

(3) Multiplied by the budget neutrality adjustment factor determined under § 422.254(d).

(b) *Minimum amount rate.* (1) For 1998—

(i) For the 50 States and the District of Columbia, the minimum amount rate is 12 times \$367.

(ii) For all other jurisdictions the minimum amount rate is the lesser of the rate described in (b)(1)(i) or 150 percent of the capitation payment rate for 1997.

(2) For each succeeding year, the minimum amount rate is the minimum amount rate for the preceding year, increased by the national per capita growth percentage (specified in § 422.254(b)) for the year.

(c) *Minimum percentage increase rate.*

(1) For 1998, the minimum percentage increase rate is 102 percent of the annual capitation rate for 1997.

(2) For each succeeding year, the minimum percentage increase rate is 102 percent of the annual capitation rate for the preceding year.

**§ 422.254 Calculation and adjustment factors.**

The following are the factors used in calculating the per capita payment rates:

(a) *Area-specific and national percentages.* For purposes of § 422.252(a)(1), the area-specific percentage and the national percentage, for each year, are as follows:

	Area-specific	National
For 1998 .....	90	10
For 1999 .....	82	18
For 2000 .....	74	26
For 2001 .....	66	34
For 2002 .....	58	42
For years after 2002 .....	50	50

(b) *National per capita growth percentage.* For purposes of § 422.252(a)(2),

(1) The national per capita growth percentage for a year is HCFA's estimate of the rate of growth in per capita expenditures, reduced by the percentage points specified in paragraph (b)(2) of this section for the year. HCFA may make separate estimates for aged enrollees, disabled enrollees, and enrollees who have ESRD.

(2) The percentage points that HCFA uses to reduce its estimates are as follows:

(i) For 1998, 0.8 percentage points.

(ii) For years 1999-2002, 0.5 percentage points.

(iii) For years after 2002, 0 percentage points.

(c) *Medical education payment adjustments.* For purposes of paragraph (e)(2) the medical education payment adjustments are amounts that HCFA estimates were payable to teaching hospitals during 1997 for—

(1) the indirect costs of medical education under section 1886(d)(5)(B) of the Act; and

(2) The direct costs of graduate medical education under section 1886(h) of the Act.

(d) *General budget neutrality factor.*

For each year, HCFA applies a budget neutrality factor to the blended capitation rates under § 422.252(a) so that the estimated aggregate payments made under this part equal the estimated aggregate payments that would have been made if based entirely on area-specific capitation rates.

(e) *Annual Area-specific capitation rate*

(1) *Basic rule.* Subject to the provisions of paragraphs (e)(2) and (e)(3) of this section, the annual area-specific capitation rate for a particular payment area is—

(i) For 1998, subject to paragraph (e)(4) of this section, the per capita rate determined for that area for 1997 under section 1876(a)(1)(c) of the Act, increased by the national per capita growth percentage for 1998; and

(ii) For a subsequent year, the area-specific capitation rate determined for the previous year, increased by the national per capita growth percentage for the year.

(2) *Exclusion of medical education costs.*

In calculating the area-specific capitation rates, the following percentages of the amounts estimated by HCFA under § 422.254(c) as medical education payment adjustments to hospitals, are excluded:

For 1998 .....	20 percent.
For 1999 .....	40 percent.
For 2000 .....	60 percent.
For 2001 .....	80 percent.
For years after 2001 .....	100 percent.

(3) *Payments under the State hospital reimbursement system.* To the extent that HCFA estimates that a 1997 per capita rate reflects payments to hospitals under section 1814(b)(3) of the Act, HCFA makes a payment adjustment that is comparable to the adjustment that would have been made under paragraph (e)(2) of this section if the hospitals had not been reimbursed under section 1814(b)(3) of the Act.

(4) *Areas with highly variable per capita rates.* With respect to a payment area for which the per capita rate for 1997 varies by more than 20 percent from the per capita rate for 1996, HCFA may substitute for the 1997 rate a rate that is more representative of the costs of the enrollees in the area.

(f) *National standardized annual capitation rate.* The national standardized annual capitation rate is equal to—

(1) The sum, for all payment areas, of the products of—

(i) The annual area-specific capitation rate and

(ii) The average number of Medicare beneficiaries residing in the area multiplied by the average of the risk-factor weights used to adjust payments under § 422.256(c);

(2) Divided by the sum, for all payment areas, of the products specified in paragraph (f)(1)(ii) of this section for all payment areas.

(g) *The input-price-adjusted annual national capitation rate—(1) General rule.* The input-price-adjusted annual national capitation rate for a M+C payment area for a year is equal to the sum, for all the types of Medicare services (as classified by HCFA), of the product (for each service) of—

(i) The national standardized annual M+C capitation rate (determined under paragraph (f) of this section) for the year;

(ii) The proportion of such rates for the year which is attributable to such type of services; and

(iii) An index that reflects (for that year and that type of services) the relative input price of such services in the area compared to the national average input price for such services.

(2) HCFA may, subject to the special rules for 1988, use indices that are used in applying or updating national pay-

ment rates for particular areas and localities.

(3) *Special rules for 1988.* In applying this paragraph for 1998—

(i) Medicare services are classified as Part A and Part B services;

(ii) The proportion attributable to Part A services is the ratio (expressed as a percentage) of the national average per capita rate of payment for Part A services for 1997 to the national average per capita rate of payment for Part A and Part B services for that year;

(iii) The proportion attributed to part B services is 100 percent minus the ratio described in paragraph (g)(3)(ii) of this section;

(iv) For Part A services, 70 percent of the payments attributable to those services are adjusted by the index used under section 1886(d)(3)(E) of the Act to adjust payment rates for relative hospital wage levels for hospitals located in the particular payment area; and

(v) For part B services—

(A) 66 percent of payments attributable to those services are adjusted by the index of the geographic area factors under section 1848(e) of the Act used to adjust payment rates for physician services in the particular payment area; and

(B) Of the remaining 34 percent, 40 percent is adjusted by the index specified in paragraph (g)(3)(iv) of this section.

**§ 422.256 Adjustments to capitation rates and aggregate payments.**

(a) *Adjustment for over or under projection of national per capita growth percentages.* (1) Beginning with rates for 1999, HCFA adjusts all area-specific and national capitation rates for the previous year to reflect any differences between the projected national per capita growth percentages for that year and previous years, and the current estimates of those percentages for such years.

(2) Beginning with rates for 2000, HCFA also adjusts the minimum amount rate (calculated under § 422.252(b)) in the same manner.

(b) *Adjustment for national coverage determination (NCD) services.* If HCFA determines that the cost of furnishing an NCD service is “significant,” HCFA adjusts capitation rates for the next