

calendar year to take account of the cost of that service. Until the new capitation rates are in effect, the M+C organization is paid for the "significant cost" service on a fee-for-service basis as provided under section 422.105(b).

(c) *Risk adjustment: General rule.* Capitation payments are adjusted for age, gender, institutional status, and other appropriate factors, including health status.

(d) *Risk adjustment: Health status—(1) Data collection.* To adjust for health status, HCFA applies a risk factor based on data obtained in accordance with § 422.257.

(2) *Initial implementation.* HCFA applies this adjustment factor to payments beginning January 1, 2000.

(3) *Uniform application.* Except as provided for M+C RFB plans under § 422.250(a)(2)(iii), HCFA applies this adjustment factor to all types of plans.

#### § 422.257 Encounter data.

(a) *Data collection: Basic rule.* Each M+C organization must submit to HCFA (in accordance with HCFA instructions) all data necessary to characterize the context and purposes of each encounter between a Medicare enrollee and a provider, supplier, physician, or other practitioner.

(b) *Types of service and timing of submission.* M+C organizations must submit data as follows:

(1) Beginning on a date determined by HCFA, inpatient hospital care data for all discharges that occur on or after July 1, 1997.

(2) HCFA will provide advance notice to M+C organizations to collect and submit data for services that occur on or after July 1, 1998, as follow:

(i) Physician, outpatient hospital, SNF, and HHA data beginning no earlier than October 1, 1999; and

(ii) All other data HCFA deems necessary beginning no earlier than October 1, 2000.

(c) *Sources and extent of data.* (1) To the extent required by HCFA, the data must account for services covered under the original Medicare program, for Medicare covered services for which Medicare is not the primary payor, or for other additional or supplemental

benefits that the M+C organization may provide.

(2) The data must account separately for each provider, supplier, physician, or other practitioner that would be permitted to bill separately under the Medicare fee-for-service program, even if they participate jointly in the same encounter.

(d) *Other data requirements.* The data must—

(1) Conform to the requirements for equivalent data for Medicare fee-for-service when appropriate, and to all relevant national standards; and

(2) Be submitted electronically to the appropriate HCFA contractor.

(e) *Validation of data.* M+C organizations and their providers and practitioners will be required to submit medical records for the validation of encounter data, as prescribed by HCFA.

(f) *Use of data.* HCFA uses the data obtained under this section to determine the risk adjustment factor that it applies to annual capitation rates under § 422.256(c). HCFA may also use the data for other purposes.

#### § 422.258 Announcement of annual capitation rates and methodology changes.

(a) *Capitation rates.* (1) No later than March 1 of each year, HCFA announces to M+C organizations and other interested parties the capitation rates for the following calendar year.

(2) HCFA includes in the announcement a description of the risk and other factors and explains the methodology in sufficient detail to enable M+C organizations to compute monthly adjusted capitation rates for individuals in each of its payment areas.

(b) *Advance notice of changes in methodology.* (1) No later than January 15 of each year, HCFA notifies M+C organizations of changes it proposes to make in the factors and the methodology it used in the previous determination of capitation rates.

(2) The M+C organizations have 15 days to comment on the proposed changes.