DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
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Center for Medicare

MAR 1 3 2018

Clif Gaus, Sc.D.
National Association of Accountable Care Organizations
601 13th Street
Suite 900 South
Washington, DC 20005

Dear Dr. Gaus:

We appreciate your letter identifying concerns related to the Accountable Care Organizations (ACOs) historical benchmark for the agreement period beginning in 2016 and the adjustment for savings generated during the prior agreement period. The Medicare Shared Savings Program implemented the adjustment to the historical benchmark for prior savings for ACOs renewing for a second agreement period beginning in 2016 only, and the regional adjustment for ACOs renewing for a second or subsequent agreement period beginning in 2017 and subsequent years, to encourage high performing ACOs to continue their participation in the program. In your letter, you described concerns related to the order of operations used in calculating the adjustment for prior savings of ACOs historical benchmark for the agreement period beginning in 2016.

The limit on the adjustment for prior savings is calculated under a different methodology than the cap that is applied to shared savings payments during financial reconciliation for a performance year (PY). The calculations are intentionally different, to accomplish two separate functions within the Medicare Shared Savings Program.

The goal of the prior savings adjustment is to make an ACO's rebased historical benchmark more reflective of the total cost of care for an ACO's assigned beneficiaries during the prior agreement period and encourage continued participation in subsequent agreement periods, while preventing situations in which the reset benchmark becomes overly inflated based on prior performance to the point where an ACO needs to do little to maintain or change its care practices to generate shared savings. In contrast, the shared savings cap avoids giving ACOs incentives for inappropriate reductions in utilization and expenditures, while rewarding performance for lowering growth in expenditures and meeting quality performance standards.

In the June 9, 2015 Shared Savings Program Final Rule, we described the methodology for determining the adjustment for savings generated in a prior agreement period, and provided a detailed example of how the adjustment for savings would be calculated. The example describes how we determine whether an ACO generated net savings during the prior agreement period, taking into account first dollar savings, and states that for each performance year of the prior agreement period the ACO's total updated benchmark expenditures minus total performance year expenditures may not exceed the performance payment limit for the relevant track.

The amount of net savings for the prior agreement period is then multiplied by the ACO's average final sharing rate, which is based on an average of the ACO's quality performance for all three performance years of the prior agreement period. The adjustment is converted to a per capita amount and is limited to the average number of assigned beneficiaries under the ACO's first agreement period, which ensures the adjustment does not exceed the amount of savings generated as a result of growth in the number of assigned beneficiaries in the second agreement period. More information describing how to calculate the adjustment for prior agreement period savings is also detailed in Section 6.2 of the Shared Savings and Losses and Assignment Methodology Specifications Version 4 available on the the Medicare Shared Savings Program webpage found at https://www.cms.gov/Medicare/Medicare-fee-for-service-payment/sharedsavingsprogram/.

Several of the ACO's listed in your letter had total updated benchmark expenditures minus total performance year expenditures that exceeded the performance payment limit in one or more performance years. For example, in PY 2015, if an ACO's total benchmark expenditures minus total performance year expenditures was $5,000,000 and the performance payment limit was $4,000,000, then the performance payment limit value would be used to calculate the prior savings adjustment. Consistent with the June 9, 2015 Shared Savings Program Final Rule, the prior savings adjustment to the historical benchmark was correctly calculated and the 10 percent or 15 percent limit on the total updated benchmark expenditures minus total performance year expenditures for each performance year was applied in the correct order for the ACOs listed in your letter.

Thank you again for sharing your concern related to the Medicare Shared Savings Program. We appreciate the National Association of ACOs' dedication to support the Centers for Medicare & Medicaid Services initiatives designed to improve and reward value.

Sincerely,

Demetrios L. Kouzoukas
Principal Deputy Administrator and
Director, Center for Medicare