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Centers for Medicare & Medicaid Services

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TO: Medicare Advantage Organizations (MAOs)

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Subject: Calendar Year (CY) 2022 Preliminary Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component of the Medicare Advantage (MA) Value-Based Insurance Design (VBID) Model

Background and General Information

Beginning in CY 2021, within the VBID Model's Hospice Benefit Component, the Centers for Medicare & Medicaid Services (CMS) is testing the impact on quality and program expenditures of incorporating the Medicare Part A hospice benefit with the goal of creating a seamless continuum of care in the MA program for Part A and Part B services. In voluntarily participating in this Model component, MAOs are incorporating the Medicare hospice benefit into MA covered benefits while offering comprehensive palliative care services outside the hospice benefit for enrollees with serious illness. In addition, participating MAOs are able to provide individualized, clinically appropriate transitional concurrent care through in-network providers and offer hospice-specific supplemental benefits.[1]

On April 15, 2020, CMS released the CY 2021 Final Hospice Capitation Payment Rate Actuarial Methodology for the Hospice Benefit Component[2] ("CY 2021 Final Actuarial Methodology"), the CY 2021 Hospice Capitation Ratebook[3] and the CY 2021 Data Book for the Hospice Benefit Component.[4] The CY 2021 Final Actuarial Methodology reflects CMS' continued commitment to maintaining the full Medicare hospice benefit while providing MAOs with the flexibility to develop and implement innovative approaches to serious illness care.

[1] For additional details on the Hospice Benefit Component, please refer to the CY 2022 Request for Applications, available at https://innovation.cms.gov/media/document/cy-2022-rfa-vbid-hospice-benefit-component.
[2] The CY 2021 Final Actuarial Methodology is available on the CMS website at https://innovation.cms.gov/media/document/cy-2021-final-hospice-capitation-payment-rate-actuarial-methodology-paper-pdf-0.
[3] The CY 2021 Hospice Capitation Ratebook is published at https://innovation.cms.gov/media/document/cy-2021-hospice-capitation-payment-ratebook-xls.
[4] The CY 2021 Final Hospice Benefit Component Data Book is available at https://innovation.cms.gov/media/document/cy-2021-final-hospice-benefit-component-data-book.

For CY 2022, the actuarial methodology will be consistent with that used for CY 2021, except for preliminary changes identified in this CY 2022 Preliminary Hospice Capitation Payment Rate Actuarial Methodology ("CY 2022 Preliminarily Actuarial Methodology"). Additionally, CMS will consider similar policy objectives in developing the CY 2022 hospice capitation rates as it did in developing the CY 2021 hospice capitation rates, including:

- To the extent possible, maintaining (1) a simple, transparent and clear payment structure and (2) cost-neutral rates so that for CY 2022, the aggregate 2022 capitation equals the aggregate estimated 2022 Medicare Fee-For-Service (FFS) payment (plus an administrative load);
- Continuing to ensure accuracy of rates to the extent possible while moving from a granular four-level per diem FFS payment structure, which automatically adjusts for length of stay and service intensity, to a monthly capitation rate, where capitation offers opportunities for improved quality management;
- Primarily measuring accuracy on an aggregate basis by Core-Based Statistical Areas (CBSAs);
- To the extent possible and appropriate, developing rates consistent with how MA benchmarks are developed, following actuarial guidance and practices in developing the rates; and
- Aligning payment structure with Model policy objectives to (1) promote hospice enrollment early enough in the disease trajectory to allow for the delivery of the range of services necessary to promote comfort, while also discouraging very short stays, when an enrollee with a terminal illness has little time to benefit from hospice services and after significant costs with acute medical care have often been incurred; and (2) reduce the financial incentive for very long stays that are present in the current FFS payment system[5] to help ensure appropriate access and utilization of the Medicare hospice benefit under the Model.

In April 2021, CMS will release the CY 2022 Final Hospice Capitation Payment Rate Actuarial Methodology, the CY 2022 Hospice Capitation Ratebook, and the CY 2022 Data Book for the Hospice Benefit Component.

Consistent with CY 2021, CMS continues to expect that uptake of the Hospice Benefit Component in CY 2022 will result in improvements in financial accountability for the hospice benefit and timely access to high-quality palliative and hospice care for Medicare beneficiaries. CMS is looking forward to continuing to work with stakeholders to achieve shared goals around transforming and improving serious illness care for Medicare beneficiaries.

As part of these collaborative efforts, CMS will offer stakeholders an opportunity to discuss the CY 2022 Preliminary Actuarial Methodology with CMS staff during a webinar that is scheduled for Wednesday, March 17, 2021 at 4 P.M. Eastern Time. Registration details are available at https://acumenllc.webex.com/acumenllc/onstage/g.php?MTID=eb9429edbef73745eb68a7391d7564a78.

[5] Medicare Payment Advisory Commission (MedPAC). Report to Congress: Medicare Payment Policy, Chapter 12: Hospice Services. March 2020. Retrieved from http://www.medpac.gov/docs/default-source/reports/mar20_medpac_ch12_sec.pdf?sfvrsn=0.

To submit comments or questions electronically regarding the preliminary CY 2022 payment rate actuarial methodology of the Hospice Benefit Component, email VBID@cms.hhs.gov. In order to receive consideration prior to the release of the final CY 2022 payment rate actuarial methodology of the Hospice Benefit Component, comments on the preliminary CY 2022 payment rate actuarial methodology must be received by 6:00 PM Eastern Time on Friday, March 26, 2021.

Key Preliminary Updates from the CY 2021 Final Actuarial Methodology

Below, CMS identifies the key updates to the CY2021 Final Actuarial Methodology to reflect the CY 2022 hospice capitation rate setting process, including refinements to the pricing calculations to enhance the accuracy of the CY 2022 hospice capitation rates.

Base Data for CY 2022 Hospice Capitation Rates:

- CMS will continue to use a three-year experience period in the base data as described in section 2.3 of the CY 2021 Final Actuarial Methodology but will advance this period one year from a three-year period of CY 2016 through CY 2018 to that of CY 2017 through CY 2019.

- In CY 2021, as described in section 2.3 of the CY 2021 Final Actuarial Methodology, the base data only uses hospice stays that begin in each of the calendar years as the Hospice Benefit Component is in its first performance year ("first year Model experience"). This emulates the impact of not having carryover hospice stays from prior years that MAOs participating in the Hospice Benefit Component in CY 2021 (the first year of the Model) will experience. In other words, hospice stays that spanned calendar years were excluded to align the base data with the expected rating period duration.

  For CY 2022, CMS intends to include hospice stays that begin in each of the calendar years or in the prior year to mimic the "second year Model experience" that MAOs with Plan Benefit Packages (PBPs) that offer the Hospice Benefit Component in CY 2021 and CY 2022 will experience in CY 2022. However, recognizing that MAOs with PBPs that newly begin to offer the Hospice Benefit Component in CY 2022 will not have carryover experience, CMS plans to maintain a first year Model experience to reflect higher associated costs. CMS' preliminary analysis shows that the national average Month 2+ rate is 2.8 percent lower for the second year Model experience as compared to the first year Model experience.

  In order to operationalize this, CMS plans to use second year Model experience in counties where the Hospice Benefit Component was offered in CY 2021 and to use first year Model experience in counties where the Hospice Benefit Component will be offered for the first time in CY 2022. This will still result in one ratebook for the Hospice Benefit Component; however, rates will be independently developed to reflect first and second year Model experience, and will be applied by county as a first year rate or second year rate depending on whether any PBPs participated in the Hospice Benefit Component in CY 2021 in the county.

- Experience for beneficiaries with current reason for Medicare entitlement including end-stage renal disease (ESRD) was not included in the CY 2021 base data (Current Reason for Entitlement Code (CREC) 2 and 3) due to likely negligible volume of ESRD enrollment. For

CY 2022, CMS will include experience for beneficiaries with ESRD status in the base data for payment accuracy, aligned with 42 CFR §§ 422.50(a)(2) and 422.52.

- As part of the base experience of FFS-paid non-hospice care and as a further refinement, the tabulation of non-hospice expenditures will include inpatient pass-through payments.[6] Additionally, consistent with MA capitation rates, the tabulation of non-hospice claims will exclude direct graduate medical education (DGME), indirect medical education (IME), and kidney acquisition costs (KAC). The DGME, IME, and KAC exclusion represents a sum of the three carve-out factors included in the 2022 Medicare Advantage ratebook, risk2022.xlx[7], tabulated at the CBSA level and applied against non-hospice claim expenditures.

Refinements to repricing: For CY 2022, CMS will reprice the CY 2017-2019 historical hospice FFS-paid claims experience to CY 2021. The repricing of these claims will use the Fiscal Year (FY) 2021 per diem payment rates for routine home care (RHC), continuous home care (CHC), inpatient respite care (IRC) and general inpatient care (GIP) levels of care and the FY 2021 Hospice Wage Index.

As a refinement, the repricing will be based on the provider CBSA for IRC and GIP, and place of residence for RHC and CHC. Repricing for CHC will be based on CHC units and the published FY 2021 hourly rate for CHC (instead of estimated CHC days and the published CHC per diem).

CBSA changes: Of note, as described in the FY 2021 Hospice Wage Index and Payment Rate Update Final Rule (CMS-1733-F)[8], there was a significant remapping of counties to CBSAs from FY 2020 to FY 2021, with 106 counties involved. Thus, CMS will incorporate the CBSA changes from the FY 2021 Hospice Wage Index and Payment Rate Update Final Rule in the CY 2022 Final Actuarial Methodology. In conjunction with the release of this preliminary actuarial methodology, CMS is publishing the CY 2022 Supplemental File for CBSA Descriptions at https://innovation.cms.gov/innovation-models/vbid.

Update to the Hospice Provider Inpatient and Aggregate Caps: For CY 2022, CMS will use the same methodology to recognize the hospice provider inpatient and aggregate caps but will reflect the 2017-2019 hospice experience, in lieu of the 2016-2018 hospice experience.

Updates to Service Mix Change: Similar to the methodology described in section 2.6 of the CY 2021 Final Actuarial Methodology, CMS looked at the impact of change from 2017 to 2019 in mix of service days and length of stay within episode month and the mix of CBSAs, CREC, dual-eligibility and MA to FFS ratios. CMS found that none of these mix changes were significant,

[6] For background, Medicare establishes a daily payment amount to reimburse inpatient prospective payment system (IPPS) hospitals for certain "pass-through" expenses, such as capital-related costs, direct medical education costs, kidney acquisition costs for hospitals that are renal transplant centers, and bad debts. This variable is the daily payment rate for pass-through expenses.

[7] https://www.cms.gov/medicarehealth-plansmedicareadvtgspecratestatsratebooks-and-supporting-data/2022

[8] CMS. Medicare Program; FY 2021 Hospice Wage Index and Payment Rate Update. (CMS-1733-F). Retrieved from https://www.federalregister.gov/documents/2020/08/04/2020-16991/medicare-program-fy-2021-hospice-wage-index-and-payment-rate-update

using a 0.40% claim cost level for significance. Given this, the impact of service mix change will likely be immaterial for CY 2022 pricing.

Claim completion factors: CMS will use the same methodology as described in section 2.8 in the CY 2021 Final Actuarial Methodology to update the hospice FFS-paid claim and Non-Hospice FFS-paid claim completion factors for 2017-2019.

Updates to Trends for Hospice FFS-paid claims (Related per diems): CMS will apply a trend to increase repriced 2021 per diems from FY 2021 to FY 2022 (for claims incurred in January through September) and from FY 2021 to FY 2023 (for claims incurred in October through December). This reflects a change in how these hospice FFS-paid claim costs are trended from the 2021 rate methodology. For CY 2021, CMS used a blended trend to go from the midpoint of FY 2020 to the claim-weighted midpoint of CY 2021. For CY 2022, CMS will use the incurred month of the claim: if the claim was incurred in the first nine months of the year, CMS will trend it one year, and if it was incurred in the last three months, CMS will trend it two years. An annual trend of 2.3% for FY 2021 to FY 2022 and 3.3% for FY 2022 to FY 2023 will be applied, based on the CMS inpatient hospital market basket data and Bureau of Labor Statistics (BLS) multifactor productivity (MFP) adjustment.

Updates to Trends for Non-Hospice FFS-paid claims: CMS will use updated trend factors for the Non-Hospice FFS-paid claims using the FFS United States per capita cost (USPCC) – Non-ESRD trends from the CY 2022 Rate Announcement (see Table 1).[9]

Table 1. USPCC – Non-ESRD Fee-For-Service Trends

Year	Trend
2017 to 2018	3.64%
2018 to 2019	3.65%
2019 to 2020	-5.86%
2020 to 2021	11.72%
2021 to 2022	10.62%

Change in the Month 1 Tier Adjustment: CMS intends to maintain the Month 1 Tiers described in section 4.2 of the CY 2021 Final Actuarial Methodology (1-6 days, 7-15 days and 16+ days) in CY 2022. CMS will update the Month 1 tier factor for 16+ days from 1.02 in CY 2021 to 1.003 in CY 2022, which will result in the composite Month 1 tier experience equaling the Month 1 aggregate experience.

Update to the Administrative Expense: The administrative load, or claims processing cost as a fraction of benefits, will be updated using figures from the CY 2022 Rate Announcement, in alignment with section 2.9 of the CY 2021 Final Actuarial Methodology. The Part A administrative load is 0.000625 and the Part B administrative load is 0.001536.

[9] CMS. Announcement of CY 2022 MA Capitation Rates and Part C and Part D Payment Policies. Retrieved from https://www.cms.gov/files/document/2022-announcement.pdf

Month 1 Utilization Outlier Adjustment: In CY 2022, CMS will not implement the Month 1 Utilization Outlier adjustment discussed as a possibility in the CY 2021 Preliminary Hospice Capitation Payment Rate Actuarial Methodology (but did not use in CY 2021).[10] CMS may revisit this adjustment in future rate years and welcomes comments on this and alternative approaches (such as those associated with quality) to account for significant outliers.

[10] The CY 2021 Preliminary Actuarial Methodology is available on the CMS website at https://innovation.cms.gov/media/document/cy-2021-proposed-hospice-capitation-payment-rate-actuarial-methodology-paper.