

Direct Contracting Model Global and Professional Options

Financial Companion to Operating Guide Overview: New Entrant DCE

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Reference Documents

Title
Direct Contracting Model Global and Professional Options: Financial Operating Guide: Overview
Direct Contracting Model Global and Professional Options: Financial Companion to Operating Guide Overview: Standard DCE
Direct Contracting Model Global and Professional Options: Financial Companion to Operating Guide Overview: High Needs Population DCE
Direct Contracting Model Global and Professional Options: Financial Operating Policies: Capitation and Advanced Payment Mechanisms
Direct Contracting Model Global and Professional Options: Financial Companion to Capitation and Advanced Payment Mechanisms
Direct Contracting Model Global and Professional Options and Kidney Care Choices Model: DC/KCC Rate Book Development
Direct Contracting Model Global and Professional Options and Kidney Care Choices Model: Risk Adjustment
Direct Contracting Model Global and Professional Options: Financial Reconciliation Companion
Direct Contracting Model Global and Professional Options: Beneficiary Alignment Document

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1.0 Introduction

This document is a companion to the *Direct Contracting Financial Operating Guide: Overview* paper. It describes the full calculation of the financial Benchmark for a New Entrant Contracting Entity (DCE). There are separate companion documents that illustrate the financial benchmark calculations for Standard DCEs and High Needs DCEs.

2.0 Financial Benchmark Calculation, Performance Years 1–4 (PY1–PY4)

The calculation of the DCE Performance Year Benchmark is summarized in Section 4 of the *Direct Contracting Financial Operating Guide: Overview*. As explained there, benchmarks are developed separately for both the Aged & Disabled (A&D) and End Stage Renal Disease (ESRD) beneficiary categories, then combined for the final Performance Year Benchmark.

In the first four performance years, claims-aligned beneficiaries and voluntarily aligned beneficiaries have the same benchmark calculation methodology. This companion document displays them as separate because the methodology changes in PY5. Calculating the benchmark separately for the claims-aligned and voluntarily aligned beneficiaries does not impact the final benchmark calculation. Note that if a New Entrant DCE has greater than 3,000 claims-aligned beneficiaries, their benchmark will be calculated using the Standard DCE methodology, which can be found in the *Standard DCE Companion Document*.

2.1 A&D Benchmark Calculation

Figure 2.1 below displays the A&D financial Benchmark for claims--aligned and voluntarily aligned beneficiaries. Line 2 and line 8 display the DCE Regional Rate for each type of alignment based on the DC/KCC Rate Book for the performance year, weighted by the beneficiaries aligned to each county in the performance years. (For a simplified example of how these DCE regional rates are calculated, see [Figure A.1](#)) The DCE Regional Base Line Adjustment (Line 3 and line 9) are both equal to 1 because these beneficiaries receive the DC/KCC Rate Book amount. The Regional Rate is multiplied by both the performance year risk score for the aligned beneficiaries and the number of eligible beneficiary-months in the performance year to arrive at the Benchmark before discount or quality withhold.

Figure 2.1: A&D Benchmark Calculation

		Benchmark to which Experience Accrues
		AD
DCE Benchmark Expenditure		
1.	Claims-Based Alignment	
2.	DCE Regional Rate based on DC/KCC Rate Book	\$812.92
3.	TIMES: DCE Regional Rate Baseline Adjustment	1.000
4.	TIMES: PY Risk Score	1.102
5.	TIMES: PY Eligible Months	69,657
6.	EQUALS: Benchmark before Discount or Quality Withhold	\$62,385,095.84
7.	Voluntary Alignment	
8.	DCE Regional Rate based on DC/KCC Rate Book	\$815.99
9.	TIMES: DCE Regional Rate Baseline Adjustment	1.000
10.	TIMES: Risk Score	1.017
11.	TIMES: Eligible Months	31,208
12.	EQUALS: Benchmark before Discount or Quality Withhold	\$25,901,638.49

2.2 ESRD Benchmark Calculation

The ESRD Benchmark calculation completely parallels the A&D Benchmark calculation. The full process is illustrated in **Figure 2.2**.

Figure 2.2: ESRD Benchmark Calculation

		Benchmark to which Experience Accrues
		ESRD
DCE Benchmark Expenditure		
1.	Claims-Based Alignment	
2.	DCE Regional Rate based on DC/KCC Rate Book	\$6,740.03
3.	TIMES: DCE Regional Rate Baseline Adjustment	1.000
4.	TIMES: PY Risk Score	1.063
5.	TIMES: PY Eligible Months	482
6.	EQUALS: Benchmark before Discount or Quality Withhold	\$3,452,547.69
7.	Voluntary Alignment	
8.	DCE Regional Rate based on DC/KCC Rate Book	\$7,623.16
9.	TIMES: DCE Regional Rate Baseline Adjustment	1.000
10.	TIMES: Risk Score	1.063
11.	TIMES: Eligible Months	501
12.	EQUALS: Benchmark before Discount or Quality Withhold	\$4,058,855.39

2.3 Combined A&D and ESRD Benchmark Calculation

After all the benchmarks have been separately calculated, the A&D and ESRD Benchmarks are then combined to calculate the final Performance Year Benchmark. As shown in **Figure 2.3**, this can be expressed as an aggregate or a per-beneficiary-per-month (PBPM) amount. In the aggregate examples, the amount for the total in line 13 is the sum of lines 6 and 12; in the PBPM example, the total in line 13 is the aggregate totals in lines 6 and 12 divided by the aggregate total number of eligible months in lines 5 and 11.

Figure 2.3: Combined Benchmark for a New Entrant DCE

		Benchmark to which Experience Accrues		
		AD	ESRD	TOTAL
DCE Benchmark Expenditure				
1.	Claims-Based Alignment			
2.	DCE Regional Rate based on DC/KCC Rate Book	\$812.92	\$6,740.03	\$853.65
3.	TIMES: DCE Regional Rate Baseline Adjustment	1.000	1.000	1.000
4.	TIMES: PY Risk Score	1.102	1.063	1.101
5.	TIMES: PY Eligible Months	69,657	482	70,139
6.	EQUALS: Benchmark before Discount or Quality Withhold	\$62,385,095.84	\$3,452,547.69	\$65,837,643.52
7. Voluntary Alignment				
8.	DCE Regional Rate based on DC/KCC Rate Book	\$815.99	\$7,623.16	\$923.54
9.	TIMES: DCE Regional Rate Baseline Adjustment	1.000	1.000	1.000
10.	TIMES: Risk Score	1.017	1.063	1.017
11.	TIMES: Eligible Months	31,208	501	31,709
12.	EQUALS: Benchmark before Discount or Quality Withhold	\$25,901,638.49	\$4,058,855.39	\$29,960,493.89
13.	Benchmark Expenditure for All Aligned Beneficiaries			\$95,798,137.41
		Benchmark to which Experience Accrues		
		AD (PBPM)	ESRD (PBPM)	TOTAL (PBPM)
DCE Benchmark Expenditure				
1.	Claims-Based Alignment			
2.	DCE Regional Rate based on DC/KCC Rate Book	\$812.92	\$6,740.03	\$853.65
3.	TIMES: DCE Regional Rate Baseline Adjustment	1.000	1.000	1.000
4.	TIMES: PY Risk Score	1.102	1.063	1.101
5.	TIMES: PY Eligible Months	69,657	482	70,139
6.	EQUALS: Benchmark before Discount or Quality Withhold	\$895.60	\$7,162.96	\$646.43
7. Voluntary Alignment				
8.	DCE Regional Rate based on DC/KCC Rate Book	\$815.99	\$7,623.16	\$923.54
9.	TIMES: DCE Regional Rate Baseline Adjustment	1.000	1.000	1.000
10.	TIMES: Risk Score	1.017	1.063	1.017
11.	TIMES: Eligible Months	31,208	501	31,709
12.	EQUALS: Benchmark before Discount or Quality Withhold	\$829.97	\$8,101.51	\$8,931.48
13.	Benchmark Expenditure for All Aligned Beneficiaries			\$940.60

2.4 Discount & Quality Withhold

The discount that is applied to the total benchmark expenditure is determined by the risk arrangement selected by the DCE. For DCEs participating in the Global risk track there is a 2% discount applied to the trended, regionally blended, risk-adjusted benchmark in PY1 (2%–5% in PY2–PY6). For Professional DCEs, the Performance Year Benchmark does not include this discount. For both Global and Professional DCEs a 5% quality withhold is also applied to the total benchmark expenditure for all aligned beneficiaries.

As illustrated in **Figure 2.4**, the percentage for both the discount (line 14) and quality withhold (line 16) are both calculated with the benchmark expenditure for all aligned beneficiaries (line 13) and are independent of each other.

Figure 2.4: Discount and Quality Withhold for a Global Risk DCE, in PY1

13.	Benchmark Expenditure for All Aligned Beneficiaries	\$95,798,137.41
14.	LESS: Discount	(\$1,915,962.75)
15.	EQUALS: Benchmark Expenditure after Discount	\$93,882,174.66
16.	LESS: Quality Withhold	(\$4,789,906.87)
17.	PLUS: Earned Quality Withhold	\$4,789,906.87
18.	EQUALS: Benchmark Expenditure after Earned Quality	\$93,882,174.66

3.0 Financial Benchmark Calculation: Changes in PY5 and PY6

Beginning in PY5, the benchmark for all beneficiaries aligned to a New Entrant DCE will be calculated similarly to claims-aligned beneficiaries in a Standard DCE, as a blend between a historical baseline and a regional rate, regardless of when the beneficiary was aligned to that DCE. However, the approach uses a different baseline period. For New Entrant DCEs, the baseline period for the historical expenditure component of the benchmark will come from the claims for all beneficiaries voluntarily aligned to the DCE during those earlier performance years (2021–2024).

This section describes the step-by-step calculations of the A&D Benchmark for claims-aligned beneficiaries, though a series of figures. This method will be the same for all beneficiaries.

Claims-aligned beneficiaries. Lines 1 through 4 (**Figure 3.1**) tabulate the number of beneficiaries and beneficiary-months that accrue to the A&D Benchmark.

Figure 3.1: Claims-Aligned Beneficiaries

	Baseline Experience		
	2021	2022	2023
DCE Aligned Beneficiary Experience			
1 Aligned Beneficiaries			
2 ... Claims Aligned	1,802	1,923	1,977
3 Eligible Months			
4 ... Claims Aligned	19,822	21,153	21,747

Historical Baseline Expenditure. In lines 6 through 9 (**Figure 3.2**) all the fee-for-service (FFS) claims experience of aligned beneficiaries that occurred in each of the 3 base years (BYs) are summed. All FFS claims, including the value of any associated claims reductions that occurred from all providers, including non-DCE provider claims, are summed in lines 6–9 to generate the total FFS claims experience.

Figure 3.2: Historical Baseline Expenditure

	Baseline Experience		
	2021	2022	2023
5 DCE Claims Aligned Beneficiary Claims & Claims Reductions			
6 Non-DCE Provider Claim Payments & Claims Reductions	\$6,964,777.14	\$7,121,883.12	\$7,267,902.70
7 PLUS: Participant Provider Claim Payments & Claims Reductions	\$12,433,458.32	\$12,822,255.96	\$13,377,682.03
8 PLUS: Preferred Provider Claim Payments & Claims Reductions	\$4,549,743.32	\$4,628,296.31	\$4,895,370.60
9 EQUALS: Total DCE Claims Aligned Beneficiary Expenditure	\$23,947,978.77	\$24,572,435.39	\$25,540,955.33

Application of Prospective Trend. Line 9 displays the total DCE aligned beneficiary expenditure for each base year (**Figure 3.3**). These total expenditure values are then trended forward to the performance year. The prospective trend factor (line 10) is based upon an adjusted FFS US Per Capita Cost (USPCC) growth trend, which removes costs related to uncompensated care and adds in hospice expenditures. Calculations for the values that appear in line 10 are available in [Figure A.2](#).

Figure 3.3: Application of Prospective Trend

	Baseline Experience		
	2021	2022	2023
9 EQUALS: Total DCE Claims Aligned Beneficiary Expenditure	\$23,947,978.77	\$24,572,435.39	\$25,540,955.33
10 TIMES: Prospective Adjusted FFS USPCC Trend	1.028	1.022	1.008
11 EQUALS: Prospective Trended Total DCE Aligned Beneficiary Expenditure	\$24,618,201.83	\$25,112,095.74	\$25,734,364.09

Standardization of Baseline Expenditure. In lines 11 through 17, the trended expenditure values are divided by the eligible beneficiary-months to express the expenditure values on a PBPM level (**Figure 3.4**). Within each base year, this PBPM value is divided by the DCE risk score (line 14) and multiplied by the Geographic Adjustment Factor (GAF) (line 16) for that base year. After all adjustments and standardization, line 17 presents the DCE Risk-Standardized and GAF-Adjusted Baseline Expenditure for each base year on a PBPM basis.

Figure 3.4: Standardization of Baseline Expenditure

	Baseline Experience		
	2021	2022	2023
11 EQUALS: Prospective Trended Total DCE Aligned Beneficiary Expenditure	\$24,618,201.83	\$25,112,095.74	\$25,734,364.09
12 DIVIDED BY: Eligible Months	19,822	21,153	21,747
13 EQUALS: Claim-based Expenditure PBPM	\$1,241.96	\$1,187.16	\$1,183.35
14 DIVIDED BY: DCE Risk Score	1.232	1.208	1.201
15 EQUALS: DCE Trended Risk-Standardized Baseline Expenditure	\$1,008.05	\$983.02	\$985.56
16 TIMES: GAF-Adjusted Prospective Trend	0.985	0.941	0.922
17 EQUALS: DCE Risk-Standardized, GAF-Adjusted Baseline Expenditure	\$992.93	\$925.02	\$908.68

Historical Baseline (3-year average). The DCE Trended Risk-Standardized and GAF-Adjusted Baseline Expenditure for each of the 3 performance years are then combined, with more weighting placed on the more recent historical experience. BY1 is weighted 10%, BY2 is weighted 30%, and BY3 is weighted 60%. The result is a weighted 3-year average that serves as the final historical baseline. In line 17 (**Figure 3.5**), the calculation is as follows:

$$\begin{aligned} \text{Historical Baseline} &= (BY_1 \times 10\%) + (BY_2 \times 30\%) + (BY_3 \times 60\%) \\ &= (\$992.93 \times 10\%) + (\$925.02 \times 30\%) + (\$908.68 \times 60\%) = \$922.01 \end{aligned}$$

Figure 3.5: Historical Baseline (3-Year Average)

	2021	2022	2023	Three Year-Benchmark
17 EQUALS: DCE Risk-Standardized, GAF-Adjusted Baseline Expenditure	\$992.93	\$925.02	\$908.68	\$922.01

Regional Rate for Claims-Based Alignment. Line 18 displays the DCE Regional Rate based on the DC/KCC Rate Book for the performance year, weighted by the beneficiaries aligned to each county in each of the base years (**Figure 3.6**). (For a simplified example of how these DCE Regional Rates are calculated, see

Figure A.1.) The regional rates are combined using the same weighting as the historical expenditure, to arrive at the 3-year benchmark value in line 18.

Figure 3.6: Regional Rate for Claims-Based Alignment

	2021	2022	2023	Three Year-Benchmark
18 DCE Regional Rate based on DC/KCC Rate Book	\$983.42	\$987.14	\$993.82	\$990.78

Blended Benchmark. Three-year benchmark values for the baseline expenditure and DCE Regional Rate (lines 17 and 18) are then blended together to arrive at a blended benchmark. In PY5, the blend is 55% historical and 45% regional, and the result is \$952.96 on line 20 (**Figure 3.7**). The difference between the blended benchmark and the DCE Baseline Expenditure (line 21) is then compared with the ceiling (line 22) and floor (line 23), on the blended benchmark adjustment. In this case the value does not exceed either limit. Therefore, the blended benchmark is maintained on line 24.

Figure 3.7: Blended Benchmark

	Three Year-Benchmark
17 EQUALS: DCE Risk-Standardized, GAF-Adjusted Baseline Expenditure	\$922.01
18 DCE Regional Rate based on DC/KCC Rate Book	\$990.78
19 Blend Percentage (% historical)	55%
20 Blended Benchmark (before applying ceiling/floor)	\$952.96
21 Difference between Blended Benchmark and DCE Baseline	\$30.95
22 Ceiling on Blended Benchmark Adjustment	\$42.11
23 Floor on Blended Benchmark Adjustment	(\$16.85)
24 Blended Benchmark	\$952.96
25 DCE Regional Rate Baseline Adjustment	0.962

The three-year blended benchmark (line 24) is then divided by the 3-year DCE Regional Rate based on the DC/KCC Rate Book (line 18), to calculate the DCE Regional Rate Baseline Adjustment (line 25) (**Figure 3.7**). This value represents the ratio of the blended benchmark to the Regional Rate for that DCE in the historical period. This value is then multiplied by the performance year DC/KCC Rate Book (line 18), to calculate the performance year A&D Blended Benchmark for claims-aligned beneficiaries (line 25). In this example, the DCE Regional Rate Baseline Adjustment factor of 0.962 establishes that in the historical period, the blended benchmark is 96.2% of the Regional Rate; this same rate is then applied in the performance year to the benchmark. By directly incorporating the regional rate based upon performance year alignment, this approach accounts for any significant changes in the counties with the DCE's aligned population over time.

All benchmark calculations to this point are calculated prospectively, based on the historical period. That is, the DCE Regional Rate Baseline Adjustment Factor is calculated before the start of the performance year and does not change for the duration of the performance year.

This DCE Regional Rate Baseline Adjustment factor would be populated in the final benchmark calculation, and all separated benchmarks would be combined the same way as illustrated earlier in **Figure 2.3**.

Appendix

Figure A.1: Calculation of a DCE Regional Rate based on DC/KCC Rate Book

DC/KCC Rate Book Amounts for Two DCE's Across Three Counties							
PY	BY	DCE	County	Eligible Beneficiary Months	Adjusted County Rate	Adjusted County Payment	
2021	2017	1	48201	12,093	\$1,001.50	\$12,111,139.50	
2021	2017	1	48339	1,573	\$986.86	\$1,552,330.78	
2021	2017	1	48157	1,032	\$914.47	\$943,733.04	
2021	2017	2	48201	786	\$1,001.50	\$787,179.00	
2021	2017	2	48339	712	\$986.86	\$702,644.32	
2021	2017	2	48157	319	\$914.47	\$291,715.93	
2021	2018	1	48201	11,655	\$1,001.50	\$11,672,482.50	
2021	2018	1	48339	1,320	\$986.86	\$1,302,655.20	
2021	2018	1	48157	1,019	\$914.47	\$931,844.93	
2021	2018	2	48201	735	\$1,001.50	\$736,102.50	
2021	2018	2	48339	719	\$986.86	\$709,552.34	
2021	2018	2	48157	375	\$914.47	\$342,926.25	
2021	2019	1	48201	132,201	\$1,001.50	\$132,399,301.50	
2021	2019	1	48339	18,724	\$986.86	\$18,477,966.64	
2021	2019	1	48157	11,427	\$914.47	\$10,449,648.69	
2021	2019	2	48201	10,650	\$1,001.50	\$10,665,975.00	
2021	2019	2	48339	7,146	\$986.86	\$7,052,101.56	
2021	2019	2	48157	3,050	\$914.47	\$2,789,133.50	
DCE Regional Rate based on DC/KCC Rate Book					Baseline Experience		
					CY2017	CY2018	
						CY2019	
DCE1	SUM: Adjusted County Payments				\$14,607,203.32	\$13,906,982.63	\$161,326,916.83
	DIVIED BY: Sum Eligible Beneficiary Months				14,698	13,994	162,352
	EQUALS: DCE Regional Rate based on DC/KCC Rate Book				\$993.82	\$993.78	\$993.69
DCE2	SUM: Adjusted County Payments				\$1,781,539.25	\$1,788,581.09	\$20,507,210.06
	DIVIED BY: Sum Eligible Beneficiary Months				1,817	1,829	20,846
	EQUALS: DCE Regional Rate based on DC/KCC Rate Book				\$980.48	\$977.90	\$983.75

Figure A.2: Calculation of the A&D Prospective Adjusted FFS USPCC Trend

27	Baseline Experience			
28 Prospective Trend	2021	2022	2023	PY5
29 USPCC	\$802.34	\$813.35	\$822.90	\$819.57
30 LESS: UCC Component	(\$19.08)	(\$12.13)	(\$14.63)	(\$25.48)
31 PLUS: Hospice Component	\$36.06	\$22.93	\$27.65	\$48.16
32 Times: UCC-Adjusted USPCC	\$819.32	\$824.15	\$835.92	\$842.25
33 Prospective UCC-Adjusted Trend	1.028	1.022	1.008	