Global and Professional Direct Contracting Model

PY2022 Financial Reconciliation Overview

Prepared for:
Centers for Medicare & Medicaid Services (CMS)
Center for Medicare & Medicaid Innovation
Seamless Care Models Group
7500 Security Boulevard, N2-13-16
Baltimore, MD 21244-1850

Prepared by:
RTI International

Reference Documents

Global and Professional Direct Contracting Model: Financial Operating Guide: Overview
Global and Professional Direct Contracting Model: Financial Companion to Operating Guide Overview: Standard DCE
Global and Professional Direct Contracting Model: Financial Companion to Operating Guide Overview: New Entrant DCE
Global and Professional Direct Contracting Model: Financial Companion to Operating Guide Overview: High Needs Population DCE
Global and Professional Direct Contracting Model: Financial Companion to Capitation and Advanced Payment Mechanisms
Global and Professional Direct Contracting and Kidney Care Choices Models: DC/KCC Rate Book Development
Global and Professional Direct Contracting and Kidney Care Choices Models: Risk Adjustment
Global and Professional Direct Contracting Model: Quality Measurement Methodology

Acronyms

A&D	Aged & Disabled
APO	Advanced Payment Option
BY	Base Year
CI/SEP	Continuous Improvement/Sustained Exceptional Performance
CMMI	Center for Medicare & Medicaid Innovation
CMS	Centers for Medicare & Medicaid Services
CY	Calendar Year
DCE	Direct Contracting Entity
ESRD	End-Stage Renal Disease
FFS	Fee for Service
GAF	Geographic Adjustment Factors
GPDC	Global and Professional Direct Contracting
GSF	Geographic Standardization Factor
HPP	High-Performance Pool
MA	Medicare Advantage
PBPM	Per Beneficiary Per Month
PCC	Primary Care Capitation
PY	Performance Year
TCC	Total Care Capitation
USPCC	United States Per Capita Cost

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1 Introduction

This document is one in a series of documents that provide Direct Contracting Entities (DCEs) with the necessary details to understand the financial aspects of the Global and Professional Direct Contracting (GPDC) Model. This document describes the approach for the GPDC Reconciliation process (also referred to as Financial Settlement by which the Centers for Medicare & Medicaid Services (CMS) determines the Shared Savings/Losses for a DCE at the conclusion of a performance year (PY). This is done by accounting for differences between the Benchmark Expenditure and PY Expenditure, after applying risk-mitigation strategies such as Stop-Loss Reinsurance and Risk Corridors. The DCE then assumes responsibility for the difference according to its elected Risk Arrangement. **Table 1** provides a high-level overview of the different options available to DCEs dependent on their Risk Sharing and Payment Arrangements.

Table 1: Differences in Global and Professional Risk Arrangements

Risk Arrangement	Global		Professional
Capitation Arrangement	Total Care	Primary Care	Primary Care
Advanced Payment Option	Not Available	Optional	
Provisional Reconciliation	Optional		
Stop-Loss Reinsurance	Optional		
Risk Corridors	Mandatory: Global Schedule		Mandatory: Professional Schedule

Section 2 provides an overview of the timing of and data used in both Provisional and Final reconciliation. Section 3 details the mechanics of the financial settlement and reconciliation process. Section 3.1 shows the calculation of the Benchmark Expenditures and Adjustments. Section 3.2 shows the calculation of the PY Expenditure. Section 3.3 shows the calculation of Gross Savings/Losses and Shared Savings/Losses after the application of risk corridors. Section 4 details the process of settlement and calculation of monies owed. Section 5 details information relating to the Financial Guarantee. Appendix A shows a long-form reconciliation example, Appendix B details the differences in the reconciliation process for PY2021, and Appendix C shows example Stop-Loss Attachment Point calculations. All examples in this paper are illustrative.

2 Timing of Settlement

Final Reconciliation and Settlement for PY2022 and subsequent PYs will occur approximately 7 months following the conclusion of the PY. However, DCEs have the option to elect a Provisional Reconciliation, with a target date of 1 month following the conclusion of a PY. **Table 2** details the differences between Provisional and Final Reconciliation:

2.1 Provisional Reconciliation

Provisional Reconciliation is an optional process that will allow DCEs the ability to receive/pay a portion of their Shared Savings/Losses prior to the Final Reconciliation. Because Provisional Reconciliation occurs in January immediately after the end of the PY, only experience through June 30 of the PY are included in the Provisional Shared Savings/Losses calculation, with a 6-month run-out period[1] through

[1] The run-out period is designed to allow sufficient time for providers to report and bill services rendered to beneficiaries.

December 31 of the PY. Additionally, Provisional Reconciliation will use preliminary beneficiary risk scores in the calculation of Provisional Shared Savings/Losses.

Table 2: Provisional and Final Reconciliation

Data/Timing	Provisional Reconciliation	Final Reconciliation
Date for Reconciliation	January 31 of the calendar year following the performance year	July 31 of the calendar year following the performance year
Claims Included in Reconciliation	Performance Year Expenditure incurred through June 30	Performance Year Expenditure incurred through December 31
Claims Run-out	Through December 31 of the performance year	Through March 31 of the calendar year following the performance year
Risk Scores	Preliminary risk scores for January through June[1]	Final risk scores

[1]CMS will use the most recently available risk scores in Provisional Reconciliation calculations.

Because quality scores relating to the earn back of the 5 percent Quality Withhold will not be available at the time of Provisional Reconciliation, a stand-in quality score will be used. For PY2021 and PY2022, the stand-in score will be 100 percent. For subsequent PYs, if available, the stand-in score will be the actual score received in the previous PY (e.g., the stand-in score for PY2023 will be the actual quality score from PY2022, once it is available).

Table 3: Timing of Provisional and Final Reconciliation for PY2021 and Subsequent Years

Performance Year		Provisional Reconciliation	Final Reconciliation
PY2021	Target Date[1]	July 31, 2022	July 31, 2023
	Uses Claims Incurred	04/01/2021–12/31/2021	04/01/2021–12/31/2021
	Run-out Period End Date	03/31/2022	03/31/2022
PY2022	Target Date[1]	January 31, 2023	July 31, 2023
	Uses Claims Incurred	01/01/2022–6/31/2022	01/01/2022–12/31/2022
	Run-out Period End Date	12/31/2022	03/31/2023
PY2023	Target Date[1]	January 31, 2024	July 31, 2024
	Uses Claims Incurred	01/01/2023–6/31/2023	01/01/2023–12/31/2023
	Run-out Period End Date	12/31/2023	03/31/2024

[1]These dates for reconciliation are targets; the actual timing for release of reconciliation reports and processing of settlement may occur later.
PY = performance year.

2.2 Final Reconciliation

Final Reconciliation in a 12-month PY will compute Shared Savings/Losses using the full PY claims data, with a 3-month run-out period ending March 31 following the PY. Final Reconciliation is based on the risk adjusted Performance Year Benchmark using the final risk scores for the PY in the calculation of Shared Savings/Losses. At the time of Final Reconciliation, the final quality score for the PY will be available.

Because Provisional Reconciliation uses incomplete claims and alignment data for a partial PY, preliminary risk scores, and a stand-in quality score, there may be considerable differences between the Shared Savings/Losses calculated at the Provisional Reconciliation and the Shared Savings/Losses calculated at the Final Reconciliation. As a result, there will be an adjustment in the Calculation of Monies Owed (see **Table 16**) to address any difference in the calculation of Shared Savings/Losses between the reconciliations.

3 Reconciliation

The Reconciliation process determines Shared Savings/Losses by comparing the calculated Total Benchmark Expenditure for a given DCE's aligned population to the actual expenditures of that DCE's aligned population over the course of a PY, accounting for various risk-mitigation methods such as Stop-Loss Reinsurance and Risk Corridors. This section details the calculation of total PY Expenditure, Gross Savings/Losses, the application of risk-mitigation methodologies, and the value of Shared Savings/Losses.

3.1 Benchmark Expenditure

Prior to the beginning of each PY, a financial benchmark is calculated for each DCE and adjusted based on PY alignment and risk score information. The process for determining a DCE's Benchmark Expenditure is detailed in Section 4 of the ***Global and Professional Direct Contracting Model: Financial Operating Guide: Overview*** paper.

3.1.1 Benchmark Adjustments

Depending on the elected risk arrangement, several adjustments are made to the Benchmark Expenditure prior to Provisional and/or Final Reconciliation:

Discount

Because DCEs electing the Global Risk Arrangement retain up to 100 percent of Shared Savings/Losses, a discount is applied to the benchmark to ensure savings are also generated for CMS. Consequently, for DCEs in the Global Risk Arrangement, the Benchmark Expenditure is reduced by a set percentage based on the performance year, detailed in **Table 4**. Because DCEs electing the Professional Risk Arrangement share any savings (or losses) with Medicare, no discount is applied to the benchmark for those DCEs.

Table 4: Schedule of Discounts by Risk Arrangement

Risk Arrangement	PY2021	PY2022	PY2023	PY2024	PY2025	PY2026
Global	2%	2%	3%	4%	5%	5%
Professional	Not applicable					

PY = performance year.

Quality Withhold

Each PY, CMS withholds 5 percent of the Benchmark Expenditure from DCEs in both Professional and Global Risk Arrangements. This withhold is held "at-risk," meaning it can be earned back by the DCE by reporting and/or sufficiently performing on a set of pre-determined quality measures and Continuous Improvement/Sustained Exceptional Performance (CI/SEP) metrics.

At the end of the PY, DCEs receive a single quality score from zero to 100 percent. This score is a weighted average of the DCE's performance in several categories, including pay-for-performance and pay-for-reporting criteria. The weights of these categories will vary PY to PY. In addition, performance on CI/SEP criteria (PY2023–2026 only) will be used to determine whether the DCE is eligible for a full 5 percent earn back, or the DCE will be eligible for a maximum of a 2.5 percent earn back. Starting in PY2023, CMS will also establish a "High-Performers Pool" (HPP) bonus to further incentivize high performance and continued improvement. For more information on the calculation of quality scores and the application of CI/SEP criteria, see the ***Global and Professional Direct Contracting Model: Quality Measurement Methodology***. For a given quality score, the DCE will earn that percentage of its Quality Withhold back onto the benchmark.

Retention Withhold

To incentivize participation in GPDC for at least 2 years, DCEs must either secure an additional 2 percent financial guarantee or be subject to a 2 percent retention withhold applied to their benchmark in their first year of model participation. For DCEs that choose the guarantee approach, the additional 2 percent guarantee will be held at-risk; if the DCE does not re-enroll for a second year, CMS will keep the guarantee. For DCEs that choose the withhold approach, once CMS has confirmed that a DCE will be participating for a second PY[2], that withhold will be removed from the benchmark for reconciliation (i.e., the entire 2 percent will be earned back).

Due to the timing of Provisional Reconciliation in PY2021, the choice to continue participation for a second PY preceded PY2021 Provisional Reconciliation. DCEs who began participation in PY2021 and continue to participate in PY2022 will have no retention withhold applied during Provisional Reconciliation or Final Reconciliation. DCEs who began participation in PY2021 and did not continue to PY2022 will have the full retention withhold applied at both Provisional and Final Reconciliation.

For DCEs who begin participation in PY2022, the choice to continue participation for a second PY will follow Provisional Reconciliation. Accordingly, the retention withhold is applied in the following manner: If the DCE earns shared savings equal to less than 2 percent of their benchmark during Provisional Reconciliation (such that only the application of the 2 percent retention withhold results in the DCE owing shared losses), that DCE is **not** required to pay CMS for the provisionally calculated shared losses. However, if that DCE does not continue participation for a second PY, the withhold will continue to be applied for Final Reconciliation, at which point the DCE will be required to repay CMS for any shared losses. The schedule for the retention withhold is shown in **Table 5**:

Table 5: Schedule of Retention Withhold

<table>
<tr><th>First Year of Participation</th><th>DCE Continues Participation</th><th>Withhold Applied to Provisional Reconciliation</th><th>Required to Pay Provisional Losses from Savings Offset by Withhold</th><th>Withhold Applied at Final Reconciliation</th></tr>
<tr><td rowspan="2">PY2021</td><td>Yes</td><td>No</td><td>N/A</td><td>No</td></tr>
<tr><td>No</td><td rowspan="3">2%</td><td>Yes</td><td>2%</td></tr>
<tr><td rowspan="2">PY2022</td><td>Yes</td><td rowspan="2">No</td><td>No</td></tr>
<tr><td>No</td><td>2%</td></tr>
</table>

DCE = Direct Contracting Entity; PY = performance year.

Retrospective Trend Adjustment

Prospective benchmarks in GPDC are based upon the trend in the adjusted United States Per Capita Cost (USPCC). As this adjusted USPCC trend is prospective and based on a different population of beneficiaries than GPDC, it may meaningfully diverge from the observed expenditure trend for the DC

[2] Participation in a performance year starting in PY2022 is confirmed for DCEs that remain in the model after the Termination Without Liability date for that PY. The final date will be included in the Performance Period Participation Agreement, though February 28 of a PY is the proposed deadline to notify CMS of termination.

National Reference Population. If in a given PY the observed trend differs from the prospective trend by more than 1 percentage point, CMS will adjust the benchmark at Final Reconciliation[3] to correct for the difference between the projected trend and the observed per beneficiary per month (PBPM) expenditure trend of the DC National Reference Population. This retrospective trend adjustment will be applied separately for the Aged & Disabled (A&D) and End-Stage Renal Disease (ESRD) benchmarks. In addition, CMS may apply a placeholder retrospective trend adjustment based on a more recently published USPCC Trend during the performance year to improve accuracy for Quarterly Benchmark Reports (QBRs) and capitations payments.

3.1.2 Calculation Example

Table 6 serves as an example of the Discount and Quality Withhold applied to a DCE's benchmark, should they select either Professional or Global risk arrangements:

Table 6: Calculation of Benchmark after Discount and Earned Quality

Benchmark Expenditure with Initial Adjustments		**Global (in dollars)**	**Professional (in dollars)**
1	Benchmark Expenditure for All Aligned Beneficiaries[1]	$150,000,000	$150,000,000
Calculation of Discount Rate			
2	Discount Rate	2%	N/A
3	Total Discount	$3,000,000	
4	**Benchmark Expenditure for All Aligned Beneficiaries After Discount (Line 1–Line 3)**	**$147,000,000**	**$150,000,000**
Calculation of Earned Quality Withhold			
5	Quality Withhold (.05 x Line 1)	$7,500,000	$7,500,000
6	Quality Score	98%	98%
7	**Earned Quality Withhold (Line 6 x Line 5)**	**$7,350,000**	**$7,350,000**
8	Net Impact of Quality Withhold (Line 5–Line 7)	$150,000	$150,000
9	**Benchmark Expenditure for All Aligned Beneficiaries After Discount and Earned Quality (Line 4–Line 8)**	**$146,850,000**	**$149,850,000**

[1]Here, the Benchmark Expenditure for All Aligned Beneficiaries includes adjustments for the Retention Withhold, Retrospective Trend, and Seasonality, where applicable.

3.2 Performance Year Expenditure

The Performance Year Expenditure (PY Expenditure) is the total payment that Medicare has made for services provided to DCE-aligned beneficiaries during months in which they were alignment eligible and aligned to the DCE. The PY Expenditure is the sum of the capitation payments made to the DCE for services within the scope of their respective capitation arrangement and the fee-for-service (FFS) payments made to providers. Because the benchmark is calculated on a pre-sequestration basis, the PY Expenditure will also be calculated on a pre-sequestration basis for the purposes of calculating Shared Savings/Losses.

3.2.1 Capitation Payments

All DCEs are required to participate in one of the Capitation Payment Mechanisms: Total Care Capitation (TCC) or Primary Care Capitation (PCC). The TCC or Base PCC Payments made to the DCE during the

[3] To apply the retrospective trend, CMS requires the full year's claims experience and run-out. In PY2022+, this will only be available at Final Reconciliation.

performance year, including any adjustments to those payments made during or after the performance year, will be included as capitation payments in the calculation of the PY Expenditure. More details on the Capitation Payment Mechanisms can be found in the ***Global and Professional Direct Contracting Model: Capitation and Advanced Payment Mechanisms*** document.

3.2.2 Claims Payments to DC Participant, Preferred, and Non-DCE Providers

In addition, beneficiaries aligned to a DCE will continue to receive some services not covered by capitation. For those services, the total amount of FFS claims for a given provider type is inclusive of the total claim payment amounts, plus amounts withheld due to sequestration, plus reductions made to provider payments due to participation in the Advanced Payment Option (available to DCE's electing the Professional Option) or other alternative payment arrangements, minus Uncompensated Care Payments to hospitals under the Inpatient Prospective Payment System. This section describes the breakdown of claims payments to each type of provider.

Payments to DC Participant Providers

In a DCE that has elected TCC, DC Participant Providers will continue to receive FFS payment on eligible claims that are exempt from the TCC reduction, generally because the beneficiary opted out of data sharing or the claim contains data related to substance abuse.

In a DCE that has elected PCC, DC Participant Providers will continue to receive FFS payments for any portion of eligible Primary Care claims billed by Primary Care Specialists that are not subject to PCC reduction, as well as FFS payments on eligible claims that are not for Primary Care Capitation services.

In a DCE that has also elected the Advanced Payment Option (APO), FFS claims reductions associated with APO payments are included in the PY Expenditure. Providers participating in APO will continue to receive FFS payment for any portion of claims not reduced as well as for claims not eligible for APO, such as those for beneficiaries electing to opt-out of claims sharing or those related to substance abuse. In addition, any amounts withheld from FFS provider payment as part of APO will be included in calculation of PY Expenditure.

Payments to Preferred Providers

Because Preferred Providers are not required to participate in capitation and have the option to reduce any portion of claims, any claims for services provided by a Preferred Provider that has not elected to participate in TCC or PCC will be included in FFS payments.

Payments to Other Providers

Payments made to non-DCE providers (i.e., not DC Participant Providers or Preferred Providers and by definition not participating in the capitation arrangement) are also included in the PY Expenditure.

Table 7 shows an example calculation of the Total PY Expenditure:

Table 7: PY Expenditure

PY Expenditure		Global (in dollars)	Professional (in dollars)
10	**Capitation Payments**	**$10,000,000**	**$6,000,000**
11	DC Participant Provider Claim Payments	$1,003,442	$9,003,442
12	Preferred Provider Claim Payments	$33,435,084	$31,435,084
13	Non-DCE Provider Claim Payments	$91,355,457	$89,355,457
14	**Total FFS Payments (Sum Lines 11, 12, and 13)**	$125,793,983	$125,793,983
15	**Total PY Expenditure (Line 10 + Line 14)**	**$135,793,983**	**$135,793,983**

PY = performance year.

3.2.3 Stop-Loss Reinsurance

Stop-Loss Reinsurance is a risk-mitigation strategy that is optional for all DCEs, regardless of their selected risk arrangement. If chosen, the Stop-Loss arrangement must be selected by a DCE prior to the beginning of the PY; DCEs may change their election before the beginning of any subsequent PY. The Stop-Loss arrangement involves a Stop-Loss payout and a Stop-Loss charge, both described in this section. Stop-Loss is designed to protect DCEs from financial liability for individual beneficiaries with significantly higher PY Expenditure than the average beneficiary. Under Stop-Loss, reinsurance begins once a beneficiary's total PY Expenditure passes a prospectively developed attachment point. Once the beneficiary's expenditure exceeds the attachment point, the amount that is paid out under the Stop-Loss arrangement will increase as the expenditure incurred by the beneficiary during alignment increases according to a set schedule, referred to as Stop-Loss bands.

Attachment Points

Beneficiary attachment points are developed prospectively at the beginning of every PY.

An individual beneficiary's attachment point, b^{AD}, is equal to 12 times the 99th percentile of PBPM Expenditures accruing to the Aged and Disabled Benchmark by the DC National Reference Population, B^{AD}. This beneficiary attachment point (b^{AD}) is also referred to as the A&D attachment point:

$$b^{AD} = 12 \times B^{AD}$$

An adjustment is applied to the beneficiary's attachment point for each month of experience accruing to the ESRD Benchmark. The adjustment is calculated as follows:

$$A = B^{ESRD} - B^{AD}$$

Where B^{ESRD} is equal to the 99th percentile of PBPM Expenditures accruing to the ESRD Benchmark by the DC National Reference Population. A beneficiary's total attachment point is then:

$$b = b^{AD} + M^{ESRD} \times A$$

Where M^{ESRD} is the number of months accruing to the ESRD Benchmark for the beneficiary. Beneficiary attachment points will be adjusted to reflect the DCM GAF of the county in which the beneficiary resides in January of the respective PY.

Stop-Loss Payout

The Stop-Loss payout is a reduction to the PY Expenditure that accrues against the Benchmark Expenditure. That is, the payout is a “virtual” payment as no cash payment is made for Stop-Loss. For the purposes of the Stop-Loss arrangement, the payout is equal to a portion of the expenditure incurred by an Aligned Beneficiary whose total expenditure exceeds the beneficiary’s attachment point. That percentage depends on the amount by which the beneficiary’s expenditure exceeds the beneficiary’s attachment point, as described in **Table 8**.

Table 8: Stop-Loss Payment Schedule

Stop-Loss Band	Start Band	End Band	Stop-Loss Payout Rate
Band 1	Beneficiary attachment point	Beneficiary attachment point + 50% of A&D attachment point	70%
Band 2	Beneficiary attachment point + 50% of A&D attachment point	Beneficiary attachment point +100% of A&D attachment point	80%
Band 3	Beneficiary attachment point + 100% of A&D attachment point	Beneficiary attachment point + 150% of A&D attachment point	90%
Band 4	Beneficiary attachment point + 150% of A&D attachment point	No upper limit	100%

These calculations are progressive and occur only once the beneficiary has passed their base attachment point. For example, assume a DCE with a beneficiary with only Aged & Disabled experience that has an attachment point of $100,000 and has accrued $230,000 in expenditures. Band 1 will cover expenditures from $100,000 to $150,000. Band 2 will cover expenditures over $150,000 to $200,000, and so on. **Table 9** shows the calculation of the Stop-Loss payout for that beneficiary:

Table 9: Illustration of the Calculation of the Stop-Loss Payout for an Individual Beneficiary

Calculation of Stop-Loss Payout for Individual Beneficiary		Value
1	Attachment Point	$100,000
2	**Total Expenditure**	**$230,000**
	Below Attachment Point	$100,000
	Risk Band 1 (100% to 150% of AP[1])	$50,000
	Risk Band 2 (150% to 200% of AP[1])	$50,000
	Risk Band 3 (200% to 250% of AP[1])	$30,000
	Risk Band 4 (Beyond 250% of AP[1])	$-
3	**Total Payout**	**$102,000**
	Risk Band 1 (70% Payout)	$35,000
	Risk Band 2 (80% Payout)	$40,000
	Risk Band 3 (90% Payout)	$27,000
	Risk Band 4 (100% Payout)	$-

AP = attachment point.

[1]These risk bands apply for a beneficiary with only Aged & Disabled experience during the PY, where the beneficiary attachment point is the same as the A&D attachment point.

Stop-Loss Charge

CMS will apply a PBPM Stop-Loss charge to the DCE in the form of an addition to the DCE’s PY Expenditure. This charge is calculated by multiplying the Total Trended, Risk- and Geographic

Standardization Factor (GSF)-Adjusted Reference Year Expenditure for the PY by the Average DCE Stop-Loss Payout Percentage.

The Average DCE Stop-Loss Payout Percentage is calculated as the average of the Aggregate Payout Percentage for each of three Stop-Loss reference years. The Aggregate Payout Percentage for a reference year is the DCE's total Stop-Loss payout as a percentage of the total expenditure incurred during the reference year. The reference years will be updated during each PY and parallel the BYs used in the DC/KCC Rate Book calculations for each PY. For example, the reference years used to calculate the Average DCE-Stop-Loss Payout Percentage in PY2021 will be 2017 through 2019. The reference years for PY2022 will be 2018 through 2020.[4] **Table 10** shows the calculation of the Stop-Loss charge:

Table 10: Stop-Loss Charge Calculation

Calculation of Stop-Loss Charge		Value
1	Average Reference Year Expenditure PBPM, GSF-Adjusted & Trended to PY	$946.97
2	Number of Aligned Eligible Months in PY	132,000
3	DCE Average Risk Score in PY[1]	1.16
4	Total Trended, Risk- and GSF-Adjusted Reference Year Expenditure	$145,000,000
5	3-Year Average Payout Percentage	2.03%
	RY1 Aggregate Payout Percentage	1.96%
	RY2 Aggregate Payout Percentage	2.09%
	RY3 Aggregate Payout Percentage	2.05%
6	**PY Stop-Loss Charge (Line 1 x Line 2)**	**$2,940,000**

[1] The Stop-Loss charge will be calculated using the final PY risk scores for aligned beneficiaries. For quarterly reporting, preliminary risk scores will be used based on the most recently available risk scores at the time.

DCE = Direct Contracting Entity; GSF = Geographic Standardization Factor; PBPM = per beneficiary per month; PY = performance year; RY = Reference Year.

Table 11 shows the application of Stop-Loss to the PY Expenditure:

Table 11: Application of Stop-Loss

Application of Stop-Loss		Global	Professional
15	PY Expenditure	$135,793,983	$135,793,983
16	Stop-Loss Charge	$2,940,000	$2,940,000
17	Stop-Loss Payout	$1,476,562	$1,476,562
18	Net Impact of Stop-Loss (Line 17–Line 16)	-$1,463,438	-$1,463,438
19	**PY Expenditure after Stop-Loss (Line 15–Line 18)**	**$137,257,421**	**$137,257,421**

PY = performance year.

If CMS determines that a DCE's historical claims experience is insufficient for determining a Stop-Loss charge in the PY, then the 3-year average payout percentage will instead be calculated based on the historical experience of beneficiaries in the DC National Reference Population in the counties where the DCE's aligned beneficiaries reside in the PY. CMS will calculate a 3-year average payout percentage and

[4] As described in the DC/KCC Rate Book Development paper, CMS is continuing to monitor the potential impact of COVID-19 on potential BYs for use in the DC/KCC Rate Book and may revise BYs used to establish appropriate county rates for a given CY. For example, CMS may determine that 2020 is not appropriate as a BY and use different years for the DC/KCC Rate Book. For the purposes of calculating the Average DCE Payout Percentage and setting the Stop-Loss Charge, the BYs used will follow those used for the DC/KCC Rate Book.

average reference year expenditure for each county using the same 3-year reference period. For counties with insufficient claims experience to determine a historical stop-loss payout percentage and reference year expenditure, CMS will use the cumulative experience of beneficiaries in the state across counties with insufficient claims experience[5] to calculate the Stop-Loss charge.

3.3 Gross Savings/Losses and Shared Savings/Losses

Gross Savings/Losses are calculated by subtracting a DCE's PY Expenditure, adjusted for Stop-Loss, from its Total Benchmark Expenditure. CMS may also make adjustments to prevent duplication in shared savings payments for beneficiaries participating in other shared savings programs or initiatives. Gross Savings/Losses will then have risk corridors applied to arrive at Shared Savings/Losses.

Under both Global and Professional risk arrangements, risk corridors (bands) are applied to Gross Savings/Losses to mitigate the risk of large savings or losses to CMS and participants. As absolute values of the Gross Savings/Losses increase, the DCE will retain a progressively smaller portion of the total savings or will be responsible for a progressively smaller portion of the total losses.

3.3.1 Risk Corridors: Global Option

Table 12 shows the risk bands applied to a DCE that has selected the Global Option.

Table 12: Percentage Savings/Losses, Global Option

Corridor	Corridor 1	Corridor 2	Corridor 3	Corridor 4
Percent of Benchmark*	Up to 25%	25%–35%	35%–50%	More than 50%
Savings/Losses Rate	100%	50%	25%	10%

*For all aligned beneficiaries after the application of the discount, quality withhold and quality withhold earn back.

Under the Global Option, a DCE will be responsible for a higher portion of Shared Losses but will also retain a higher portion of Shared Savings. **Table 13** shows an example of the application of risk corridors in the calculation of Shared Savings/Losses.

In this example, the DCE had Gross Savings of $9,592,579, 6.5 percent below the benchmark. Because the Shared Savings for the period is entirely within the first corridor, the DCE's Shared Savings for the year will be 100 percent of their Gross Savings.

[5] Where the cumulative beneficiaries in counties with insufficient claims history is not sufficient to calculate a historical stop-loss payout percentage, CMS will use all beneficiaries in the state to calculate the Stop-Loss charge.

Table 13: Calculation of Shared Savings/Losses, Global Option

Calculation of Gross Savings (Losses)		Value
19	PY Expenditure after Stop-Loss	$137,257,421
20	Benchmark Expenditure after Discount and Earned Quality (Line 9)	$146,850,000
21	Gross Savings (Losses) (Line 20–Line 19)	$9,592,579
Calculation of Shared Savings (Losses)		
22	Savings (Losses) Retained by DCE	$9,592,579
	Retained Savings (Losses) in Corridor 1 (100% retained by DCE)	$9,592,579
	Retained Savings (Losses) in Corridor 2 (50% retained by DCE)	$-
	Retained Savings (Losses) in Corridor 3 (25% retained by DCE)	$ -
	Retained Savings (Losses) in Corridor 4 (10% retained by DCE)	$ -
23	Sequestration Amount (2% x Line 21)	$191,852
24	Savings (Losses) Retained by DCE, net of Sequestration (Line 21–Line 22)	$9,400,727
25	Savings (Losses) Retained by CMS (Line 20–Line 21)	$-

CMS = Centers for Medicare & Medicaid Services; DCE = Direct Contracting Entity; PY = performance year.

3.3.2 Risk Corridors: Professional Option

Table 14 shows the risk bands applied to a DCE that has selected the Professional Option.

Table 14: Percentage Savings/Losses, Professional Option

Corridor	Corridor 1	Corridor 2	Corridor 3	Corridor 4
Percent of Benchmark*	Up to 5%	5% to 10%	10 to 15%	More than 15%
Savings/Losses Rate	50%	35%	15%	5%

*For all aligned beneficiaries after the application of the quality withhold and quality withhold earn back.

Under the Professional Option, a DCE will be responsible for a lower portion of Shared Losses but will also retain a lower portion of Shared Savings. **Table 15** shows the same example of the application of risk corridors in the calculation of Shared Savings/Losses, this time for a DCE participating in the Professional Option.

Table 15: Calculation of Shared Savings/Losses, Professional Option

Calculation of Gross Savings (Losses)		Value
18	PY Expenditure after Stop-Loss	$137,257,421
19	Benchmark Expenditure After Discount and Earned Quality (Line 9)	$149,850,000
20	Gross Savings (Losses) (Line 19–Line 18)	$12,592,579
Calculation of Shared Savings (Losses)		
21	Savings (Losses) Retained by DCE	$5,531,278
	Retained Savings (Losses) in Corridor 1 (50% retained by DCE)	$3,746,250
	Retained Savings (Losses) in Corridor 2 (35% retained by DCE)	$1,785,028
	Retained Savings (Losses) in Corridor 3 (15% retained by DCE)	$-
	Retained Savings (Losses) in Corridor 4 (5% retained by DCE)	$-
22	Sequestration Amount (2% x Line 21)	$110,626
23	Savings (Losses) Retained by DCE, net of Sequestration (Line 21–Line 22)	$5,420,652
24	Savings (Losses) Retained by CMS (Line 20–Line 21)	$7,061,301

CMS = Centers for Medicare & Medicaid Services; DCE = Direct Contracting Entity; PY = performance year.

In this example, the DCE had Gross Savings of $12,592,579, 8.4 percent below the Benchmark Expenditure. The DCE's retained savings for the year (pre-sequestration) will be calculated as follows:

$$0.5\ (0.05\ \times \$149{,}850{,}000) + 0.35\ (0.036\ \times \$149{,}850{,}000) = \$5{,}531{,}278$$

4 Settlement and Calculation of Total Monies Owed

After the calculation of Shared Savings/Losses is completed, there will be a secondary settlement process to calculate Total Monies Owed. At year-end, CMS will adjust the Final Shared Savings/Losses amount by the following:

1. Money already distributed to (received from) the DCE at the time of Provisional Reconciliation. At the time of Provisional Reconciliation, incomplete claims, alignment, and quality data will be used in the calculation of Shared Savings/Losses. As such, the estimate of Provisional Shared Savings/Losses may be materially different than the Final Shared Savings/Losses amount. Consequently, Final Shared Savings/Losses will be settled as if it were an "adjustment" to the amount already paid out to, or received from, the DCE at the time of Provisional Reconciliation.
2. Under (over) payments from capitation. Differences in final beneficiary alignment and risk scores, shifts in utilization patterns, and claims processing errors may lead to significant over or under payments throughout the PY. Any (over) payments not adjusted for throughout the PY will be adjusted for here. For more information on the calculation of capitation payments and year-end payment adjustments, see ***Global and Professional Direct Contracting Model: Capitation and Advanced Payment Mechanisms*** paper and associated **companion document**.
3. Adjustments for DCEs participating in PCC and/or APO. At the conclusion of the PY, CMS will recoup the Enhanced Portion of PCC in full. For DCEs also electing the APO, the APO payment will be reconciled against actual claims reductions for the year. If the reduction in FFS claims was greater than the APO payment made, the difference will be paid to the DCE. If the reduction in FFS claims was less than the APO payment made, the difference will be recouped by CMS.
4. Beginning in PY2023, the highest performing DCEs will be eligible for a payment from the HPP.

Table 16 shows an example of the calculation of total monies owed.

Table 16: Calculation of Total Monies Owed

	Shared Savings Adjustments	Value
1	Provisional Reconciliation Shared Savings (Losses)	$4,456,540
2	Final Reconciliation Shared Savings (Losses)	9,400,727
3	Shared Savings (Losses) Owed (Line 2–Line 1)	**$4,944,187**
	Additional Adjustments	
4	Under (Over) Payments from Payment Arrangements	$160,700
	Capitation Under (Over) Payment	$160,700
	Enhanced PCC Repayment[1]	-
	APO Adjustment[1]	-
5	High-Performers Pool Incentive[2]	$400,000
6	**Adjustments Owed**	$560,700
7	**Total Monies Owed (Line 3 + Line 6)**	**$5,504,887**

[1]The example in Table 16 is that of a DCE electing the TCC Capitation Mechanism. As a result, no adjustments need be made for Enhanced PCC or APO.

[2]For more information on the calculation of the High-Performers Pool payout, see *GPDC Quality Measurement Methodology* paper.

APO = Advanced Payment Option; PCC = Primary Care Capitation.

5 Financial Guarantee

To ensure CMS is able to recoup potential shared losses, DCEs are required to hold a financial guarantee, prior to the beginning of their first year of participation, which will be held through 24 months following the end of the DCE's final PY. Options for securing the financial guarantee include funds placed in escrow, a line of credit, or a surety bond.

The amount required for the financial guarantee will depend on the risk arrangement the DCE has selected. **Table 17** shows the guarantee required for a DCE as a percentage of its benchmark, based on its elected risk arrangement and capitation mechanism:

Table 17: Financial Guarantee Requirements as Percentage of Benchmark

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%

The amount remaining of the guarantee after reconciliation will carry over to the next PY. In the event that a DCE incurs losses in a PY or the financial guarantee amount increases based on the benchmark, risk sharing election, and capitation election for the subsequent PY, DCEs will have 60 days from the conclusion of Final Reconciliation to replenish their guarantee. Because PY2021 follows an atypical schedule for reconciliation, DCEs in PY2021 will have 60 days from the conclusion of provisional reconciliation to replenish their guarantee. If the DCE has not replenished the guarantee in the allotted 60-day period, CMS will begin withholding capitation payments.

Appendix A: Long-Form Reconciliation Calculation

Table A.1 shows the entire Final Reconciliation process for the same DCE for both Professional and Global Risk Arrangements.

Table A.1: Full Reconciliation Calculation

	Initial Benchmark	**Global (in dollars)**	**Professional (in dollars)**
1	Benchmark Expenditure for All Aligned Beneficiaries[1]	$150,000,000	$150,000,000
	Calculation of Discount Rate	**Global**	**Professional**
2	Discount Rate	2%	N/A
3	Total Discount	$3,000,000	
4	Benchmark Expenditure for All Aligned Beneficiaries After Discount (Line 1–Line 3)	$147,000,000	$150,000,000
	Calculation of Earned Quality Withhold	**Global**	**Professional**
5	Quality Withhold (0.05 x Line 1)	$7,500,000	$7,500,000
6	Quality Score	98%	98%
7	Earned Quality Withhold (Line 6 x Line 5)	$7,350,000	$7,350,000
8	Net Impact of Quality Withhold (Line 5–Line 7)	$150,000	$150,000
9	Benchmark Expenditure for All Aligned Beneficiaries After Discount and Earned Quality (Line 4–Line 8)	$146,850,000	$149,850,000
	PY Expenditure	**Global**	**Professional**
10	Capitation Payments	$10,000,000	$10,000,000
11	DC Participant Provider Claim Payments	$1,003,442	$5,003,442
12	Preferred Provider Claim Payments	$33,435,084	$31,435,084
13	Non-DCE Provider Claims	$91,355,457	$89,355,457
14	Total FFS Payments (Sum Lines 11:13)	$125,793,983	$125,793,983
15	PY Expenditure (Line 10 + Line 14)	$135,793,983	$135,793,983
	Application of Stop-Loss	**Global**	**Professional**
15	PY Expenditure	$135,793,983	$135,793,983
16	Stop-Loss Charge	$2,940,000	$2,940,000
17	Stop-Loss Payout	$1,476,562	$1,476,562
18	Net Impact of Stop-Loss (Line 17-Line 16)	-$1,463,438	-$1,463,438
19	PY Expenditure after Stop-Loss (Line 15-Line 18)	$137,257,421	$137,257,421
	Calculation of Gross Savings (Losses)	**Global**	**Professional**
19	PY Expenditure after Stop-Loss	$137,257,421	$137,257,421
20	Benchmark Expenditure After Discount and Earned Quality (Line 9)	$146,850,000	$149,850,000
21	Gross Savings (Losses) (Line 19–Line 18)	$9,592,579	$12,592,579
	Calculation of Shared Savings (Losses)	**Global**	**Professional**
21	Savings (Losses) Retained by DCE	$9,592,579	$5,531,278
	Retained Savings (Losses) in Corridor 1	$9,592,579	$3,746,250
	Retained Savings (Losses) in Corridor 2	$-	$1,785,027
	Retained Savings (Losses) in Corridor 3	$-	$-
	Retained Savings (Losses) in Corridor 4	$-	$-
22	Sequestration Amount (2% x Line 21)	$191,852	$110,626
23	Savings (Losses) Retained by DCE, net of Sequestration (Line 21–Line 22)	$9,400,727	$5,420,652

[1]Here, the Benchmark Expenditure for All Aligned Beneficiaries includes adjustments for the Retention Withhold, Retrospective Trend, and Seasonality, where applicable. DCE = Direct contracting Entity; FFS = fee for service; PY = performance year.

Appendix B: Differences in Reconciliation for PY2021

Because PY2021 lasts 9 months (April to December 2021) and because of limitations in prospectively determining quality benchmarks for 2021, PY2021 will have a mandatory Provisional Reconciliation approximately 7 months after PY2021 ends. This Provisional Reconciliation will include final PY Expenditure and risk scores but will not include final quality scores. A mandatory Final Reconciliation will occur approximately 19 months after PY2021 ends (at the same time as PY2022 Final Reconciliation), and will include all final inputs, including final quality scores. See the target schedule in **Table B.1**.

Table B.1: Reconciliation Timing for PY2021

Data/Timing	Provisional Reconciliation	Final Reconciliation
Target Date for Reconciliation	July 31 of calendar year following the PY (2022)	July 31 of calendar year 2 years following the PY (2023)
Claims Included in Reconciliation	PY Expenditure incurred through December 31, 2021	PY Expenditure 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	Stand-in Quality Score (100%)	Final quality scores

PY = performance year.

Appendix C: Example Attachment Point Calculations

The following appendix shows the calculation of attachment points for a beneficiary accruing experience to 1) only the A&D Benchmark, 2) 6 months to A&D and 6 months to ESRD, and 3) only to the ESRD Benchmark.

C.1 Full Experience to the A&D Benchmark

Assume a beneficiary *b* that accrues all of their experience to the A&D Benchmark, and that the 99th percentile of PBPM expenditures for A&D is $11,000. The attachment point for that beneficiary would be calculated as:

$$AP_b = 12 \times \$11{,}000 = \$132{,}000$$

C.2 Split Experience Between A&D and ESRD Benchmarks

Assume a beneficiary *b* that accrues 6 months of experience to the A&D Benchmark and 6 months of experience to the ESRD Benchmark. Assume that the 99th Percentile of PBPM expenditures for ESRD is $43,000 and that the 99th percentile of PBPM expenditures for A&D is $11,000. The attachment point for that beneficiary would be calculated as:

$$AP_b = (12 \times \$11{,}000) + (6 \times A)$$

where

$$A = \$43{,}000 - \$11{,}000 = \$32{,}000$$

such that

$$AP_b = \$132{,}00 + \$192{,}000 = \$324{,}000$$

C.3 Full Experience to the ESRD Benchmark

Assume a beneficiary *b* that accrues 12 months of experience to the ESRD Benchmark. Assume that the 99th Percentile of PBPM expenditures for ESRD is \$43,000 and that the 99th percentile of PBPM expenditures for A&D is \$11,000. The attachment point *b* for that beneficiary would be calculated as:

$$AP_b = (12 \times \$11{,}000) + (12 \times A)$$

where

$$A = \$43{,}000 - \$11{,}000 = \$32{,}000$$

such that

$$AP_b = \$132{,}00 + \$384{,}000 = \$516{,}000$$