESRD, and combined aged and disabled, respectively. Finally, the third table shows the monthly actuarial value of the Medicare deductible and coinsurance for 2003 and 2004.

Increase in the National Per Capita MA Growth Percentages for 2004

	Prior Increases	Current Increases			NPCM+CGP for 2004 With Sec.1853(c)(6)(C) adjustment[1]
	1997 to 2003	1997 to 2003	2003 to 2004	1997 to 2004	
Aged	14.59%	21.72%	6.30%	29.39%	12.92%
Disabled	14.72	27.95	5.33	34.77	17.48
ESRD	-9.66	6.41	4.52	11.21	23.10
Aged+Disabled	14.29	22.12	6.10	29.56	13.36

[1]Current increases for 1997 to 2004 divided by the prior increases for 1997 to 2003.

Increase in the Floor Payment Rate for 2004

	Prior Increases	Current Increases			NPCM+CGP for 2004 With Sec.1853(c)(6)(C) adjustment[2]
	2001 to 2003	2001 to 2003	2003 to 2004	2001 to 2004	
Aged	4.29%	10.00%	6.30%	16.93%	12.12%
Disabled	4.28	14.69	5.33	20.81	15.85
ESRD	-1.81	6.08	4.52	10.87	12.91
Aged+Disabled	4.22	10.46	6.10	17.19	12.44

[2] Current increases for 2001 to 2004 divided by the prior increases for 2001 to 2003.

Monthly Actuarial Value of Medicare Deductible and Coinsurance for 2003 and 2004

	2003	2004	Change
Part A Benefits	$26.47	$28.57	7.9%
Part B Benefits[3]	75.14	84.50	12.5
Total Medicare	101.61	113.07	11.3

[3]Includes the amounts for outpatient psychiatric charges.