CENTERS FOR MEDICARE & MEDICAID SERVICES
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Next Generation ACO Model

Open Door Forum:
Financial Deep Dive

March 31, 2015

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Preliminary Financial Timeline

Milestone	Date
LOI Due Date	May 1, 2015
Application Due Date	June 1, 2015
Providers/Suppliers List Submitted	June 1, 2015
Financial Methodology Paper	Mid-Summer 2015
Agreements Signed	Fall 2015
Alignment Run and Benchmark Calculated	Mid-Late Fall 2015
Start of 1st Performance Year	January 1, 2016

Next Generation Financial Model

- Key components:
  1. **Benchmark**
     - **Each ACO's benchmark calculated prospectively for the ACO's aligned beneficiaries.**
  2. Risk Arrangement
     - Each ACO selects one of two risk arrangement options.
  3. Payment Mechanism
     - Each ACO selects one of four payment mechanism options.

Prospective Benchmark (2016-2018)

The benchmark will be prospectively set prior to the performance year using the following four steps:

Baseline	Trend	Risk Adjustment	Discount
Determine ACO's baseline using one-year of historical baseline expenditures.	Trend the baseline forward using a regional projected trend.	The full HCC risk score will be used. ACO risk score allowed to grow by 3% between the baseline and the given performance year. ACO risk score decrease also capped at 3%.	Apply discount derived from quality and efficiency adjustments.

Trend (2016-2018)

The baseline will be trended forward using a regional projected trend:

- National projected trend similar to that currently used in Medicare Advantage (MA).
- Regional prices applied to the national trend.
- Under limited circumstances, CMS may adjust the trend in response to price changes with substantial expected impact (negatively or positively) on ACO expenditures.

Risk Adjustment (2016-2018)

- The Next Generation ACO benchmark is cross-sectional:
  - Alignment algorithm applied separately to baseline year and performance year;
  - Populations in these two time periods may be different.
- Prospective CMS Hierarchical Condition Category (HCC) risk scores will be applied to both baseline and performance year populations.
- ACO's full HCC risk score will be allowed to grow with a 3% cap (performance year compared to the baseline). Decrease in HCC risk score will also be capped at 3%.

Discount (2016-2018)

- Once the baseline has been calculated, trended, and risk-adjusted, CMS will apply a discount.
- Summing the following components creates each ACO's discount:
  - Quality:
    - Range: **2.0% to 3.0%**
    - Formula: [2.0 + (1- quality score)]%
  - Regional Efficiency:
    - Range: **-1% to 1%**
    - Compares the ACO's risk-adjusted historical per capita baseline to a risk-adjusted regional FFS per capita baseline.
  - National Efficiency:
    - Range: **-0.5% to 0.5%**
    - Compares the risk-adjusted regional FFS baseline to risk-adjusted national FFS per capita spending.
- Total discount range: **0.5% to 4.5%**

Example ACO A Discount Calculation

Calculating the Discount	Illustrative Amount
1. Quality	
Quality Score	*100%*
Quality Component	2.0%
2. Regional Efficiency	
ACO Risk-Adjusted Baseline	*$8,000*
Regional FFS Risk-Adjusted Baseline	*$8,500*
Regional Efficiency Ratio	*0.94*
Regional Efficiency Discount Component	-0.6%
3. National Efficiency	
Regional FFS Risk-Adjusted Baseline	*$8,500*
National FFS Risk-Adjusted Baseline	*$10,500*
National Efficiency Ratio	*0.81*
National Efficiency Discount Component	-0.5%
Example ACO A Discount	**0.9%**

2.0 + -0.6 + -0.5 = 0.9

- In PY1, 100% will be used as the quality score for all Next Generation ACOs:
  - [2.0 + (1-1.0)]%
- Example ACO A's historic baseline expenditures are 6% less expensive than regional FFS—ACO is rewarded for this attainment by having the discount reduced by 0.6%.
- ACO is in a very low cost region (19% below national FFS)—ACO is rewarded with 0.5% discount reduction (the maximum regional-to-national FFS discount reduction).

Example ACO B Discount Calculation

Calculating the Discount	Illustrative Amount
1. Quality	
Quality Score	*100%*
Quality Component	2.0%
2. Regional Efficiency	
ACO Risk-Adjusted Baseline	*$12,000*
Regional FFS Risk-Adjusted Baseline	*$13,000*
Regional Efficiency Ratio	*0.92*
Regional Efficiency Discount Component	-0.8%
3. National Efficiency	
Regional FFS Risk-Adjusted Baseline	*$13,000*
National FFS Risk-Adjusted Baseline	*$11,500*
National Efficiency Ratio	*1.13*
National Efficiency Discount Component	0.4%
Example ACO B Discount	**1.6%**

2.0 + -0.8 + 0.4 = 1.6

- In PY1, 100% will be used as the quality score for all Next Generation ACOs:
  - [2.0 + (1-1.0)]%
- Example ACO B's historic baseline expenditures are 8% less expensive than regional FFS—ACO is rewarded for this attainment by having the discount reduced by 0.8%.
- ACO is in a region whose spending is 13% higher than national FFS—ACO's discount is increased by 0.4% to reflect this regional-to-national FFS differential.

Prospective Benchmark Example

Benchmark Step	Illustrative Amount	Description
Baseline Spending/ Baseline Risk Score	\$100/1.00	Run alignment in baseline year to determine ACO's historic expenditures and baseline risk.
Trend	2.0%	Add trend to the baseline: \$100 + (.02 x \$100) = \$102
Risk Adjustment	1.02	Risk adjust the trended baseline using risk score for PY aligned beneficiaries: \$102 x 1.02 = \$104.04
Discount	1.0%	Subtract discount: \$104.04 – (.01 x \$104.04)
Illustrative Benchmark	\$103.36	--

Next Generation Financial Model

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Risk Arrangements

Arrangement A: Increased Shared Risk	Arrangement B: Full Performance Risk
Parts A and B Shared Risk • 80% sharing rate (PY1-3, 2016-2018) • 85% sharing rate (PY4-5, 2019-2020) • 15% savings/losses cap • Discount	100% Risk for Parts A and B • 15% savings/losses cap • Discount

- Benchmarks calculated the same way for both arrangements.
- For both arrangements, individual expenditures capped at the 99th percentile of expenditures to moderate outlier effects.

Example Savings/Losses Calculation

Shared Savings/Loss Reconciliation	Arrangement A: Increased Shared Risk	Arrangement B: Full Performance Risk
Illustrative Benchmark	$100,000,000	$100,000,000
Sharing Rate	80%	100%
Savings/Losses Cap	15%	15%
Maximum Savings/Losses	+/- $12,000,000 [80% x (15% x $100,000,000)]	+/- $15,000,000 [100% x (15% x $100,000,000)]
Actual PY Expenditures	$97,000,000	$97,000,000
Shared Savings Payment	$2,400,000	$3,000,000
Actual PY Expenditures	$103,000,000	$103,000,000
Shared Losses Owed	$2,400,000	$3,000,000

- Savings or losses determined by comparing total Parts A and B spending for aligned beneficiaries to the benchmark.
- Risk arrangement determines ACO’s share of savings or losses.

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Payment Mechanisms

Payment Mechanism 1: Normal FFS	Payment Mechanism 2: Normal FFS + Monthly Infrastructure Payment	Payment Mechanism 3: Population-Based Payments (PBP)	Payment Mechanism 4: Capitation (PY2 or later)
Medicare payment through usual FFS process.	Medicare payment through usual FFS process plus additional PBPM payment to ACO.	Medicare payment redistributed through reduced FFS and PBPM payment to ACO.	Medicare payment through capitation; ACO responsible for paying Provider/Supplier and Capitation Affiliate claims

- Alternative payment flows do not affect beneficiary out-of-pocket expenses or net CMS expenditures.
- Payments to ACOs will be reconciled and may result in other monies owed.

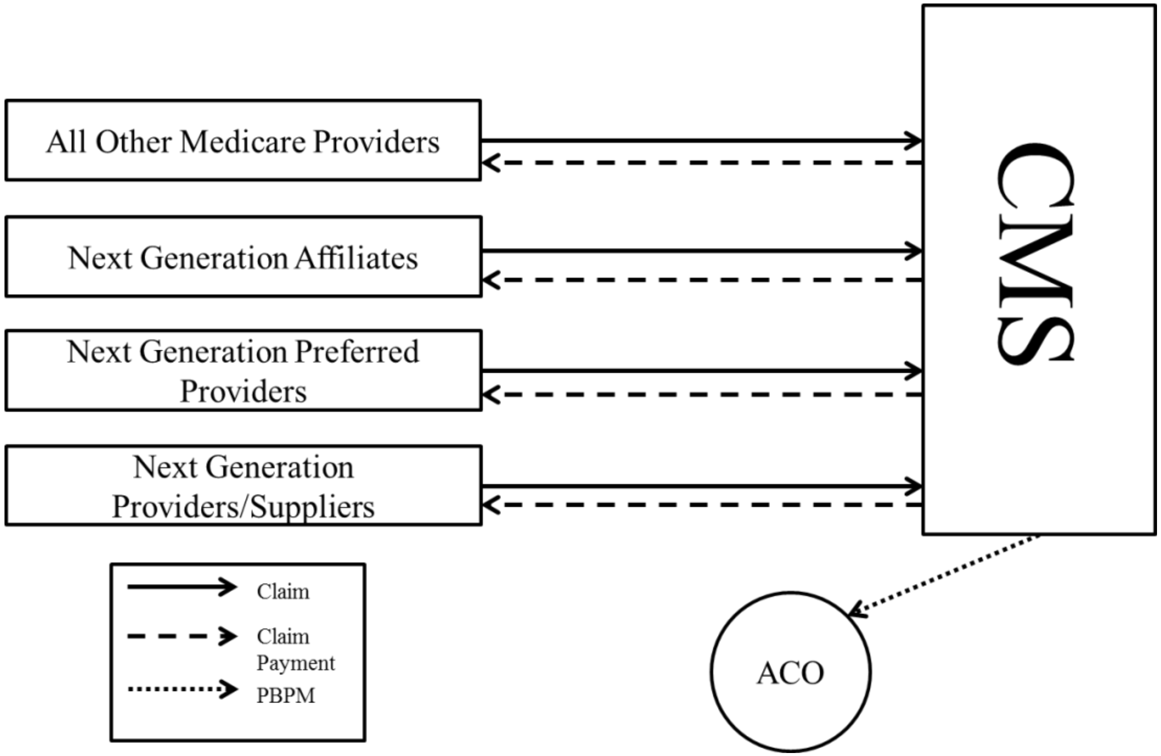
Types of Next Generation ACO Entities

- Next Generation Providers/Suppliers
  - Primary component of a Next Generation ACO, cannot be any of the other provider types.
  - Used for program activities, including beneficiary alignment and quality reporting through the ACO.
  - ACO’s selection of benefit enhancements and payment mechanism automatically extend to these providers.
- Next Generation Preferred Providers
  - May offer an ACO’s benefit enhancements to aligned beneficiaries.
- Capitation Affiliates
  - ACO partner for purposes of participating in capitation.
  - Preferred Providers may also be Affiliates.

Infrastructure Payments

- All claims paid through normal FFS reimbursement.
- The ACO chooses an additional per-beneficiary per-month (PBPM) payment unrelated to claims.
- Maximum payment rate: $6 PBPM
- All infrastructure payments will be recouped in full from the ACO during reconciliation regardless of savings or losses.
- Sufficiently large financial guarantee required to assure repayments of to CMS.

Infrastructure Payments Conceptual Diagram



All providers/suppliers submit claims to CMS as normal, and CMS pays all claims as normal. Unrelated to claims, CMS makes a monthly per-beneficiary per-month (PBPM) payment to the ACO.

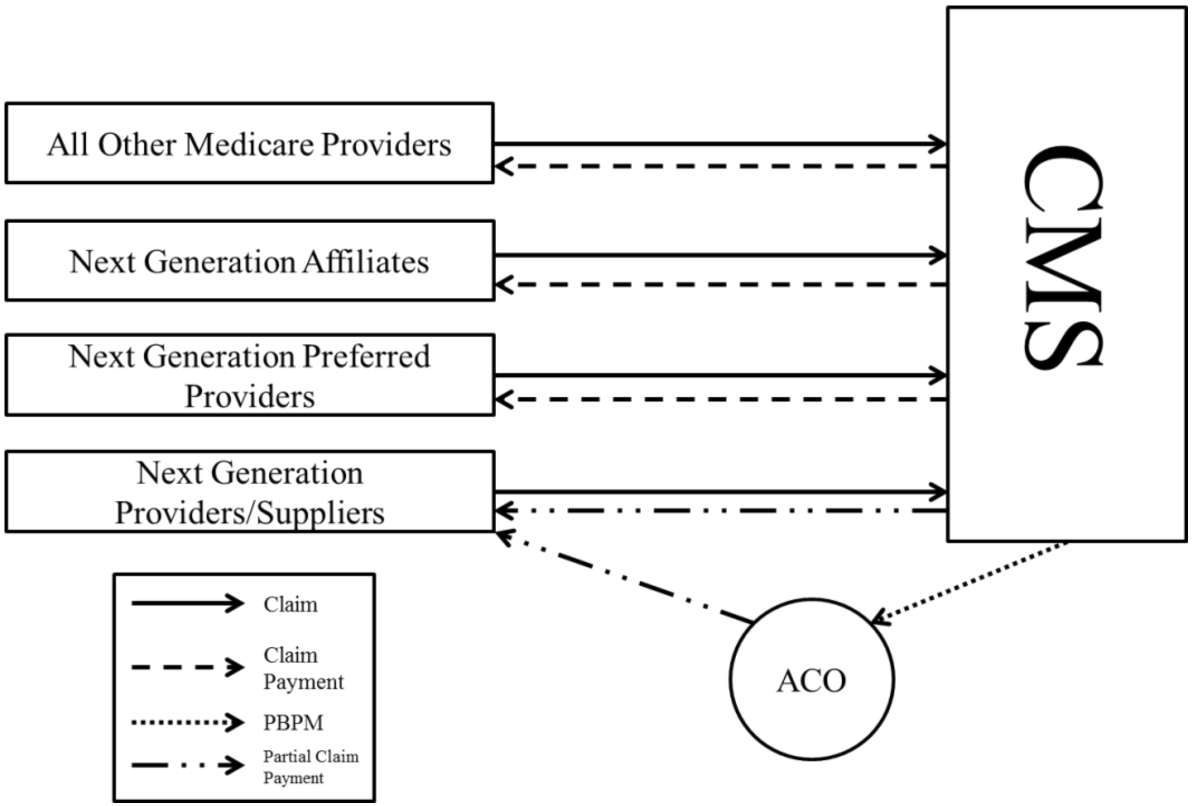
Population Based Payments (PBP)

- ACO determines a percentage reduction to the base FFS payments of its Providers/Suppliers.
  - ACO may opt to apply a different percentage reduction to different subsets of its Providers/Suppliers.
  - Providers/Suppliers participating in PBP must agree in writing to the percentage reduction.
- CMS will pay the projected total annual amount taken out of the base FFS rates to the ACO in monthly payments.

PBP Example Calculation

Example ACO	Amount	Description
# Aligned Beneficiaries	25,000	--
Benchmark (Projected Spending)	$300,000,000 ($12,000 PBPY = $1,000 PBPM)	Benchmark calculated using model benchmark methodology.
Projected Spending by PBP participating providers/suppliers	75%	Using historic claims, CMS projects spending by providers participating in PBP.
FFS % Reduction	10%	Providers agree to reduction off base FFS rates.
PBPM to ACO	$75	10% of 75% of $1,000 PBPM
Monthly Payment to ACO	$1,875,000	$75 PBPM x 25,000 aligned beneficiaries
Annual Amount Paid to ACO	$22,500,000	$1,875,000 monthly payment x 12 months

Population-Based Payments Conceptual Diagram



All providers/suppliers submit claims to CMS as normal. CMS pays Next Generation Providers/Suppliers participating in PBP reduced FFS rates and pays the ACO a PBPM payment with which the ACO pays Next Generation Providers/Suppliers according to written agreements.

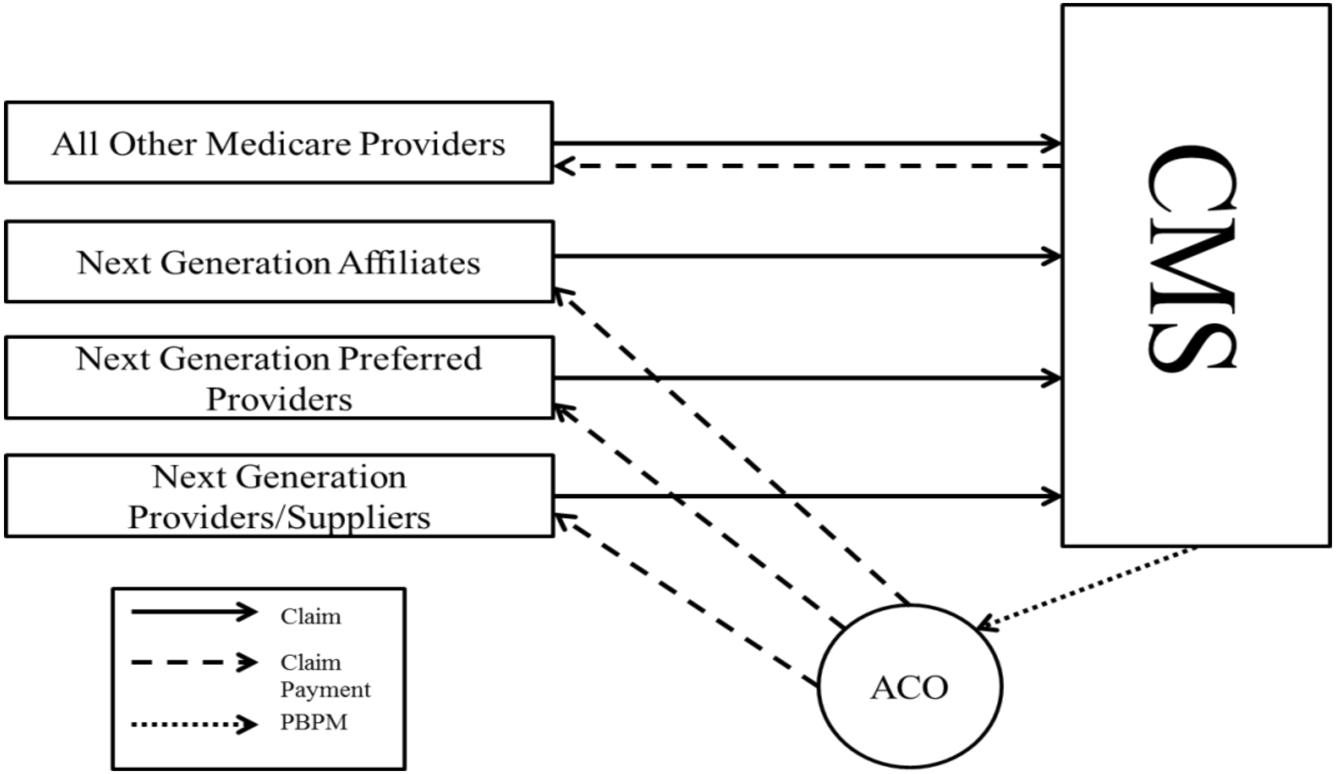
Capitation (available in 2017)

- CMS will estimate total annual expenditures for Next Generation Beneficiaries and pay that projected amount to the ACO in a PBPM payment.
- Some money withheld to cover anticipated care by non-ACO providers and suppliers.
- ACO responsible for paying claims for its Providers/Suppliers and Capitation Affiliates.
- Claims process:
  - All providers and suppliers submit claims to CMS as normal
  - CMS sends ACOs claims information for those services
  - ACO responsible for making payments.
- CMS will continue to pay normal FFS claims for care furnished to Next Generation Beneficiaries by providers and suppliers not covered by a Next Generation capitation agreement.

Capitation Example Calculation (2017)

Example ACO	Amount	Description
# Aligned Beneficiaries	25,000	--
Benchmark (Projected Spending)	$300,000,000 ($12,000 PBPY = $1,000 PBPM)	Benchmark calculated using model benchmark methodology.
Projected Spending by ACO Providers and Capitation Affiliates	75%	Using historic claims, CMS projects spending by providers participating in capitation.
Capitation PBPM	$750	75% of $1,000 PBPM
Monthly Payment to ACO	$18,750,000	$750 capitation PBPM x 25,000 aligned beneficiaries
Annual Amount Paid to ACO	$225,000,000	$18,750,000 monthly payment x 12 months

Capitation Conceptual Diagram (2017)



All providers/suppliers submit claims to CMS as normal. CMS will pay the ACO a monthly PBPM capitation payment with which the ACO will be responsible for paying capitated entities. ACOs will receive claims and payment information from CMS to inform payment to Next Generation Providers/Suppliers, Preferred Providers, and Affiliates participating in capitation. CMS will continue to pay FFS claims for all unaffiliated Medicare providers.

Payment Mechanism Reconciliation

- Separate reconciliation for infrastructure payments, PBP, and capitation.
- Infrastructure payments fully recouped from savings or in addition to losses.
- PBP and capitation reconciled to account for actual spending versus projection, may result in other monies owed to CMS or ACO.

PBP Reconciliation Example

Projections used to calculate PBP:

Example ACO	Amount
# Aligned Beneficiaries	25,000
Benchmark (Projected Spending)	\$300,000,000 (\$12,000 PBPY = \$1,000 PBPM)
Projected Spending by PBP participating providers/suppliers	75%
Annual Amount Paid to ACO	\$22,500,000

- During reconciliation, CMS determines 70% of care was delivered by PBP participating providers.
- ACO should have been paid \$21,000,000 = ACO owes CMS \$1,500,000 in other monies owed.
- Similar reconciliation will occur for capitation to account for projected versus actual spending.

Questions?

Next Generation ACO Model Webpage:
http://innovation.cms.gov/initiatives/Next-Generation-ACO-Model/

E-mail: NextGenerationACOModel@cms.hhs.gov