described in paragraph (6) for the year involved, minus 0.25 percentage point;

"(IV) for each of years 2016 through 2019, is equal to the amount specified in this subparagraph for the previous year, increased by the lesser of—

"(aa) the annual percentage increase described in paragraph (7) for the year involved, plus 2 percentage points; or

"(bb) the annual percentage increase described in paragraph (6) for the year;

"(V) for 2020, is equal to the amount that would have been applied under this subparagraph for 2020 if the amendments made by section 1101(d)(1) of the Health Care and Education Reconciliation Act of 2010 had not been enacted; or"; and

(2) by adding at the end the following new paragraph:

"(7) ADDITIONAL ANNUAL PERCENTAGE INCREASE.—The annual percentage increase specified in this paragraph for a year is equal to the annual percentage increase in the consumer price index for all urban consumers (United States city average) for the 12-month period ending in July of the previous year.".

SEC. 1102. MEDICARE ADVANTAGE PAYMENTS.

(a) REPEAL.—Effective as if included in the enactment of the Patient Protection and Affordable Care Act, sections 3201 and 3203 of such Act (and the amendments made by such sections) are repealed.

(b) PHASE-IN OF MODIFIED BENCHMARKS.—Section 1853 of the Social Security Act (42 U.S.C. 1395w–23) is amended—

(1) in subsection (j)(1)(A), by striking "(or, beginning with 2007, 1/12 of the applicable amount determined under subsection (k)(1)) for the area for the year" and inserting "for the area for the year (or, for 2007, 2008, 2009, and 2010, 1/12 of the applicable amount determined under subsection (k)(1) for the area for the year; for 2011, 1/12 of the applicable amount determined under subsection (k)(1) for the area for 2010; and, beginning with 2012, 1/12 of the blended benchmark amount determined under subsection (n)(1) for the area for the year)"; and

(2) by adding at the end the following new subsection:

"(n) DETERMINATION OF BLENDED BENCHMARK AMOUNT.—

"(1) IN GENERAL.—For purposes of subsection (j), subject to paragraphs (3), (4), and (5), the term 'blended benchmark amount' means for an area—

"(A) for 2012 the sum of—

"(i) ½ of the applicable amount for the area and year; and

"(ii) ½ of the amount specified in paragraph (2)(A) for the area and year; and

"(B) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(2) SPECIFIED AMOUNT.—

"(A) IN GENERAL.—The amount specified in this subparagraph for an area and year is the product of—

"(i) the base payment amount specified in subparagraph (E) for the area and year adjusted to take into

account the phase-out in the indirect costs of medical education from capitation rates described in subsection (k)(4); and

"(ii) the applicable percentage for the area for the year specified under subparagraph (B).

"(B) APPLICABLE PERCENTAGE.—Subject to subparagraph (D), the applicable percentage specified in this subparagraph for an area for a year in the case of an area that is ranked—

"(i) in the highest quartile under subparagraph (C) for the previous year is 95 percent;

"(ii) in the second highest quartile under such subparagraph for the previous year is 100 percent;

"(iii) in the third highest quartile under such subparagraph for the previous year is 107.5 percent; or

"(iv) in the lowest quartile under such subparagraph for the previous year is 115 percent.

"(C) PERIODIC RANKING.—For purposes of this paragraph in the case of an area located—

"(i) in 1 of the 50 States or the District of Columbia, the Secretary shall rank such area in each year specified under subsection (c)(1)(D)(ii) based upon the level of the amount specified in subparagraph (A)(i) for such areas; or

"(ii) in a territory, the Secretary shall rank such areas in each such year based upon the level of the amount specified in subparagraph (A)(i) for such area relative to quartile rankings computed under clause (i).

"(D) 1-YEAR TRANSITION FOR CHANGES IN APPLICABLE PERCENTAGE.—If, for a year after 2012, there is a change in the quartile in which an area is ranked compared to the previous year, the applicable percentage for the area in the year shall be the average of—

"(i) the applicable percentage for the area for the previous year; and

"(ii) the applicable percentage that would otherwise apply for the area for the year.

"(E) BASE PAYMENT AMOUNT.—Subject to subparagraph (F), the base payment amount specified in this subparagraph—

"(i) for 2012 is the amount specified in subsection (c)(1)(D) for the area for the year; or

"(ii) for a subsequent year that—

"(I) is not specified under subsection (c)(1)(D)(ii), is the base amount specified in this subparagraph for the area for the previous year, increased by the national per capita MA growth percentage, described in subsection (c)(6) for that succeeding year, but not taking into account any adjustment under subparagraph (C) of such subsection for a year before 2004; and

"(II) is specified under subsection (c)(1)(D)(ii), is the amount specified in subsection (c)(1)(D) for the area for the year.

"(F) APPLICATION OF INDIRECT MEDICAL EDUCATION PHASE-OUT.—The base payment amount specified in subparagraph (E) for a year shall be adjusted in the same manner under paragraph (4) of subsection (k) as the applicable amount is adjusted under such subsection.

"(3) ALTERNATIVE PHASE-INS.—

"(A) 4-YEAR PHASE-IN FOR CERTAIN AREAS.—If the difference between the applicable amount (as defined in subsection (k)) for an area for 2010 and the projected 2010 benchmark amount (as defined in subparagraph (C)) for the area is at least $30 but less than $50, the blended benchmark amount for the area is—

"(i) for 2012 the sum of—

"(I) ¾ of the applicable amount for the area and year; and

"(II) ¼ of the amount specified in paragraph (2)(A) for the area and year;

"(ii) for 2013 the sum of—

"(I) ½ of the applicable amount for the area and year; and

"(II) ½ of the amount specified in paragraph (2)(A) for the area and year;

"(iii) for 2014 the sum of—

"(I) ¼ of the applicable amount for the area and year; and

"(II) ¾ of the amount specified in paragraph (2)(A) for the area and year; and

"(iv) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(B) 6-YEAR PHASE-IN FOR CERTAIN AREAS.—If the difference between the applicable amount (as defined in subsection (k)) for an area for 2010 and the projected 2010 benchmark amount (as defined in subparagraph (C)) for the area is at least $50, the blended benchmark amount for the area is—

"(i) for 2012 the sum of—

"(I) ⅚ of the applicable amount for the area and year; and

"(II) ⅙ of the amount specified in paragraph (2)(A) for the area and year;

"(ii) for 2013 the sum of—

"(I) ⅔ of the applicable amount for the area and year; and

"(II) ⅓ of the amount specified in paragraph (2)(A) for the area and year;

"(iii) for 2014 the sum of—

"(I) ½ of the applicable amount for the area and year; and

"(II) ½ of the amount specified in paragraph (2)(A) for the area and year;

"(iv) for 2015 the sum of—

"(I) ⅓ of the applicable amount for the area and year; and

"(II) ⅔ of the amount specified in paragraph (2)(A) for the area and year; and

"(v) for 2016 the sum of—

"(I) ⅙ of the applicable amount for the area and year; and

"(II) ⅚ of the amount specified in paragraph (2)(A) for the area and year; and

"(vi) for a subsequent year the amount specified in paragraph (2)(A) for the area and year.

"(C) PROJECTED 2010 BENCHMARK AMOUNT.—The projected 2010 benchmark amount described in this subparagraph for an area is equal to the sum of—

"(i) ½ of the applicable amount (as defined in subsection (k)) for the area for 2010; and

"(ii) ½ of the amount specified in paragraph (2)(A) for the area for 2010 but determined as if there were substituted for the applicable percentage specified in clause (ii) of such paragraph the sum of—

"(I) the applicable percent that would be specified under subparagraph (B) of paragraph (2) (determined without regard to subparagraph (D) of such paragraph) for the area for 2010 if any reference in such paragraph to 'the previous year' were deemed a reference to 2010; and

"(II) the applicable percentage increase that would apply to a qualifying plan in the area under subsection (o) as if any reference in such subsection to 2012 were deemed a reference to 2010 and as if the determination of a qualifying county under paragraph (3)(B) of such subsection were made for 2010.

"(4) CAP ON BENCHMARK AMOUNT.—In no case shall the blended benchmark amount for an area for a year (determined taking into account subsection (o)) be greater than the applicable amount that would (but for the application of this subsection) be determined under subsection (k)(1) for the area for the year.

"(5) NON-APPLICATION TO PACE PLANS.—This subsection shall not apply to payments to a PACE program under section 1894.".

(c) APPLICABLE PERCENTAGE QUALITY INCREASES.—Section 1853 of such Act (42 U.S.C. 1395w–23), as amended by subsection (b), is amended—

(1) in subsection (j), by inserting "subject to subsection (o)," after "For purposes of this part,";

(2) in subsection (n)(2)(B), as added by subsection (b), by inserting ", subject to subsection (o)" after "as follows"; and

(3) by adding at the end the following new subsection:

"(o) APPLICABLE PERCENTAGE QUALITY INCREASES.—

"(1) IN GENERAL.—Subject to the succeeding paragraphs, in the case of a qualifying plan with respect to a year beginning with 2012, the applicable percentage under subsection (n)(2)(B) shall be increased on a plan or contract level, as determined by the Secretary—

"(A) for 2012, by 1.5 percentage points;

"(B) for 2013, by 3.0 percentage points; and

"(C) for 2014 or a subsequent year, by 5.0 percentage points.

"(2) INCREASE FOR QUALIFYING PLANS IN QUALIFYING COUNTIES.—The increase applied under paragraph (1) for a qualifying plan located in a qualifying county for a year shall be doubled.

"(3) QUALIFYING PLANS AND QUALIFYING COUNTY DEFINED; APPLICATION OF INCREASES TO LOW ENROLLMENT AND NEW PLANS.—For purposes of this subsection:

"(A) QUALIFYING PLAN.—

"(i) IN GENERAL.—The term 'qualifying plan' means, for a year and subject to paragraph (4), a plan that had a quality rating under paragraph (4) of 4 stars or higher based on the most recent data available for such year.

"(ii) APPLICATION OF INCREASES TO LOW ENROLLMENT PLANS.—

"(I) 2012.—For 2012, the term 'qualifying plan' includes an MA plan that the Secretary determines is not able to have a quality rating under paragraph (4) because of low enrollment.

"(II) 2013 AND SUBSEQUENT YEARS.—For 2013 and subsequent years, for purposes of determining whether an MA plan with low enrollment (as defined by the Secretary) is included as a qualifying plan, the Secretary shall establish a method to apply to MA plans with low enrollment (as defined by the Secretary) the computation of quality rating and the rating system under paragraph (4).

"(iii) APPLICATION OF INCREASES TO NEW PLANS.—

"(I) IN GENERAL.—A new MA plan that meets criteria specified by the Secretary shall be treated as a qualifying plan, except that in applying paragraph (1), the applicable percentage under subsection (n)(2)(B) shall be increased—

"(aa) for 2012, by 1.5 percentage points;

"(bb) for 2013, by 2.5 percentage points; and

"(cc) for 2014 or a subsequent year, by 3.5 percentage points.

"(II) NEW MA PLAN DEFINED.—The term 'new MA plan' means, with respect to a year, a plan offered by an organization or sponsor that has not had a contract as a Medicare Advantage organization in the preceding 3-year period.

"(B) QUALIFYING COUNTY.—The term 'qualifying county' means, for a year, a county—

"(i) that has an MA capitation rate that, in 2004, was based on the amount specified in subsection (c)(1)(B) for a Metropolitan Statistical Area with a population of more than 250,000;

"(ii) for which, as of December 2009, of the Medicare Advantage eligible individuals residing in the county at least 25 percent of such individuals were enrolled in Medicare Advantage plans; and

"(iii) that has per capita fee-for-service spending that is lower than the national monthly per capita cost for expenditures for individuals enrolled under

the original medicare fee-for-service program for the year.

"(4) QUALITY DETERMINATIONS FOR APPLICATION OF INCREASE.—

"(A) QUALITY DETERMINATION.—The quality rating for a plan shall be determined according to a 5-star rating system (based on the data collected under section 1852(e)).

"(B) PLANS THAT FAILED TO REPORT.—An MA plan which does not report data that enables the Secretary to rate the plan for purposes of this paragraph shall be counted as having a rating of fewer than 3.5 stars.

"(5) EXCEPTION FOR PACE PLANS.—This subsection shall not apply to payments to a PACE program under section 1894.".

(4) DETERMINATION OF MEDICARE PART D LOW-INCOME BENCHMARK PREMIUM.—Section 1860D–14(b)(2)(B)(iii) of the Social Security Act (42 U.S.C. 1395w–114(b)(2)(B)(iii)) as amended by section 3302 of the Patient Protection and Affordable Care Act, is amended by striking ", determined without regard to any reduction in such premium as a result of any beneficiary rebate under section 1854(b)(1)(C) or bonus payment under section 1853(n)" and inserting the following: "and determined before the application of the monthly rebate computed under section 1854(b)(1)(C)(i) for that plan and year involved and, in the case of a qualifying plan, before the application of the increase under section 1853(o) for that plan and year involved".

(d) BENEFICIARY REBATES.—Section 1854(b)(1)(C) of such Act (42 U.S.C. 1395w–24(b)(1)(C)), as amended by section 3202(b) of the Patient Protection and Affordable Care Act, is further amended—

(1) in clause (i), by inserting "(or the applicable rebate percentage specified in clause (iii) in the case of plan years beginning on or after January 1, 2012)" after "75 percent"; and

(2) by striking clause (iii), by redesignating clauses (iv) and (v) as clauses (vii) and (viii), respectively, and by inserting after clause (ii) the following new clauses:

"(iii) APPLICABLE REBATE PERCENTAGE.—The applicable rebate percentage specified in this clause for a plan for a year, based on the system under section 1853(o)(4)(A), is the sum of—

"(I) the product of the old phase-in proportion for the year under clause (iv) and 75 percent; and

"(II) the product of the new phase-in proportion for the year under clause (iv) and the final applicable rebate percentage under clause (v).

"(iv) OLD AND NEW PHASE-IN PROPORTIONS.—For purposes of clause (iv)—

"(I) for 2012, the old phase-in proportion is ⅔ and the new phase-in proportion is ⅓;

"(II) for 2013, the old phase-in proportion is ⅓ and the new phase-in proportion is ⅔; and

"(III) for 2014 and any subsequent year, the old phase-in proportion is 0 and the new phase-in proportion is 1.

"(v) FINAL APPLICABLE REBATE PERCENTAGE.—Subject to clause (vi), the final applicable rebate percentage under this clause is—

"(I) in the case of a plan with a quality rating under such system of at least 4.5 stars, 70 percent;

"(II) in the case of a plan with a quality rating under such system of at least 3.5 stars and less than 4.5 stars, 65 percent; and

"(III) in the case of a plan with a quality rating under such system of less than 3.5 stars, 50 percent.

"(vi) TREATMENT OF LOW ENROLLMENT AND NEW PLANS.—For purposes of clause (v)—

"(I) for 2012, in the case of a plan described in subclause (I) of subsection (o)(3)(A)(ii), the plan shall be treated as having a rating of 4.5 stars; and

"(II) for 2012 or a subsequent year, in the case of a new MA plan (as defined under subclause (III) of subsection (o)(3)(A)(iii)) that is treated as a qualifying plan pursuant to subclause (I) of such subsection, the plan shall be treated as having a rating of 3.5 stars.".

(e) CODING INTENSITY ADJUSTMENT.—Section 1853(a)(1)(C)(ii) of such Act (42 U.S.C. 1395w–23(a)(1)(C)(ii)) is amended—

(1) in the heading, by striking "DURING PHASEOUT OF BUDGET NEUTRALITY FACTOR" and inserting "OF CODING ADJUSTMENT";

(2) in the matter before subclause (I), by striking "through 2010" and inserting "and each subsequent year"; and

(3) in subclause (II)—

(A) in the first sentence, by inserting "annually" before "conduct an analysis";

(B) in the second sentence—

(i) by inserting "on a timely basis" after "are incorporated"; and

(ii) by striking "only for 2008, 2009, and 2010" and inserting "for 2008 and subsequent years";

(C) in the third sentence, by inserting "and updated as appropriate" before the period at the end; and

(D) by adding at the end the following new subclauses:

"(III) In calculating each year's adjustment, the adjustment factor shall be for 2014, not less than the adjustment factor applied for 2010, plus 1.3 percentage points; for each of years 2015 through 2018, not less than the adjustment factor applied for the previous year, plus 0.25 percentage point; and for 2019 and each subsequent year, not less than 5.7 percent.

"(IV) Such adjustment shall be applied to risk scores until the Secretary implements risk adjustment using Medicare Advantage diagnostic, cost, and use data.".

(f) REPEAL OF COMPARATIVE COST ADJUSTMENT PROGRAM.—Section 1860C–1 of the Social Security Act (42 U.S.C. 1395w–29), as added by section 241(a) of the Medicare Prescription Drug,

Improvement, and Modernization Act of 2003 (Public Law 108–173), is repealed.

SEC. 1103. SAVINGS FROM LIMITS ON MA PLAN ADMINISTRATIVE COSTS.

Section 1857(e) of the Social Security Act (42 U.S.C. 1395w–27(e)) is amended by adding at the end the following new paragraph:

"(4) REQUIREMENT FOR MINIMUM MEDICAL LOSS RATIO.—If the Secretary determines for a contract year (beginning with 2014) that an MA plan has failed to have a medical loss ratio of at least .85—

"(A) the MA plan shall remit to the Secretary an amount equal to the product of—

"(i) the total revenue of the MA plan under this part for the contract year; and

"(ii) the difference between .85 and the medical loss ratio;

"(B) for 3 consecutive contract years, the Secretary shall not permit the enrollment of new enrollees under the plan for coverage during the second succeeding contract year; and

"(C) the Secretary shall terminate the plan contract if the plan fails to have such a medical loss ratio for 5 consecutive contract years.".

SEC. 1104. DISPROPORTIONATE SHARE HOSPITAL (DSH) PAYMENTS.

Section 1886(r) of the Social Security Act (42 U.S.C. 1395ww(r)), as added by section 3133 of the Patient Protection and Affordable Care Act and as amended by section 10316 of such Act, is amended—

(1) in paragraph (1), by striking "2015" and inserting "2014"; and

(2) in paragraph (2)—

(A) in the matter preceding subparagraph (A), by striking "2015" and inserting "2014";

(B) in subparagraph (B)(i)—

(i) in the heading, by inserting "2014," after "YEARS";

(ii) in the matter preceding subclause (I), by inserting "2014," after "each of fiscal years";

(iii) in subclause (I), by striking "on such Act" and inserting "on the Health Care and Education Reconciliation Act of 2010"; and

(iv) in the matter following subclause (II), by striking "minus 1.5 percentage points" and inserting "minus 0.1 percentage points for fiscal year 2014 and minus 0.2 percentage points for each of fiscal years 2015, 2016, and 2017"; and

(C) in subparagraph (B)(ii), in the matter following subclause (II), by striking "and, for each of 2018 and 2019, minus 1.5 percentage points" and inserting "minus 0.2 percentage points for each of fiscal years 2018 and 2019".

SEC. 1105. MARKET BASKET UPDATES.

(a) IPPS.—Section 1886(b)(3)(B) of the Social Security Act (42 U.S.C. 1395ww(b)(3)(B)), as amended by sections 3401(a)(4) and 10319(a) of the Patient Protection and Affordable Care Act, is amended—