Direct Contracting Model Financial Methodology - Reconciliation

Global and Professional

CMS/CMMI
December 2020

CENTERS FOR MEDICARE & MEDICAID SERVICES

Agenda

Agenda for Today

- Financial Reconciliation
- Financial Guarantee
- Example of Financial Reconciliation

Financial Reconciliation

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Reconciliation Options

- At reconciliation, CMS compares all Medicare expenditures for services delivered to aligned beneficiaries, against the Direct Contracting Entity's (DCE's) benchmark to determine shared savings or losses.
- For most Performance Years, CMS will provide the option for DCEs to select a provisional reconciliation option (prior to the start of the Performance Year) in addition to a mandatory final financial reconciliation.

Provisional Reconciliation (optional)

Immediately following the performance year, reflecting cost experience through first six months (with seasonality and claims run-out adjustments), using preliminary or mid-year risk scores and placeholder quality scores

Estimated Timing: January of the following PY

Final Reconciliation

Following three months of claims run out after the performance year and availability of data for final reconciliation, reflecting complete performance year, including final resolved risk scores and quality scores

Estimated Timing: July of the following PY

PY2021 Reconciliation Timing

In order to allow for a full evaluation of quality performance in PY2021, final financial reconciliation will be conducted ~19 months after the end of the PY and provisional financial reconciliation will be mandatory ~7 months after the end of the PY

Reconciliation Timing	Provisional Financial Reconciliation (mandatory)	Final Financial Reconciliation
Target Date for Reconciliation	July 31st of calendar year following the performance year (2022)	July 31st of calendar year two years following the performance year (2023)
Claims Included in Reconciliation	Performance year expenditures incurred through December 31, 2021	Performance year expenditures incurred through December 31, 2021
Claims Run-out	Run-out through March 31, 2022	Run-out through March 31, 2022
Risk Scores	Final risk scores	Final risk scores
Quality Scores	Placeholder quality scores	Final quality scores

Final Financial Reconciliation Approach

Reconciliation involves comparing a DCE's expenditures to its final benchmark, applying risk mitigation mechanisms and any relevant adjustments to determine the Total Monies Owed

Total Benchmark Expenditure	−	Performance Year (PY) Expenditure	=	Gross Savings / Losses	×	Application of Risk Corridors	=	Shared Savings / Losses	+	Other Monies Owed	=	Total Monies Owed
Final PY Benchmark[1] after applying adjustments for: ▪ Discount ▪ Quality Withhold ▪ Retrospective Trend ▪ Seasonality ▪ Retention Withhold		The final PY Expenditure is the sum of all Medicare payments made for beneficiaries aligned to the DCE, including FFS claims, capitation payments, and the impact of Stop-Loss.		Gross Savings / Losses are calculated by subtracting a DCE's PY Expenditure, adjusted for Stop-Loss, from its Total Benchmark Expenditure[2].		Risk corridors are applied to Gross Savings / Losses to mitigate the risk of large savings or losses to CMS and DCEs. Risk corridors are larger for DCEs in the Global risk arrangement.		Shared Savings / Losses are calculated by applying the risk corridors to Gross Savings / Losses. Sequestration is also applied to any Shared Savings payments earned.		Adjustments are also made for Other Monies Owed outside of Shared Savings / Losses. This can include payment at provisional reconciliation, over or under payments from capitation, and Enhanced Primary Care Capitation / Advanced Payment Option.		The Total Monies Owed to a DCE (or by a DCE) is the sum of Shared Savings / Losses and Other Monies Owed.

1. The Final Performance Year Benchmark incorporates final risk scores, including application of the final normalization factor, symmetric 3% growth caps, and coding intensity factor
2. Gross Savings / Losses may be adjusted to prevent duplication in shared savings payments for beneficiaries assigned to other shared savings programs or initiatives.

Total Benchmark Expenditure

The Total Benchmark Expenditure represents the final benchmark for the PY, based on final beneficiary alignment, risk scores, full claims run-out, and other adjustments including:

Retrospective Trend Adjustment

If the difference between the prospective adjusted USPCC trend and the observed expenditure trend exceeds +/-1%, an adjustment will be applied to the benchmark to correct for this difference

Seasonality Adjustment (PY2021 Only)

In order to account for the off-cycle performance period for PY2021, CMS will apply a seasonality adjustment to the benchmark

Application of Discount

DCEs in the Global Risk Arrangement will be subject to a discount ranging between 2% and 5% of the Benchmark, depending on the PY

Application of Quality Withhold / Earn Back

All DCEs will have 5% of the Benchmark withheld, which can be earned back based on the DCE's quality performance during the PY

Retention Withhold (DCE's First Year Only)

A retention withhold[1] of 2% will be applied to the Benchmark for DCEs in their first PY; if the DCE remains active in the model for a second PY, it will be removed for reconciliation[2]

1. A DCE in their first PY may also elect to increase their financial guarantee amount for the first PY by an additional 2% in lieu of the retention withhold
2. CMS will remove the 2% retention withhold from the Benchmark once the Termination Without Liability date has passed for the next PY; for PY2021 this will occur in advance of Provisional Reconciliation, however for PY2022 it will occur after Provisional Reconciliation

Retrospective Trend Adjustment

- Once full claims experience is available for the PY, CMS will compare the prospective adjusted USPCC trend with the observed trend in the DC National Reference Population for the period from the most recent Base Year (BY) to the PY
- If the difference between the trends exceeds +/- 1%, CMS will apply a trend adjustment to the PY benchmark that corrects for this difference
- This retrospective trend adjustment will be applied separately for Aged and Disabled (A&D) and End-Stage Renal Disease (ESRD)

Illustrative Example

	A&D			ESRD		
	2019 PBPM	***2021 PBPM***	***Trend***	***2019 PBPM***	***2021 PBPM***	***Trend***
Adjusted FFS USPCC	$892.90	$996.90		$7,663.68	$8,101.14	
Adjusted USPCC Trend			+11.65%			+5.71%
DC National Reference Population Expenditures	$919.28	$1,020.67		$7,380.64	$7,692.10	
Observed Expenditure Trend			+11.03%			+4.22%
Difference Between Trends	*As the difference between the trends is less than 1%, no adjustment is applied*		-0.62%	*As the difference between the trends is greater than 1%, the ESRD benchmark is multiplied by 98.59%*		-1.49%
Trend Adjustment			N/A			**98.59%**

PY2021 Seasonality Adjustment

In order to account for the off-cycle performance period for PY2021, CMS will apply a seasonality adjustment to the benchmark

- The seasonality factor will be the average ratio of January – December and April – December per beneficiary per month (PBPM) expenditures for the reference population of alignable beneficiaries for the three baseline years (2017 – 2019)
- The actual seasonality factors to be used for Aged and Disabled (A&D) and End-Stage Renal Disease (ESRD) in PY2021 are below:

PY2021 Seasonality Factor – A&D

Period to be Adjusted	BY 1 (2017)	BY2 (2018)	BY3 (2019)	3-Year Average (Applied to PY2021)
January – December PBPM Expenditures	\$852.31	\$879.79	\$913.67	
April – December PBPM Expenditures	\$854.62	\$883.79	\$920.71	
Seasonality Factor (Apr-Dec / Jan-Dec)	*100.27%*	*100.45%*	*100.77%*	***100.50%***

PY2021 Seasonality Factor - ESRD

Period to be Adjusted	BY 1 (2017)	BY2 (2018)	BY3 (2019)	3-Year Average (Applied to PY2021)
January – December PBPM Expenditures	\$6,856.54	\$7,215.62	\$7,380.64	
April – December PBPM Expenditures	\$6,834.23	\$7,215.60	\$7,388.63	
Seasonality Factor (Apr-Dec / Jan-Dec)	*99.67%*	*100.00%*	*100.11%*	***99.93%***

Note that for PY2022-PY2026, a separate seasonality adjustment will be applied only for Provisional Reconciliation to account for the partial-year of claims experience used.

Retention Withhold

To incentivize participation in Direct Contracting for at least 2 years, DCEs must either secure an additional 2% financial guarantee or be subject to a 2% retention withhold applied to their benchmark in their first year of model participation

Financial Guarantee Option

- If a DCE elects to secure the additional 2% financial guarantee for their first year of model participation, this amount will be held at-risk and will be recouped by CMS should the DCE not remain active in the model for a second performance year
- Under the financial guarantee option, no adjustments will be made to the benchmark during the performance year used to make capitation payments

Retention Withhold Option

- If a DCE does not secure the additional 2% financial guarantee, a 2% retention withhold will be applied to their benchmark for their first year, and will impact capitation payments made during the performance year
- If the DCE remains active for a second performance year, CMS will remove the 2% withhold from the benchmark (the DCE will earn it back in full)
- If the DCE does not remain active for a second performance year, the benchmark will remain reduced by 2% for financial settlement

Retention Withhold Timing

- CMS will remove the 2% retention withhold from the benchmark once it can confirm that a DCE remains active in the model for a second PY[1]
  - For DCEs starting in PY2021, due to the adjusted reconciliation timeline, this will occur *before* Provisional Reconciliation
  - For DCEs starting in PY2022, CMS will not be able to confirm they remained active in the model until *after* Provisional Reconciliation
- Therefore, for PY2022 starters, CMS will continue to apply the retention withhold during Provisional Reconciliation, but will not require DCEs to pay for provisionally calculated losses if shared savings equal to less than 2% of their benchmark (such that only the application of the 2% retention withhold results in the DCE owing shared losses)

DCE's First Year of Participation	*Did the DCE Continue for a Second Year?*	*Will the Withhold Apply to Provisional Reconciliation?*	*Is the DCE Required to Pay Provisional Losses (if between 0 and -2% after Withhold)?*	*Will the Withhold Apply to Final Reconciliation?*
PY2021	Yes	Not Applied	N/A	Not Applied
	No	2% Withhold Applied	Yes	2% Withhold Applied
PY2022	Yes	2% Withhold Applied	No	Not Applied
	No	2% Withhold Applied	No	2% Withhold Applied

1. CMS will remove the 2% retention withhold from the Benchmark once the Termination Without Liability date has passed for the next PY

Performance Year Expenditure

The Performance Year Expenditure is the sum of all Medicare payments made for beneficiaries aligned to the DCE, including FFS claims, capitation payments, and the impact of Stop-Loss

FFS Claims + **Capitation Payments** + **Stop-Loss Reinsurance (Optional)** = **Performance Year Expenditure[2]**

FFS claims payments[1] made for aligned beneficiaries will be included in the DCE's PY Expenditure

Payments made to the DCE through Total Care Capitation (TCC) or Base Primary Care Capitation (Base PCC) are included in the PY Expenditure

The net impact of the Stop-Loss Charge and Stop-Loss Payout is included in the PY Expenditure for DCEs that elect this optional reinsurance

The total expenditure for which the DCE is accountable, covering all payments made by Medicare for aligned beneficiaries

The Performance Year Expenditure is subtracted from the Total Benchmark Expenditure to determine a DCE's Gross Savings

1. The actual FFS claims reductions associated with the Advanced Payment Option (APO) will be included in the calculation of FFS Claims for determining the PY Expenditure
2. The Performance Year Expenditure is calculated net of sequestration, meaning that the 2% sequestration adjustment is added back to claims and capitation payments

Stop-Loss (Optional)

DCEs have the option to participate in a Stop-Loss Reinsurance arrangement, designed to reduce DCEs' risk for individual beneficiaries with significantly higher PY Expenditure than the average beneficiary

- Individual beneficiary expenditures are measured relative to prospectively established stop-loss bands – for every subsequent band a beneficiary exceeds, additional liability for further expenditures is shared with CMS
- The Stop-Loss Payout equals the total reduction in liability for expenditures across all beneficiaries
- The Stop-Loss Charge is calculated based on the average Stop-Loss Payout the DCE would have received in three reference years (RYs), as a percentage of their total expenditure in each RY
- The net impact of Stop-Loss Reinsurance will be the difference between the Stop-Loss Charge and Stop-Loss Payout

Stop-Loss Bands

Stop-Loss Band	Expenditure Range	Stop-Loss Payout Rate
Band 1	100% to 150% of the attachment point	70%
Band 2	150% to 200% of the attachment point	80%
Band 3	200% to 250% of the attachment point	90%
Band 4	More than 250% of the attachment point	100%

Stop-Loss Attachment Points

Stop-Loss attachment points are defined for each beneficiary based on the number of months of A&D and ESRD experience that beneficiary accrues to the Performance Year

- The base Stop-Loss attachment point is set at 12 times the 99th percentile of PBPM Aged & Disabled expenditures[1]
- An adjustment is made to each beneficiary's attachment point for every month of experience accrued to the ESRD benchmark
- This adjustment is equal to the difference between the 99th percentile of PBPM ESRD expenditures and the 99th percentile of PBPM A&D expenditures
- For example, if the 99th percentile of PBPM A&D expenditures is $11,000 and the 99th percentile of PBPM ESRD expenditures is $43,000:
  - Base Attachment Point: 12 x $11,000 = $132,000
  - ESRD Adjustment: $43,000 - $11,000 = $32,000

Illustrative Example of Attachment Points

Beneficiary Status	Base Attachment Point	ESRD Adjustment	Total Attachment Point
12 months A&D	12 x $11,000 = $132,000	0 x $32,000 = $0	$132,000
6 months A&D + 6 months ESRD	12 x $11,000 = $132,000	6 x $32,000 = $192,000	$324,000
12 months ESRD	12 x $11,000 = $132,000	12 x $32,000 = $384,000	$516,000

1. Beneficiary attachment points will be adjusted to reflect the GAF of the county in which the beneficiary resides in January of the respective PY

Stop-Loss Example (Illustrative)

Example Calculation of Stop-Loss Payout for Individual Beneficiary

Beneficiary Information	
Attachment Point	$100,000
PY Expenditure	$230,000

Stop-Loss Band	Expenditure Range	Beneficiary Expenditures in Band	Stop-Loss Payout Rate	Stop-Loss Payout Amount
Below Attachment Point	$0 - $100,000	$100,000	0%	$0
Band 1 (100% - 150% of Attachment Point)	$100,000 - $150,000	$50,000	70%	$35,000
Band 2 (150% - 200% of Attachment Point)	$150,000 - $200,000	$50,000	80%	$40,000
Band 3 (200% - 250% of Attachment Point)	$200,000 - $250,000	$30,000	90%	$27,000
Band 4 (Beyond 250% of Attachment Point)	$250,000+	$0	100%	$0
Total		***$230,000***		***$102,000***

The total Stop-Loss Payout for a DCE is the aggregate Stop-Loss Payout for all individual beneficiaries

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Application of Risk Corridors

Shared Savings / Losses are calculated by applying risk corridors to Gross Savings / Losses, which vary depending on the Risk Arrangement selected by the DCE

Risk Option	Risk Band	Gross Savings / Losses as Percent (%) of Final PY Benchmark	DCE Shared Savings / Shared Losses Cap	CMS Shared Savings / Shared Losses Cap
Global	1	Less than 25%	100% of Savings/Losses	0% of Savings/Losses
	2	Between 25% and 35%	50% of Savings/Losses	50% of Savings/Losses
	3	Between 35% and 50%	25% of Savings/Losses	75% of Savings/Losses
	4	Greater than 50%	10% of Savings/Losses	90% of Savings/Losses
Professional	1	Less than 5%	50% of Savings/Losses	50% of Savings/Losses
	2	Between 5% and 10%	35% of Savings/Losses	65% of Savings/Losses
	3	Between 10% and 15%	15% of Savings/Losses	85% of Savings/Losses
	4	Greater than 15%	5% of Savings/Losses	95% of Savings/Losses

Other Monies Owed

There is a secondary settlement process to calculate Other Monies Owed at the end of the PY in addition to Shared Savings / Losses, which may include the following adjustments

Provisional Reconciliation

Provisional Reconciliation uses incomplete claims, alignment, and quality data, resulting in Shared Savings / Losses that may differ from Final Reconciliation. Any money paid or received during Provisional Reconciliation will be adjusted as Other Monies Owed at Final Reconciliation.

Capitation Over or Under Payment

Any differences between the actual TCC and Base PCC payments made during the year and the "true" payments that should have been made based on final PY data will be reconciled as Other Monies Owed at Final Reconciliation.

Recoupment of Enhanced PCC

At the conclusion of the PY, CMS will recoup as Other Monies Owed the entirety of any Enhanced PCC payments made to DCEs that elect to receive Enhanced PCC.

APO Adjustment

Any differences between the APO payment made to DCEs and the actual claims reductions for DC Participant and Preferred Providers for the PY will be reconciled as Other Monies Owed at Final Reconciliation.

Total Monies Owed at reconciliation is equal to Shared Savings plus the resolution of Other Monies Owed

Financial Guarantee

Financial Guarantee

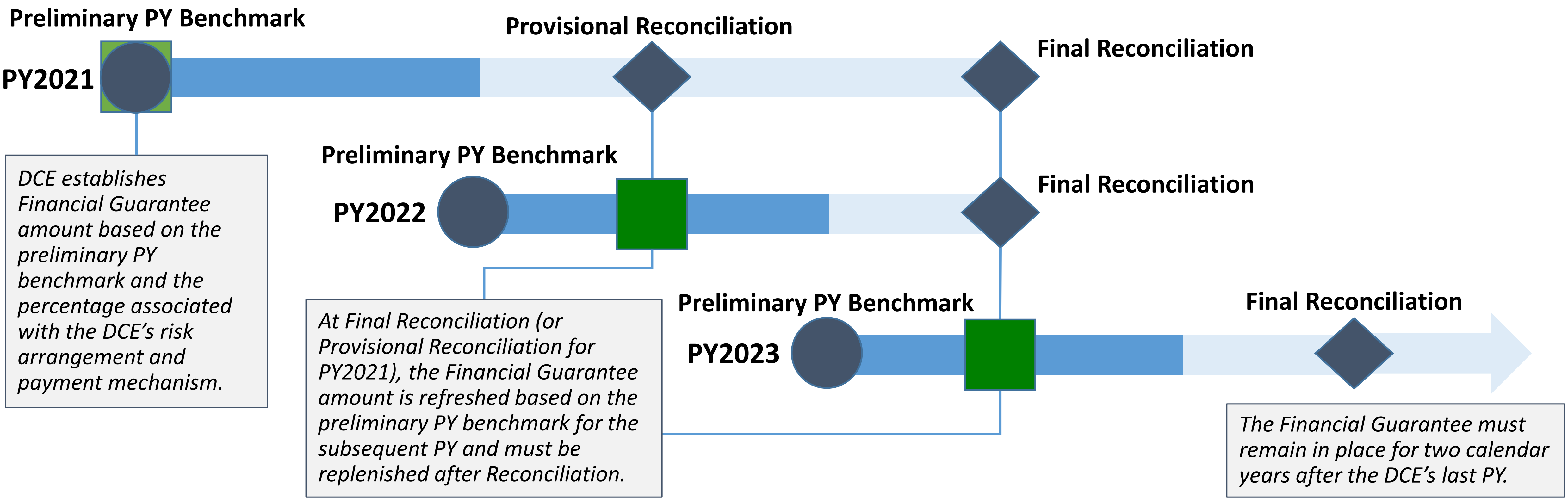
DCEs are required to secure a financial guarantee to ensure that CMS is able to recoup potential shared losses owed

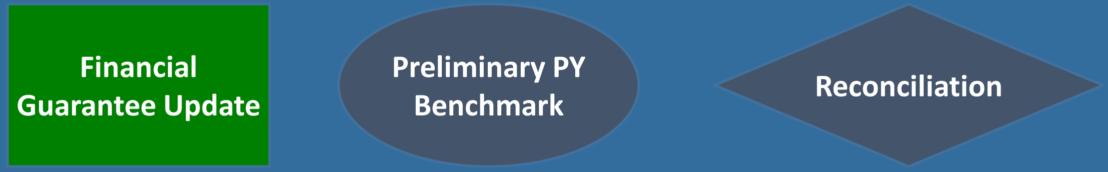
The required financial guarantee amount is defined as a percentage of the DCE's preliminary benchmark and will vary based on the DCE's risk arrangement and payment mechanism

Risk Arrangement	Primary Care Capitation Payment	Primary Care Capitation Payment + Advanced Payment	Total Care Capitation Payment
Professional	2.5%	2.5%	N/A
Global	3.0%	3.0%	4.0%

- This guarantee should be in the form of funds placed in escrow, a line of credit, or a surety bond. DCEs may also propose alternative financial guarantee mechanisms for CMS approval in lieu of these options.
- DCEs must hold this financial guarantee from before the beginning of their first year of participation through two years following their final year of participation
- DCEs will not need to hold separate financial guarantees for each PY; the same financial guarantee will carry over to the subsequent PY
- However, the DCE will need to replenish the financial guarantee within 60 days of the conclusion of Final Reconciliation if:
    - The DCE incurs shared losses paid through the financial guarantee for the prior PY; or
    - The required financial guarantee amount increased for the subsequent PY due to changes in the benchmark, risk arrangement, or payment mechanism

Financial Guarantee Timeline





Financial Reconciliation Example

Final Reconciliation Example
Global, PCC

Total Benchmark Expenditure − **Performance Year (PY) Expenditure** = **Gross Savings / Losses**

	Unadjusted Benchmark	$149,457,266
×	*Retrospective Trend Adjustment*	*99.9%*
×	*Seasonality Adjustment Factor*	*100.5%*
=	Adjusted Benchmark	$150,000,000
−	*Discount (2%)*	*$3,000,000*
−	*Quality Withhold (5%)*	*$7,500,000*
+	*Quality Earn Back (5%)[1]*	*$7,500,000*
−	*Retention Withhold[2]*	*$0*
=	**Total Benchmark Expenditure**	**$147,000,000**

	DC Participant Provider Claims Payments	*$13,400,000*
+	*Preferred Provider Claims Payments*	*$55,500,000*
+	*Non-DCE Provider Claims Payments*	*$60,300,000*
=	Total FFS Payments	$129,200,000
+	*Capitation Payments*	*$10,500,000*
=	PY Expenditure (Before Stop-Loss)	$139,700,000
+	*Stop-Loss Charge*	*$3,200,000*
−	*Stop-Loss Payout*	*$4,400,000*
=	**PY Expenditure (After Stop-Loss)**	**$138,500,000**

Total Benchmark Expenditure	$147,000,000
PY Expenditure (After Stop-Loss)	$138,500,000
Gross Savings / Losses	**$8,500,000**

Gross Savings

$8,500,000

(5.8% of benchmark)

1. In this example, the DCE has a quality score of 100%, resulting in a quality earn back of the full 5% withhold
2. In this example, the DCE has remained in the model for a second PY, resulting in a removal of the retention withhold

Final Reconciliation Example
Global, PCC (continued)

Gross Savings / Losses × **Application of Risk Corridors** = **Shared Savings / Losses** + **Other Monies Owed** = **Total Monies Owed**

Gross Savings

$8,500,000
(5.8% of benchmark)

Global Risk	
Corridor	**0-25%**
DCE Risk	100%

$8,500,000 x 100%

	Shared Savings / Losses	$8,500,000
−	*Sequestration (2%)*	*$170,000*
=	**Shared Savings / Losses (after Sequestration)**	**$8,330,000**

	Base PCC Under (Over) Payments	*$300,000*
−	*Enhanced PCC Recoupment*	*$2,700,000*
+	*APO Adjustment*	*$1,500,000*
−	Provisional Reconciliation Shared Savings	$5,000,000
=	**Other Monies Owed**	**-$5,900,000**

Shared Savings / Losses (after Sequestration)	$8,330,000
Other Monies Owed (to DCE)	-$5,900,000
Total Monies Owed (to DCE)	**$2,430,000**

Total Monies Owed to DCE

$2,430,000