DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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Disabled & Elderly Health Programs Group

PACE Medicaid Capitation Rate Setting Guide
December 2015

The Centers for Medicare and Medicaid Services (CMS) is releasing the attached PACE Medicaid Capitation Rate Setting Guide as a resource for states related to their activities in development of PACE Medicaid Capitation rates under the Programs of All-inclusive Care for the Elderly (PACE).

States should continue to submit their proposed rates and supporting documentation to their Medicaid CMS regional office for review and approval. The CMS regional office staff will continue to work with the state during the review process and request any additional information as needed. Once approved, CMS will notify the state in writing of approval of the rates. The state must then notify the PACE organization(s) in writing to confirm the rates and effective dates.

In order for CMS to determine if the proposed PACE rates are consistent with the PACE Medicaid rate requirements of 42 CFR 460.182, it is important that the information outlined in this guide be supported in the rate documentation that is submitted to CMS.

The guide includes critical elements of rate setting that incorporate both the state development of the amount that would otherwise been paid if individuals were not enrolled in PACE, and development of the PACE rates. This document may be updated in the future to provide more detailed clarification in certain areas if necessary.

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Background

Programs of All-inclusive Care for the Elderly (PACE) is a fully integrated Medicare program and Medicaid state plan option that provides community-based care and services to people aged 55 or older who meet a state's nursing home level of care criteria. 42 CFR 460.182 requires that states make a prospective monthly capitation payment to a PACE organization for a Medicaid participant enrolled in PACE which:

- Is less than what would otherwise have been paid under the state plan if not enrolled in PACE;
- Takes into account comparative frailty of participants;
- Is a fixed amount regardless of changes in a participant's health status.

To assist states in preparing PACE rates, CMS has developed a set of critical elements that should be considered as part of the rate development process and an associated set of questions that should be addressed in writing and submitted by states as part of their PACE rate setting packages.
States must submit PACE rate documentation to CMS for review that addresses these critical elements. Documentation is reviewed against regulatory requirements and this guidance. Additional information is requested as needed.

The critical elements of rate-setting include the following:

1. Development of the amount that would have otherwise been paid and the required documentation:
    a. Identify amounts that would have otherwise been paid separately by rate category
        i. Amounts that would have otherwise been paid are calculated on a per member per month basis and include all Medicaid covered services for the eligible population
        ii. Demonstrate basis for rate categories applied
            1. Separate rate categories may be used to more accurately project amounts that would have otherwise been paid.
            2. Rate categories can vary by age, gender, geographic region, eligibility category, Medicare status
            3. Rate cells should not cross-subsidize payments in another cell.
    b. Identify the future effective date for the projected amounts that would have otherwise been paid
        i. Amounts that would have otherwise been paid should be established prospectively

   ii. Amounts that would have otherwise been paid should be calculated for a period no longer than 12 months

c. Describe how the state determined the amount that would have otherwise been paid under the state plan

   i. Base period data used,

      1. Demonstrate that cost and utilization data used is reflective of the population consistent with frailty and age of PACE participants

      2. Acceptable data may include FFS experience, managed care plan encounter data, managed care plan financial data and reports

      3. Time period of the base data used - most recent available year of data should be used, but should not be more than 3 years old

      4. Amounts that would have otherwise been paid should be rebased annually but at least every 3 years

   ii. Provide a description of the data, assumptions and methodologies used to develop any adjustments, factors and costs applied to the amount that would have otherwise been paid, including, but not limited to:

      1. Completion factors applied (such as any adjustments to account for claims that have been received but have not yet been paid).

      2. Adjustments applied.

      3. Smoothing with aggregate target (a technique to reflect the redistribution of costs to other rate cells to compensate for historical data distortions related to cost, utilization, or number of eligible that are not expected to continue).

      4. Trend factors applied, the projection period, and the basis for any trend factors used.

      5. Non benefit costs included - should only represent state costs for administering the program. Should not include PACE administrative costs.

2. Development of the PACE rates and required documentation:

   a. Demonstrate the PACE rate methodology is consistent with the rate description in state plan. Describe the method for setting rate, for example - a percentage discount off of amounts that would have otherwise been paid, actuarial approach, other

   b. Identify proposed PACE rates by rate category

      i. Rate is for a prospective payment paid on a per member per month capitated basis

      ii. Rate categories should be the same as those used for amounts that would have otherwise been paid as identified in section 1. A. ii.

   c. Identify proposed effective dates of PACE rates, including start and end dates

      i. Rates should be established prospectively

    ii. Effective dates of rates should be no less than one year but no more than 3 years

  d. Include additional documentation needed for CMS to make a determination of compliance with requirements

    i. Comparison of the PACE rates to the amounts that would have otherwise been paid by rate category

    ii. Documentation of any incentive arrangements

    iii. Projected member months for each rate cell

3. While an actuary is not required to certify PACE costs that would have otherwise been paid or the payment rates paid to PACE organizations, an actuarial certification is encouraged. If an actuary provides a certification, the rate review package should contain adequate actuarial documentation to support the data, assumptions and methodologies used. The actuary should provide sufficient documentation as described by the Actuarial Standards of Practice.