



APPENDIX J TRAINING: DOCUMENTING THE BASIS OF FACTORS D', G, AND G' IN 1915(c) WAIVER APPLICATIONS

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Disabled and Elderly Health Programs Group
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Training Objectives

- Discuss Federal guidance regarding Home and Community-Based Services (HCBS) waivers' cost neutrality.
- Review why clear documentation of Factors D', G, and G' is important.
- Using existing waiver application examples:
 - Discuss common bases for Factors D', G, and G', including how states have documented them in both initial and approved applications.
 - Demonstrate how to incorporate and document a growth rate to trend data forward throughout the waiver cycle.

Federal Guidance for HCBS Cost Neutrality

- [§1915\(c\)\(2\)\(D\) of the Social Security Act](#) requires that states assure that the average per capita expenditure under the waiver during each waiver year will not exceed 100 percent of the average per capita expenditures that would have been made during the same year for the level of care provided in a hospital, nursing facility, or ICF/IID under the State Plan had the waiver not been granted.
- [42 CFR §441.302\(e\)](#) requires that the expenditures upon which the cost neutrality demonstration is based be **reasonably estimated** and **well-documented** and that the estimate must be annualized and cover each year of the waiver period.

Federal Guidance for HCBS Cost Neutrality

- States demonstrate that waiver programs are cost neutral by estimating four factors in Appendix J of the waiver application:
 - Factor D;
 - Factor D’;
 - Factor G;
 - Factor G’.
- 1915(c) HCBS Cost Neutrality Demonstration: $D + D' \leq G + G'$.
- Refer to previous trainings for additional information regarding HCBS cost neutrality.
 - [Estimating and Documenting Factor D in 1915\(c\) Waiver Applications](#)
 - [Cost Neutrality](#)
 - [Financial Accountability](#)

Federal Guidance for HCBS Cost Neutrality

Cost Neutrality Factor Definitions per the Social Security Act

Factor	Definition
Factor D	Estimated annual average per capita Medicaid cost for home and community-based services for individuals in the waiver program.
Factor D'	Estimated annual average per capita Medicaid cost for all other services provided to individuals in the waiver program.
Factor G	Estimated annual average per capita Medicaid cost for hospital, NF, or ICF/IID care that would be incurred for individuals served in the waiver, were the waiver not granted (average cost for institutional services for individuals with the same level of care).
Factor G'	Estimated annual average per capita Medicaid costs for all services other than those included in factor G for individuals served in the waiver, were the waiver not granted.

Importance of Clearly Documenting Factors D', G, and G'

- According to CMS' internal research, when states submit waiver renewals and amendments to Appendix I and J, contractors often request additional information regarding:
 - Detailed description of the basis used for estimating Factors D', G and G'.
 - Data sources used to trend forward Factors D', G, and G'.

Benefits of Clearly Documenting Factors D', G, and G'

- Provides a consistent record of both the data source and methodology used to develop the cost neutrality estimates, making the waiver renewal process easier on the state.
- Expedites the waiver review process by potentially reducing the number of additional clarification / information requests from CMS.
- Eases administrative burden by reducing the likelihood of submitting future amendments due to inaccurate estimates.
- Potentially increases the data quality of other state sources such as claims data and CMS-372(S) reports (372(S) reports) used to base waiver estimates.
 - If a state is using alternative sources to base Factor D', G, or G', clear documentation and accurate calculations might allow the state to implement the 372(S) reports as their basis at a future date.

Data Sources Commonly Used to Base Factor D', G, and G'

Common Bases for Estimating Factors D', G and G'

- States use a number of data sources to base these estimates, the following are the three most common:
 - 372(S) reports;
 - Historical data sources such as claims data and relevant cost reports;
 - Comparable populations.
- Documentation sources can differ depending on the basis that a state chooses to implement for their Factor D', G, or G' estimates.
 - 372(S) reports and historical data sources could be applied to Factor D', G, or G' estimates, while data from comparable populations should only be applied to Factor G and G' estimates.

List of Common Data Sources for Each Cost Neutrality Factors

Data Source	Factors	Used Most Often When...	Use Caution When...
372(S) reports	D', G, G'	<ul style="list-style-type: none"> The waiver has been renewed over multiple waiver cycles so states can view an observable trend. The state has multiple approved 372(S) reports from the previous waiver cycle. 	<ul style="list-style-type: none"> The state has robust claims or MMIS data that is more representative of the waiver population. The state's 372(S) reports have not been approved by CMS during the previous waiver cycle. The state uses estimates from the waiver application as the reported values for Factor G and G' in the 372(S). Recent changes to the State Plan are not included in the 372(S) reports data.
Historical Data Sources (e.g., claims data, cost reports, etc.)	D', G, G'	<ul style="list-style-type: none"> Claims data (D', G, G') or cost reports from providers (G, G') more accurately represent the costs associated with the current waiver population. The state uses cost estimates from the waiver application as the reported values on 372(S) reports for Factor G and G'. 	<ul style="list-style-type: none"> The state has sufficient approved 372(S) report data for each factor. The state's provider pool has changed significantly in recent years. The waiver is experiencing programmatic changes and will not relate to previous data (e.g., establishing self-direction, etc.).
Comparable Population	G, G'	<ul style="list-style-type: none"> The state does not have an in-state data source for the waiver population. Neighboring states have established waiver programs with similar populations and a vast provider pool. Limited geographic differences between the state and comparable population. 	<ul style="list-style-type: none"> The state has sufficient approved 372(S) report data for each factor. The state has an abundant provider pool with sufficient cost reporting or claims data. Surrounding states do not have a similar waiver program or similar population receiving services.

How to Document: 372(S) Reports

372(S) Reports

- States submit 372(S) reports on an annual basis to continually demonstrate the cost neutrality of the waiver program.
- Per page 279 of the 1915(c) Technical Guide, “when the Factor G / G' figures reported via the CMS-372(S) were the same as the figures in the approved waiver rather than actual costs, a state may not use the CMS-372(S) as the basis of its estimate of Factor G / G' for the renewal period, including the derivation of trend factors. Instead, the state must obtain and employ actual data for prior periods in order to establish a revised baseline estimate of Factor G / G' and the expected trend.”
 - Alternative data sources can include historical data sources (e.g., claims data, cost reports, etc.) or a comparable population from a neighboring state.
- 372(S) reports are a good resource when determining the percent of individuals who will use each service, but should not be used to determine the initial rate amount as they only reflect total costs and the total number of users by service.

372(S) Reports

- States must make several considerations when using 372(S) reports as the basis for their Factor D', G, and G' estimates, including each of the following:
 - How many years of 372(S) reports data does the state plan on using?
 - Are each of the 372(S) reports approved?
 - If the data is not approved, did the state specify that the data is preliminary?
 - Does the state use this data as the basis of their growth trend?

372(S) Reports – State Example for Factor D'

The following was a submission in a renewal application in Appendix J-2-c, Section ii, where states provide their Factor D' derivation:

“Factor D' is derived from actual expenditures reported in 372(S) reports...”

Additional Information Requests:

1. Which 372(S) reports did the state use?
2. Did the state use multiple reports to develop their estimate?

372(S) Reports – State Example for Factor D'

- How did the state update the waiver application to include the requested information?
 1. Which 372(S) reports did the state use?
 - *“Factor D' derived from actual expenditures reported in **372(S) reports from WY1-3 (2014-2016)...**”*
 2. Did the state use multiple reports to develop their estimate?
 - *“We examined preliminary Factor D' data from the 2017 372(S) reports prior to waiver submission, but determined that the **three most recent approved 372(S) reports** were sufficient to develop a Factor D' estimate.”*

How to Document: Historical Data Source

Historical Data Source

- States can elect to use an alternative data source in place of – or in conjunction with – 372(S) reports data. Commonly, states use claims data or provider cost reports to develop factor estimates.
 - Per the 1915(c) Technical Guide, the state must justify using this alternative data source including any applicable references or supporting documentation to how they derive this data.
- What additional information should the state consider providing when using a historical data source?
 - Why is this data more accurate and applicable than 372(S) reports data?
 - What year(s) of data is the state using?
 - What is the specific source of this data (e.g., 2017 claims from a specific target population served by the waiver)?

Example #1: Claims Data

Claims Data – State Example for Factor G'

The following was a submission in a renewal application in Appendix J-2-c, Section iv, where states provide their Factor G' derivation:

“Factor G' is based on actual State expenditures for similar individuals as those served on the waiver.”

Additional Information Requests:

1. What years of state expenditures are included in the Factor G' calculation?
2. Provide a description of the population represented in the sample of claims the state used to develop the Factor G' calculation.

Claims Data – State Example for Factor G'

- How did the State update the waiver application to include the requested information?
 1. What years of state expenditures are included in the Factor G' calculation?
 - *“Factor G' is based on actual FY13-16 paid claims...”*
 2. Provide a description of the population represented in the sample of claims that the state used to develop the Factor G' calculation.
 - *“...ICF/IID expenditures for participants whose medical conditions / technology-based service and support needs were comparable to those of the waiver “target group” described in Appendix B.”*

Example #2: Cost Reports

Cost Reports – State Example for Factor G

The following was a submission in an initial application for a new waiver in Appendix J-2-c, Section iii, where states provide their Factor G derivation:

“The State... closed its sole ICF/IID in 2003. Factor G is based on the last average daily rate with a 2.2% per year cost increase, compounded since that date, the inflation index used for long-term care facilities.”

Additional Information Request(s):

1. Given the age of the data source, what has state done to explore alternative data sources? Please justify the reason for using this data source.
2. Where were individuals to be covered by this waiver receiving care previously? Can this be used as a data source?

Cost Reports – State Example for Factor G

- How did the state update the waiver application to include the requested information?
 1. Is this the most recent source data that the state can use to base their estimates? If not, update the waiver estimates to use a more recent data source.
 - *“We have examined ICF/IID cost report data from three neighboring states, however, level of care required for these in neighboring states were much higher than those in our state. Therefore, we determined that our in-state, historical data more clearly represents the cost of care.”*
 - *“The state... closed its sole ICF/IID in 2003, which is the most recent data source for the waiver population. Factor G is based on the last average daily rate with a 2.2% per year cost increase, compounded since that date, the inflation index used for long-term care facilities.”*

Cost Reports – State Example for Factor G

- How did the state update the waiver application to include the requested information? (Continued)
 2. Where were individuals to be covered by this waiver receiving care previously? Can this be used as a data source?
 - *“We do not have a more recent data source, but the State will submit an amendment by January 1, 2019 to strengthen the validity of estimates. This will include an analysis of cost allocations from cost reports submitted by ICF facilities in a sample of other states.”*
- CMS and the state worked together to develop a timeline for updating Factor G estimates using more recent, applicable data.

Factors to Consider When Determining Applicable Alternative Data Sources

- States should consider both demographic and waiver-specific characteristics when determining whether alternative data sources are applicable to their program.
- Demographics:
 - Level of Care;
 - Target Population;
 - Similar State Demographics.
- Waiver Characteristics:
 - Service Offerings;
 - Concurrent Programs.

How to Document: Comparable Population

Comparable Population

- If a state does not have an intrastate population (e.g., an initial waiver) on which to base their factor estimates, they can incorporate a comparable population from another state as a substitute until they can develop their own data.
 - States can use waiver programs from similar states, including the reference state's 372(S) reports or cost data.
- The state should provide the basis for the population they select, including why that population is representative of the individuals in their waiver program.
- States should still incorporate previous considerations for alternative data sources, including the years of data and specific data source (e.g., waiver numbers, states, etc.).

Comparable Population – State Example for Factor G

The following was a submission in a renewal application in Appendix J-2-c, Section iii, where states provide their Factor G derivation:

“Factor G uses the average of Factor G calculations for the [state #1] Children's Waiver and the [state #2] I/DD waiver for children and adults. [State #1] beginning with Waiver year 4 adjusted forward at 1.5%. [State #2] does not have an inflation factor built in, so was not increased.”

Additional Information Request(s):

1. Provide the data for the waivers that the state used to develop their estimates, including the basis for the state's inflation factor.
2. How do those served through these waivers represent the state's waiver population?

Comparable Population – State Example for Factor G

- How did the state update the waiver application to include the requested information?
 1. Provide the data for the waivers that the state used to develop their estimates, including the basis of the state's inflation factor.
 - The state provided cost data for all 5 waiver years for both waivers, including how they specifically used outside state cost data to calculate their estimates.
 - “[State #1]’s waiver #0XXX, renewed effective 07-01-14, WY 5 shows the Factor G cost as \$97,624. [The state] used [state #1]’s corresponding waiver year (WY 5 2018/2019) Factor G and multiplied it by 1.5% using [state #1]’s historical inflation rate per waiver year (rounding to the nearest dollar). The table below shows [state #1]’s projected Factor G using 1.5% inflation from the last projected waiver year’s Factor G.”
 - “[State #2]’s Waiver #0XXX, renewed 09-01-17, Factor G did not increase over the course of the waiver period so inflation was not applied to [state #2]’s Factor G. [The state] added [state #1]’s Factor G with [state #2]’s Factor G and divided the sum by 2 to equal the average of the two Factor G and used that as [the state]’s Factor G.”

Comparable Population – State Example for Factor G

Table 1: Factor G Calculation Using State #1 and State #2 Data

Waiver Year	State #1 Factor G	State #2 Factor G	Calculated Factor G	Inflation Percentage
Actual WY5	97,624	161,730	129,677	
Projected WY1	99,088	161,730	130,409	1.4996%
Projected WY2	100,574	161,730	131,152	1.4996%
Projected WY3	102,083	161,730	131,906	1.5004%
Projected WY4	103,614	161,730	132,672	1.4998%

Comparable Population – State Example for Factor G

- How did the state update the waiver application to include the requested information? (Continued)
 2. How do those served through these waivers represent the state's waiver population?
 - *“Because [the state] does not operate any ICF/IID, any person choosing institutional care versus home and community-based services would be required to receive services in an ICF/IID in another state, [state #1] and [state #2] being the most likely due to their proximity to [the state]. [The state] would be required to pay for the cost of institutional care at the rate determined by the neighboring state where the services would be provided.”*

How to Document: Growth Trends

Documenting Growth Trends

- Per the 1915(c) Technical Guide, states are encouraged to trend their factor estimates forward (for adjustments such as inflation).
 - CMS recommends states use recent Medical Consumer Price Index (CPI-M) data as the basis for their growth rate, but allows for states to use other sources as long as they are justified and well-documented.
- States use a variety of data sources other than CPI-M to develop their growth trends, including the following:
 - Trends from 372(S) reports;
 - Personal Consumption Expenditures (PCE) Price Index;
 - Private data sources (IHS Global Insight);
 - CMS Market Basket Index.

Documenting Growth Trends

- Considerations when documenting growth rates are similar to those when documenting the factor basis, with an approvable explanation including the following:
 - Year(s) of data;
 - Source of data;
 - Percentage the state applied to their estimate each waiver year.
- If the state does not apply a growth rate to their estimate, the state should justify that decision as well.

Documenting Growth Trends – State Example for Factor D'

The following was a submission in an initial application for a new waiver in Appendix J-2-c, Section iii, where states provide their Factor D' derivation:

“Base Year data reflects experience from Waiver Year 4 of the fifth renewal: July 1, 2016 – June 30, 2017. Base year data was trended at 3% per year to reflect trends over the most recent 5 years (rounded).”

Additional Information Request(s):

1. Describe the data source the state used to develop a 3 percent annual trend, and provide the years of data that reflected this growth rate.

Documenting Growth Trends – State Example for Factor D'

- How did the state update the waiver application to include the requested information?
 1. Describe the data source the state used to develop a 3 percent annual trend, and provide the years of data that reflected this growth rate.
 - The state described using 5 years of Medical CPI data from FY2012 – FY2016, also including that this data is from the Washington-Baltimore area.
 - *“The 3 percent inflation rate applied to Factor D’ is based on FY2012-2016 BLS CPI-U All Urban Consumers for Medical Care for Washington – Baltimore. Estimates were compounded annually for WY1-5 by the five-year (2012-2016) average increase in Baltimore-Washington medical care inflation rate, rounded from 3.3% to 3%.”*
- The application of a growth rate to factor estimates can have a significant impact on a waiver’s overall cost neutrality, and they require sufficient documentation for approval.

Summary

- A strong Appendix J-2-c submission for Factors D', G, and G' that meets the requirements of the statute requires a detailed description of both the source of the state's factor basis and the growth rate they elect to apply to their estimate.
- The language should include the year(s) of data and additional details about the specific data source. If this deviates from 372(S) reports, this should include a description of why the data source is more applicable to the waiver population than 372(S) reports.
- When describing a growth rate the state should provide the year(s) of data, the source of the data and the growth percentage applied during each waiver year.

References and Additional Resources

- Social Security Act § 1915(c) is located here:
https://www.ssa.gov/OP_Home/ssact/title19/1915.htm
- 1915(c) Technical Guide: <https://www.medicaid.gov/medicaid-chip-program-information/by-topics/waivers/downloads/technical-guidance.pdf>
- Copies of the HCBS Training Series – Webinars presented during SOTA calls are located in below link:
<https://www.medicaid.gov/medicaid/hcbs/training/index.html>.
- Cost Neutrality: <https://www.medicaid.gov/medicaid/hcbs/downloads/hcbs-1e-cost-neutrality.pdf>
- CMS offers Technical Assistance for rates and fiscal integrity topics. Refer to the website below for more information.
<https://www.medicaid.gov/medicaid/hcbs/technical-assistance/index.html#Fiscal>
 - Note that Rate TA requests require State Medicaid Director approval upon submission.

Questions & Answers

Feedback Survey

- Please complete a survey to help us improve the training.
- Five ways to access the survey:

Option 1: Click the link below or type the link address to your web browser:

www.surveymonkey.com/r/otherfactors

Option 2: Use your smartphone to scan the QR code below to access the survey on your mobile device.



Option 3: Survey will open after you close the WebEx session.

Option 4: Post-conference call follow up email will include the survey link.

Option 5: Email CMSHCBSMonthlyCall@navigant.com for the survey link.

For Further Information

For questions contact:

HCBS@cms.hhs.gov