Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

The State of California, in conjunction with the Centers for Medicare and Medicaid Services (CMS), is releasing the Medicare component of the CY 2017 rates for the California Demonstration to Integrate Care for Dual Eligible Beneficiaries, also known as Cal MediConnect.

The general principles of the rate development process for the Demonstration have been outlined inthe three-way contract between CMS, the State of California, and the Prime Contractor Plans.

Included in this report are the CY 2017 Medicare county base rates. The California Medicaid component of the rate will be released at a later date. An updated report will be provided when the rates are finalized.

I. Components of the Capitation Rate

CMS and the State of California will each contribute to the global capitation payment. CMS and theState of California will each make monthly payments to Prime Contractor Plans for their components of the capitated rate. Prime Contractor 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 State of California reflecting coverage of Medicaid services.

The Medicare Parts A/B rate component will be risk adjusted using the prevailing Medicare Advantage CMS-HCC and CMS HCC-ESRD models. The Medicare Part D payment will be risk adjustedusing the Part D RxHCC model. California uses a single, blended payment rate that weights the relative risk of the population enrolled in each Prime Contractor Plan for the purpose of risk adjusting the Medicaid payment.

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

Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

II. Medicaid Component of the Rate – CY 2017

Pending

Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

III. Medicare Components of the Rate – CY 2017

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,as adjusted below, 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 arecalculated 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 rateannouncement, and Medicare Advantage bids (for the applicable year or for prior years trended forward to the applicable year) for products in which potential Demonstration enrollees would be enrolled absent the Demonstration.

Medicare A/B Component Payments: CY 2017 Medicare A/B Baseline County rates are providedbelow.

The rates represent the weighted average of the CY 2017 FFS Standardized County Rates, updated toincorporate the adjustment noted below, and the Medicare Advantage projected payment rates for CY 2017 based on the expected enrollment of beneficiaries from Medicare FFS and Medicare Advantage prior to the demonstration start at the county level.

Please Note: In CY 2016, CMS updated the FFS component of the Medicare A/B baseline rate to better align Cal MediConnect Plan payments with Medicare fee-for-service costs, by offsetting underprediction in the CMS-HCC risk adjustment model for full-benefit dual eligible beneficiaries in the community. In CY 2017 CMS will implement a new HCC risk adjustment model across all of Medicare Advantage, as well as for Medicare-Medicaid plans, that will increase risk scores for community full-benefit dual eligible beneficiaries in order to address this underprediction issue. As a result, CMS will not be making such an adjustment to the FFS component of the Medicare A/B baseline in 2017. While this means that the standardized (non-risk adjusted) rates generally decline from CY 2016 to CY 2017, we expect those decreases will be offset by implementation of the new risk adjustment model.

The FFS component of the CY 2017 Medicare A/B baseline rate has been updated to reflect

a 1.74% 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).

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 Advantageand the Original Fee-for-Service Medicare programs. The adjustment for CY 2017 in Medicare Advantage is 5.66%. For 2017, CMS will apply the full prevailing Medicare Advantage coding intensity adjustment and there is no upward adjustment to the Medicare A/B baseline rates to offset this reduction in the risk scores.

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 Cal MediConnect CMS will reduce non-exemptportions 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 Prime Contractor Plan and is calculated using an enrollment-weighted average of the rates for each county in which the Prime Contractor Plan participates.

Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

2017 Medicare A/B Baseline PMPM, Non-ESRD Beneficiaries, Standardized 1.0 Risk Score, by Demonstration County[1]							
County	**2017 Published FFS Standardized County Rate**	**2017 Updated Medicare A/B FFS Baseline** (updated by 2017 bad debt adjustment)	**2017 Updated Medicare A/B Baseline** (incorporating updated Medicare A/B FFS baseline andMedicare Advantage component)	**2017 Medicare A/B Baseline PMPM, Minimum Savings Percentage Applied** (after application of 4% minimum savings percentage)	**2017 County-Specific Interim Savings Percentages**	**2017 Medicare A/B Baseline PMPM, Interim Savings Percentage Applied** (after application of county-specific interim savings percentages)	**2017 Final Medicare A/B PMPM Payment** (2% sequestration reduction applied and prior to quality withhold)
Los Angeles	$921.59	$937.63	$927.38	$890.28	-1.50%	$876.37	$858.85
Orange	875.38	890.61	869.26	834.49	-1.50%	821.45	805.02
Riverside	846.03	860.75	840.38	806.76	-1.14%	797.18	781.24
San Bernardino	814.88	829.06	817.40	784.70	-1.50%	772.44	756.99
San Diego	824.08	838.42	829.13	795.96	-1.10%	786.84	771.11
San Mateo	829.11	843.54	820.90	788.06	0.00%	788.06	772.30
Santa Clara	829.35	843.78	842.98	809.26	-0.95%	801.25	785.22

[1] Rates do not apply to beneficiaries with End-Stage Renal Disease (ESRD) or those electing the Medicare hospice benefit. See Section IV for information on savings percentages.Note: For CY 2017 CMS will apply the full prevailing Medicare Advantage coding intensity adjustment of 5.66%. The Medicare A/B PMPMs above will be risk adjusted at the beneficiary level using the prevailing CMS-HCC risk adjustment model.

Beneficiaries with End-Stage Renal Disease (ESRD): Separate Medicare A/B baselines and risk adjustment models apply 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 2017 California ESRD dialysis state rate, updated to incorporate the impact of sequestration-related rate reductions. The CY 2017 ESRD dialysis state rate for California is $7,565.73 PMPM; the updated CY 2017 ESRD dialysis state rate incorporating a 2% sequestration reduction and priorto the application of the quality withhold is $7,414.42 PMPM. This applies to applicable enrollees in all counties and will be risk adjusted using the prevailing HCC-ESRD risk adjustmentmodel.

- **Transplant**: For enrollees in the transplant status phase (inclusive of the 3-months starting withthe transplant), the Medicare A/B baseline is the CY 2017 California ESRD dialysis state rate, updated to incorporate the impact of sequestration-related rate reductions. The CY 2017 ESRD dialysis state rate for California is $7,565.73 PMPM; the updated CY 2017 ESRD dialysis state rate incorporating a 2% sequestration reduction and prior to the application of the quality withhold is $7,414.42 PMPM. This applies to applicable enrollees in all counties and will be risk adjusted using the prevailing 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% bonus county rate/benchmark (see table below). This Medicare A/B component will be risk adjusted using the prevailing HCC-ESRD functioning graft 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).

Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

2017 Medicare A/B Baseline PMPM, Beneficiaries with ESRD Functioning Graft Status, Standardized 1.0 Risk Score, by Demonstration County		
County	**2017 3.5% Bonus County Rate(Benchmark)**	**2017 Sequestration-Adjusted Medicare A/B Baseline** (after application of 2% Sequestration reduction)
Los Angeles	$907.77	$889.61
Orange	862.25	845.01
Riverside	833.34	816.67
San Bernardino	851.55	834.52
San Diego	852.92	835.86
San Mateo	858.13	840.97
Santa Clara	837.64	820.89

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 Prime Contractor 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. The Prime Contractor 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 Prime Contractor Plans. The Prime Contractor 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 2017 is $61.08 and the CY 2017 Low-Income Premium Subsidy Amount for California is $36.28.

Thus, the updated California Part D monthly per member per month payment for a beneficiary with a RxHCC risk score applicable for CY 2017 is $60.58. 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.

- California low-income cost-sharing: $114.49 PMPM
- California reinsurance: $90.65 PMPM

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

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

Additional Information*:* More information on the Medicare components of the rate under the Demonstration may be found online at: Joint Rate-Setting Process for the Capitated Financial Alignment Model (http://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/Downloads/JointRateSettingProcess.pdf).

Cal MediConnect
CY 2017 Medicare Rate Report
September 21, 2016

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 toboth the Medicaid and Medicare A/B components of the rates.

CMS and California established composite minimum 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.

Year	Calendar dates	Minimum savings percentage*
Demonstration Year 1	April 1, 2014 through December 31, 2015	1%
Demonstration Year 2	January 1 through December 31, 2016	2%
Demonstration Year 3	January 1 through December 31, 2017	4%

*See additional detail below

Limited Risk Corridors

Limited risk corridors will be established for all Demonstration Years. The Demonstration will utilize a limited down-side risk corridor and a limited up-side risk corridor to include all Medicare Parts A and B and Medicaid eligible costs. The corridors will be applied on a Prime contract specific basis and will be reconciled after application of any risk adjustment methodologies and any other adjustments. Risk corridors will be reconciled as if the Prime Contractor Plan had received the full quality withhold payment. The three-way contract includes further details on how risk corridors are operationalized.

- Limited down-side risk corridor:
    - To reflect the underlying characteristics of the eligible population and differences between counties, initial payments will be made on a county specific basis and reconciled based on plan costs within the limits specified below.
    - The application of county-specific interim savings percentages in the table below establishes the initial capitation rates for purposes of this risk corridor calculation.

	Demonstration Year 1	Demonstration Year 2	Demonstration Year 3
Minimum Savings Percentages	**1.00%**	**2.00%**	**4.00%**
County Specific Interim Savings Percentages: the sum of the minimum savings percentages and the county-specific addition			
Los Angeles	+ 0.00%	+ 1.50%	+ 1.50%
Orange	+ 0.42%	+ 1.50%	+ 1.50%
Riverside	+ 0.22%	+ 1.50%	+ 1.14%
San Bernardino	+ 0.44%	+ 1.50%	+ 1.50%
San Diego	+ 0.23%	+ 1.50%	+ 1.10%
San Mateo	+ 0.47%	+ 0.33%	+ 0.00%
Santa Clara	+ 0.23%	+ 1.45%	+ 0.95%

  - If the Prime Contractor Plan costs exceed the initial capitation rates, excluding both Part D payments and costs, Medicare and Medicaid will reimburse the Prime Contractor Plan 67% of the costs above the initial capitation rates, provided that total federal/State payments to the Prime Contract Plan (including initial capitation payment amounts and risk corridor payment amounts) cannot exceed the total capitation amounts that would have been paid by the federal government/State with the minimum savings percentagesin applied to the rates.
  - The Medicare and Medicaid contributions to the reconciled capitated payments will bein proportion to their contribution to the initial capitated rates, not including Part D. Therefore, payment will come in two separate transactions.

- Limited up-side risk corridor:
  - If the Prime Contractor Plan costs, excluding both Part D payments and costs, are lower than the initial capitation rates, this risk corridor will be triggered
  - The risk corridor will contain three bands. The percentages specified below are expressed as a percentage of the combined baseline amount for Medicaid and Medicare Part A and B.
  - The first band will be equal to the difference between the minimum savings percentage and the county specific savings percentage identified in Figure 6-5. In this band, Prime Contractor Plans will retain 100% of the excess. If a plan is in a county where the interim savings percentage is equal to the minimum savings percentage for that Demonstration year, the first band will be the difference between the minimum savings percentage and the following maximum savings percentages: 1.5% in Demonstration Year 1, 3.5% in Demonstration Year 2, and 5.5% in Demonstration Year 3.
  - The second band is the same size as the first band. It starts from the upper limit of the first band and is the equivalent amount of percentage points. In this band, Medicare and Medicaid would share in 50 percent of plan savings and the Prime Contractor Plan would share in the excess 50 percent.

  - The final band will be all amounts above the upper limit of the second band. In thisband, the Prime Contractor Plan will retain 100% of the excess.

- Medicare and Medicaid recoupments in the risk corridor will be in proportion to their contribution to the initial capitated rates, not including Part D, and therefore will require separate recoupment processes.

Quality Withhold

In Demonstration Year 1, a 1% quality withhold will be applied to the Medicaid and Medicare A/B components of the rate. In Demonstration Year 2, a 2% quality withhold will be applied to the Medicaid and Medicare A/B components of the rate. The quality withhold will increase to 3% in Demonstration Year 3.

More information about the DY 1 quality withhold methodology is available at: Medicare-Medicaid Capitated Financial Alignment Model Quality Withhold Technical Notes (https://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/FinancialAlignmentInitiative/Downloads/DY1QualityWithholdGuidance060614.pdf)

More information about the DY 2 and 3 quality withhold methodology is available at: Medicare-Medicaid Capitated Financial Alignment Model Quality Withhold Technical Notes (DY 2 & 3) (https://www.cms.gov/Medicare-Medicaid-Coordination/Medicare-and-Medicaid-Coordination/Medicare-Medicaid-Coordination-Office/FinancialAlignmentInitiative/Downloads/DY2and3QualityWithholdGuidance042916.pdf)