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From: Center for Consumer Information & Insurance Oversight (CCIIO), Centers for Medicare & Medicaid Services (CMS)

Title: Policy-Based Payments Bulletin – INFORMATION

Subject: Policy-Based Payments: Approach to 2016 Marketplace Payment Program Integrity, Withholding for Issuers Delayed on Policy-Based Payments Implementation, and Payment Adjustment for Issuers Deemed Policy-Based Payments Ready

I. Purpose

This bulletin provides guidance on the operational processes that CMS will use to evaluate issuers' readiness for policy-based payment implementation. It also sets forth the approach to partially withholding advance payments of Marketplace financial assistance for issuers deemed non-compliant with the policy-based payment process and the policy and operational approach to transitioning issuers, when deemed ready, to policy-based payments in early 2016.

II. Background

Starting with the implementation of the Marketplaces for the 2014 benefit year, advance payments have been remitted via an interim manual payment process. The manual payment process requires Health Insurance Marketplace issuers to self-report enrollment and payment amount requests on a monthly basis, with adjustments to previous months' requests, via a manual submission.

Beginning in January 2016, CMS is implementing an automated payment approach, called policy-based payments, in determining an issuer's advance payment using enrollment and payment data in the Federally-facilitated Marketplace (FFM). To ensure payment accuracy, before transitioning to policy-based payments, CMS will evaluate the readiness of issuer enrollment data and data submission processes.

This guidance sets forth the criteria CMS will use to evaluate whether an issuer's data and processes will be considered ready to receive policy-based payments and the payment withholding policy for issuers whose data is not deemed ready for a timely transition to policy-based payments in January 2016. It also lays out the early-2016 transition approach by which Marketplace payment amounts will be adjusted for issuers moving to policy-based payments.

III. Criteria to Measure Policy-Based Payment Readiness

Issuers will be evaluated for the purpose of determining readiness for using the policy-based payments system for the January 2016 payment cycle based on data in the Federally-facilitated Marketplace (FFM) system in mid-November.¹

Standardized criteria for evaluating an issuer's policy-based payment readiness will apply uniformly to all FFM issuers. FFM issuers failing any of the requirements below would be determined non-compliant and subject to the partial payment withholding approach as described below. The following are the standard criteria:

1. **IC 834:** The 834 transaction is used by CMS and issuers to communicate new enrollments, changes in enrollment and reinstatements. These daily transactions ensure that both CMS and issuers have the most recent Marketplace enrollment data, including plan enrollment, subscriber and dependent personal information, premium data, payment data and coverage effective dates. **We require that issuers have met CMS standard for activation of IC 834s before December 1, 2015.**
2. **Enrollment Reconciliation:** The monthly enrollment reconciliation process is critical to the integrity of the data on which CMS will base policy-based payments. **In order to be considered ready for policy-based payments, an issuer must have successfully submitted reconciliation files that passed basic validation checks for effectuations and cancellations in the most recent month, or if the most recent month did not pass these checks, the two months prior to the most recent month.**
3. **Manual Payment Process versus Policy-Based Payment Comparison:** To ensure that issuers' payment and enrollment systems are aligned with data in the FFM, CMS will compare issuers' monthly manual payment process submissions with the calculated policy-based payments. The purpose of this comparison is to confirm that the issuer's payment records are internally consistent with the enrollment system and the files generated from it to send effectuation information to CMS. **Issuers with more than a 10% variation between payments calculated using the manual payment process and calculated using policy-based payments will not be considered ready for policy-based payment transition.** This comparison will be based on all advance payments for all issuers of medical plans, and based on user fees for issuers offering only dental plans. To determine readiness for January, CMS will compare the full-year 2015 payment amounts in the issuer's December payment submission, submitted in November, with the calculated policy-based payments data in the FFM at that time for the same time period. Currently, 93% of people are enrolled with an issuer that is within this 10% variation.

IV. Criteria for New 2016 Issuers

Issuers new to the FFM in 2016 will not have an opportunity to submit enrollment reconciliation files before issuers' data must be evaluated for system readiness. To determine readiness for policy-based payments, CMS will evaluate new issuers based on the readiness of a larger issuer group, if any. For example, any new issuer that is part of a larger issuer group already operating on the FFM will be deemed ready for policy-based payment based on the performance of the

¹ We note that this guidance is applicable to issuers in 38 States as of November 2015 that leverage the Federal eligibility and enrollment platforms.

larger issuer group. If the larger issuer group is deemed ready, the new issuer would be paid based on policy-based payments in January 2016. If the larger issuer group is not deemed ready, or if the issuer's company is entirely new to the FFM, the issuer will be paid based on the partial payment withholding process described below until their data and enrollment reconciliation and inbound 834 data submissions can be validated as meeting the policy-based payment readiness criteria described above in section III. We will make technical assistance available to new 2016 issuers to facilitate the successful submission of this data and implementation of the policy-based payment process.

V. Issuers Not Ready for Policy-Based Payment Implementation

All issuers must transition to policy-based payments as the method for advance payment beginning in January 2016. Issuers that are not deemed ready for implementation in January 2016 will be paid under a partial payment withholding schedule based on the issuer's manual payment process submissions. CMS will partially withhold advance payments from those issuers beginning in early 2016, as discussed in section VI.

Upon successful policy-based payment implementation, any issuer that received the partial payments made through the partial payment withholding process described below will have each month's partial payment adjusted to reflect the full policy-based payment calculation for that month. **This means that issuers will be paid in full for each month of 2016 during the next monthly payment cycle once successful policy-based payment implementation is achieved.**

VI. Program Integrity Withholding

In early 2016, all issuers will continue to self-report data through the manual payment process as a means of data quality validation. For issuers not deemed ready for the policy-based payment transition, payments will continue to be made on manual payment process submissions beginning in January 2016, but a pre-determined withholding percentage will be applied to each month's payment. To allow issuers time to address readiness concerns after this policy is announced, this payment withholding will begin in April 2016. For these issuers, CMS will independently calculate the issuer's payment using the FFM data to estimate an upper bound payment amount based on all non-cancelled FFM enrollments. The withholding percentage will be applied to either the issuer's payment as calculated through the manual payment process or the CMS-estimated upper bound payment amount, whichever is lower, on a monthly basis. Advance payments will be paid out at 75% of total payment in April through June, with payment decreasing to 50% of total payment beginning in July. If non-compliance continues over an extended period of time, CMS will determine the need for further proration or compliance actions. We note that issuers with advance payments withheld may not require consumers to pay additional premiums or cost-sharing to recoup withheld payments.

When an issuer transitions to the policy-based payment process, all manually calculated partial payments will be adjusted to the correct payment based on the policy data in CMS payment databases used for policy-based payments. As outlined in section V, these issuers will be made whole for all months in which their payment was partially withheld once they are in compliance with the automated policy-based payment process.

VII. Adjustment to Marketplace Payments for Transitioned Issuers

To allow for a smooth transition to policy-based payments, a temporary adjustment will be applied to the January 2016 through March 2016 policy-based payments. This adjustment will be in the amount of the difference between an issuer's manual payment process and policy-based payment calculated amounts. The manual payment adjustment will increase or decrease the policy-based payment calculated payment for that month.

For the April payment, CMS will adjust that month's policy-based payment calculated payment to account for the manual payment adjustments applied for January 2016 through March 2016 payments. After this adjustment, issuers will be paid their calculated policy-based payments except in cases of extreme variation (>25%) from the manual payment amount. If such a discrepancy is identified, CMS will work closely with the issuer to address the data misalignment. While the discrepancy is being addressed, CMS will apply a manual payment adjustment to the issuer's policy-based payment calculated payment so that the difference between the manual payment process amount and policy-based payment amount is no greater than 25%.

VIII. 2015 Close-Out

As described in Section III, issuers with more than a 10% variation between payments calculated using the manual payment process and calculated using policy-based payments will not be considered ready for policy-based payment transition. Although CMS will allow issuers with less than a 10% variation between payments calculated using the manual payment process and calculated using policy-based payments to transition to policy-based payment, CMS will continue to reconcile 2015 data using the monthly restatement process. As part of our 2015 close-out process, after approximately six months of 2015 restatements to allow resolution of late-year grace periods and most appeals, CMS will audit 2015 issuer data, as necessary, to ensure that advance payments are accurate for 2015.

IX. How to Notify CMS

Any issuer with questions or seeking assistance regarding policy-based payment implementation can notify CMS by sending an email to fmcc@cms.hhs.gov. The email's subject line should indicate the issuer's HIOS ID(s).