

Fixing the Rural Glitch

The “Rural Glitch” refers to a flaw in the Medicare Shared Savings Program (MSSP) that systematically penalizes rural ACOs when they reduce costs. Primary care is the lifeblood of rural medicine and at the center of value-based care. It is crucial that rural areas have the same opportunity as urban areas to be rewarded for delivering better care at lower costs.

What is the Rural Glitch?

In order to measure the performance of the ACO, CMS estimates a counterfactual: *what would have been the total cost of care for the ACO’s patients had they not been in the ACO?* This estimate is called the ACO’s benchmark. Savings are calculated by subtracting the actual cost of an ACO’s Medicare beneficiaries from the ACO’s benchmark. To generate this benchmark, CMS considers two cost sources: (1) the historical costs of the ACO’s patients (historical benchmark), and (2) the costs of patients in the ACO’s region (regional adjustment).

The purpose of the regional adjustment is to reward practices that have lower costs than their regional peers. However, CMS’ method of calculating the regional adjustment undermines this goal. By including the costs of *all* patients in the regional adjustment – those both in the ACO and out – CMS penalizes an ACO for reducing costs relative to its regional competitors. That is, as an ACO reduces the costs of its own beneficiaries, it also reduces the average regional costs. This will ultimately reduce savings for efficient ACOs in all areas, but the effect is most dramatic for rural ACOs because they will tend to care for a greater portion of their region’s total beneficiary population than an urban ACO.

For example, due to the rural glitch, an ACO with 5,000 Medicare beneficiaries that reduces costs by 5% and is in Montgomery County, Maryland, will experience a reduction in its shared savings rate from 50% to 47.5% (that is, CMS will actually retain 52.5% of the savings from the ACO, not 50%). An ACO of identical size and performance in Garland County, Arkansas, will see its shared savings rate drop from 50% to 37.5%. Accordingly, a successful ACO can retain 10% more of its savings just by being located in the D.C. suburbs instead of in a small town in Arkansas.

CMS Tried to Solve the Problem, But Missed the Mark

CMS unsuccessfully attempted to address this flaw in the 2019 MSSP Rule. Instead of the straightforward solution of removing the ACO’s beneficiaries when calculating regional costs, CMS implemented a blend of national and regional inflation. This simply introduces random variation: its impact on an ACO merely depends on whether regional inflation happens to be higher or lower than national inflation. This “correction” does not necessarily benefit ACOs that are actually generating savings.

What Will it Take to Fix it?

The most effective remedy is to directly address the rural glitch: remove the ACO’s beneficiaries when calculating the regional adjustment and regional inflation. CMS could do this through rulemaking at any time. Alternatively, through statute, Congress can ensure that CMS implements this practice.