ACO REACH Financial Changes Coming in 2023

Executive Summary

In late July, the Center for Medicare and Medicaid Innovation (Innovation Center) released a series of updated papers that outline the financial methodology of the Accountable Care Organization Realizing Equity, Access, and Community Health (ACO REACH) Model for Performance Year 2023. As expected, the papers include the changes announced earlier this year as part of the Innovation Center's replacement of the Global and Professional Direct Contracting Model with ACO REACH. These include such things as the addition of a benchmark adjustment to account for health equity and serving underserved populations. Changes are limited to those previously announced. Aside from those previously announced updates, the Innovation Center deviates little from the financial specifications to GPDC, which NAACOS outlines in resources including the 2022 update. The Innovation Center did not include adjustments for the impacts of COVID-19 pandemic.

NAACOS continues to advocate for important revisions, including changes to the benchmarking methodology to create a level playing field for organizations experienced in fee-for-service shared savings initiatives and those that are new to these programs. We also continue to monitor the impact of the ongoing COVID-19 pandemic and its implications on use of historical expenditures and risk scores in benchmark calculations.

Following are policy changes from the Performance Year 2023 financial papers:

Stop Loss Changes

ACO REACH will continue to include two cost-mitigation policies: (1) risk corridors; and (2) stop-loss insurance. While there are no changes to the mandatory risk corridors policy, the Innovation Center made significant revisions to the optional stop-loss insurance.

Starting in 2023, the attachment points will be based on *expenditure residuals*, which is the difference in actual total spending and a predicted spending value, calculated for each beneficiary based on regional spending and beneficiary risk scores. Specifically, the Stop-Loss Residual Expenditure is comprised of two components; the Performance Year Expenditure a beneficiary accrues over the course of the Performance Year and the predicted expenditure for the beneficiary in the Performance Year. The predicted expenditure will be calculated as the Performance Year Ratebook Rate (based on county of residence) for the beneficiary, times the beneficiary risk score, times the total months of enrollment in the Performance Year. The stop-loss payout is the amount of the expenditure residual that surpasses the attachment point.

The Innovation Center will continue to apply a per-beneficiary-per-month stop-loss "charge," applied to the ACO's Performance Year Benchmark. This charge is based on the percent of expenditures above each of the ACO's attachment points in the baseline period.

Quality Withhold

Beginning with 2023, the Innovation Center will reduce from 5 percent to 2 percent the quality withhold applied to an ACO's Performance Year Benchmark. For the remainder of the model, the 2 percent quality

withhold will be tied to quality performance, with all measures evaluated as "pay-for-performance." NAACOS advocated for this reduction and is pleased to see its inclusion in ACO REACH.

Health Equity Benchmark Adjustment
As part of its commitment to reducing disparities in care, the Innovation Center will apply a Health Equity Benchmark Adjustment to ACO Performance Year Benchmarks beginning in 2023.

Calculation of Beneficiary Scores
The Innovation Center will assign a score to each aligned beneficiary, determined using a composite methodology consisting of both regional and beneficiary-level measures of deprivation and will be applied at the ACO-benchmark level. Notably, the Innovation Center has NOT formalized its previously announced policy for calculating the beneficiary score (a combination of the Area Deprivation Index and status as a Medicare-Medicaid dually eligible beneficiary) but instead states that it will release this methodology in an upcoming revision to the financial papers.

Application of Beneficiary Scores
After scores are calculated for all aligned beneficiaries, the Innovation Center will normalize the scores into percentiles across the aligned population such that the maximum score can be 100 and the minimum score 1.

For each aligned beneficiary, a beneficiary-month level benchmark adjustment is calculated based on these percentile scores. For each aligned month for each beneficiary with a score in the 90th percentile or above, CMS will add $30 to the ACO benchmark. For each month for each beneficiary scoring below the 50th percentile, CMS will deduct $6 from the ACO benchmark. There's no adjustment to the benchmark for beneficiaries between the 89th and 50th percentiles. This adjustment will apply to an ACO's Benchmark after the Retrospective Trend Adjustment, Discount, Quality Withhold, and Retention Withhold, as applicable.

Risk Adjustment
Beginning in 2024 the Innovation Center is implementing two changes to model's risk adjustment methodology:

(1) The risk score calculation will be modified to accommodate changes in the demographic characteristics of each ACO's aligned population over time. The Innovation Center will calculate risk scores using the demographic risk score model currently applied to the Medicare Shared Savings Program (MSSP). This model predicts beneficiary expenditures using demographic variables that include age, gender, original reason for entitlement code, and Medicaid dual status. There are no HCCs in the model specification.

(2) The risk score growth cap for 2024 will shift from a rolling reference year to a static reference year for growth rate calculations. For 2023, the risk score growth cap will continue to be applied for each Performance Year relative to an annual rolling risk score reference year, which is 2021. However, for 2024 and onward, the reference year will be static for growth rate calculations and the growth cap reference year for 2024, 2025, and 2026 will be 2022 in all cases.

Additionally, the Innovation Center announced that beginning in 2023, ACO REACH and Kidney Care Contracting Models will apply v24 of the CMS-HCC ESRD risk adjustment models.

Discount
The Innovation Center confirmed the reduction in mandatory "discount" applied to Global ACOs. Instead of applying a discount that was set to grow to 5 percent of an ACO's Performance Year Benchmark, the discount

will be set at 3 percent for 2023 and 2024 and increase to 3.5 percent for 2025 and 2026. NAACOS also advocated for this reduction and is pleased to see its inclusion in ACO REACH.