



APR 17 2014

Administrator
Washington, DC 20201

Mr. Rick Pollack
Executive Vice President
American Hospital Association
Liberty Place, Suite 700
325 Seventh Street, NW
Washington, DC 20004

Dear Mr. Pollack:

Thank you for your letter regarding the effect of sequestration on providers that contract with Medicare Advantage Organizations (MAOs). In your letter, you expressed concern that some MAOs are applying a sequestration payment reduction in cases where the MAO's contract with a provider uses Medicare fee-for-service (FFS) rates as a reference point. You requested that the Centers for Medicare & Medicaid Services issue guidance to MAOs to clarify that sequestration affects the amount that Medicare would otherwise pay, but does not constitute a change to Medicare (FFS) provider rates.

As you are aware, on March 1, 2013, the President was required by law to issue a sequestration order directing a series of across-the-board reductions in federal spending. The sequestration order generally included a two percent reduction to payments under Medicare, including payments to FFS providers and payments to MAOs. For providers in FFS Medicare, we have made available, through our Medicare Administrative Contractors, a series of questions and answers related to sequestration. This document includes the following question and answer related to Medicare FFS payment rates and sequestration:

Question: Does the two percent payment reduction under sequestration apply to the payment rates reflected in Medicare FFS fee schedules or does it only apply to the final payment amounts?

Answer: Payment adjustments required under sequestration are applied to all claims after determining the Medicare payment, including application of the current fee schedule, coinsurance, any applicable deductible, and any applicable Medicare Secondary Payment adjustments. All fee schedules, pricers, etc., are unchanged by sequestration. Only the final payment amount is reduced.

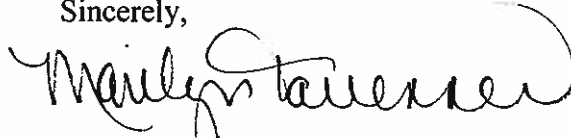
While we agree that the sequestration does not change the rates or fee schedules in the Medicare FFS program, we are prohibited from interfering in the payment arrangements between MAOs and contracted providers by section 1854(a)(6)(B)(iii) of the Social Security Act. Thus, whether and how reductions to plan payments due to sequestration might affect an MAO's payments to

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its contracted providers are governed by the terms of the contract between the MAO and the provider. As we noted in the May 1, 2013, guidance, MAOs and Part D plan sponsors must follow the prompt pay provisions established in their contracts with providers and pay providers under the terms of those contracts (*See* 42 C.F.R. sections 422.520(b)(1) and (2); *See also* 42 C.F.R. sections 423.520(b)(1) and (2)). We encourage any provider or hospital with additional questions about sequestration or provider payment provisions to contact the MAO or Part D sponsor with which it has contracted.

I hope this information is helpful. I look forward to continuing to work with you to ensure Medicare beneficiaries have access to high quality services in the Medicare FFS and Medicare Advantage programs. Please do not hesitate to contact me with any further thoughts or concerns. I will also provide this response to the Senior Vice President, Linda Fishman.

Sincerely,

A handwritten signature in black ink, appearing to read "Marilyn Tavenner". The signature is fluid and cursive, with a large loop at the end.

Marilyn Tavenner