



Connecting the Dots: Potential Implications of the 2022 Direct Contracting Retrospective Trend Adjustment on 2024 MA Benchmark Rates

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Note that this brief assumes the reader has a fairly in-depth understanding of the mechanics underlying benchmark payment rates in the Direct Contracting/ACO REACH and Medicare Advantage programs.

The Punchline

During the Spring of 2022, CMS published the first indication of the retrospective trend adjustment to Direct Contracting (DC) benchmark rates. The result, which will continue to evolve as 2022 experience is tallied, has thus far been a material negative adjustment to 2022 benchmark rates. This means that 2022 emerging experience has been less costly than projected at the time when the DC benchmark rates were established. The projected 2022 DC rates were based on an adjusted version of the trend projection factors underlying the annual Medicare Advantage (MA) rate announcement. The population of less-costly-than-anticipated beneficiaries that was measured for 2022, known as the DC National Reference population, represents the majority of the overall Medicare FFS population. CMS expectations for the cost of the Medicare FFS population serves as the primary basis for MA rates. The most recent published [MA rate projections](#) suggest that the lower-than-expected cost experience for 2022 has not yet been accounted for in MA rates. We believe that CMS will account for this change as part of the 2024 Advance Notice and, **all else equal**, could drive a material (likely **mid-single digit %**) headwind to 2024 MA rates.

The expected material retrospective trend adjustment headwind may be offset, in whole or in part, by other MA revenue variables. CMS assumption for cost trends from 2022 to 2023 (5.4% per the 2023 Rate Announcement) and 2023 to 2024 (5.0% per 2023 Rate Announcement) may be boosted by inflationary pressure. Additionally, we expect the FFS normalization factor, which has most years represented a modest annual headwind to rates - to potentially represent a material tailwind for 2024. CMS also has a history of implementing methodological changes in the FFS Normalization calculation that neutralize other MA rate variables. Considering the known industry Star Rating challenges for payment year 2024 and looming Risk Adjustment Data Validation (RADV) rule, the 2024 MA rate announcement cycle will surely be one of consequence and interest for MA actuaries and policy experts alike. In Dad joke parlance, grab your popcorn and spreadsheets!

Quick Background on the DC Retrospective Trend Adjustment

When the Innovation Center of the Center for Medicare and Medicaid Services (CMS) introduced the Global and Professional Direct Contracting Model (also known as GPDC - which recently transitioned to the redesigned Accountable Care Organization Realizing Equity, Access, and Community Health, or

ACO REACH, Model on January 1, 2023), a key component to the model was the implementation of a prospective trend factor. This factor was used to develop the county-level Rate Book as well as to trend forward an ACO’s historical baseline expenditures to establish the Performance Year (PY) benchmark.

To prevent unintended consequences of any variance between the prospective trend projections and actual cost experience, CMS retained the authority to apply a retrospective adjustment to benchmarks. The COVID-19 pandemic has driven volatile claims experience and made it difficult to accurately project trend factors. The retrospective trend adjustments implemented so far have represented a material negative adjustment to PY 2022 benchmarks. This means that actual costs in 2022 have come in lower than implied by prospective trend factors.

Refer to Wakely’s earlier whitepaper [Demystifying the Retrospective Trend Adjustment in Direct Contracting and ACO REACH](#) for a comprehensive explanation.

What is the connection between the retrospective trend adjustment and MA benchmark payment rates?

The FFS USPCC Non-ESRD growth rate is developed annually by the CMS Office of the Actuary (OACT) and published each April as part of the annual MA Rate Announcement. This rate directly drives MA benchmark payment rates per the revised MA benchmark payment rate formula implemented as part of the Affordable Care Act. When CMS releases its estimates, it not only presents forward-looking projections for future years. It also refreshes and reconciles historical years to account for emerging actual experience (refer to the “Ratio” column in the Figure below for an indication of the impact of forward-looking estimate changes and backward-looking true-ups of actual experience by year)

Figure 1: FFS USPCC – Non-ESRD Rate Estimates in the CY2023 MA Final Rate Announcement

Calendar year	Part A		Part B		Part A + Part B		Ratio
	Current estimate	Last year’s estimate	Current estimate	Last year’s estimate	Current estimate	Last year’s estimate	
2010	\$371.20	\$371.20	\$373.99	\$373.99	\$745.19	\$745.19	1.000
2011	371.15	371.15	382.92	383.01	754.07	754.16	1.000
2012	356.97	356.97	390.45	390.54	747.42	747.51	1.000
2013	363.75	363.75	394.24	394.32	757.99	758.07	1.000
2014	364.24	364.24	408.89	408.91	773.13	773.15	1.000
2015	369.37	369.36	427.73	427.79	797.10	797.15	1.000
2016	371.57	372.11	433.36	433.39	804.93	805.50	0.999
2017	373.64	374.66	448.06	448.16	821.70	822.82	0.999
2018	377.84	378.69	473.79	474.12	851.63	852.81	0.999
2019	383.05	383.40	500.77	500.57	883.82	883.97	1.000
2020	372.68	364.08	473.99	468.10	846.67	832.18	1.017
2021	388.34	397.12	546.76	532.57	935.10	929.69	1.006
2022	424.46	434.65	598.85	593.73	1,023.31	1,028.38	0.995
2023	448.03	440.27	630.60	616.33	1,078.63	1,056.60	1.021
2024	465.39	456.98	666.68	650.46	1,132.07	1,107.44	1.022
2025	484.86		701.28		1,186.14		

Source: 2023 MA Final Rate Announcement

The key conceptual question in play is as follows: Is there a read-through to MA rates from the significant retrospective trend adjustment applied in the Direct Contracting program?

In order to answer this question, we need to answer 2 more detailed questions:

1. How much overlap is there between the DC National Reference population used to derive the retrospective trend adjustment and the overall Medicare FFS population that underlies the MA benchmark rates?
2. Has CMS accounted for the 2022 observed experience in its historical rate releases already?

The straightforward answer to #1 is **significant** overlap. We estimate that the DC National Reference population represents more than 80% of the Medicare FFS population. Therefore, we believe that the trends observed (materially lower-than-expected cost for 2022) for this population are highly likely to be evident in the broader Medicare FFS population.

With respect to #2, we do not believe that CMS has accounted for the lower-than-expected 2022 costs just yet. See below for what we believe to be the most recent CMS releases reflecting its take on 2019 to 2022 FFS USPCC trends. As you can see, the significant variance between the prospective trends and the emerging DC experience has not yet been reflected in MA Rate Announcements. We believe that this update will be reflected in the 2024 Advance Notice to be released in just a few weeks. The disparity presented below is based on experience through August 2022. It will continue to evolve as 2022 experience settles out due to flu and other late 2022 cost patterns, likely narrowing the observed gap and partially mitigating the adverse retro trend adjustment impact.

Figure 2: USPCC Rates Underlying Recent CMS Rate Announcements

Calendar Year	FFS USPCC Non-ESRD (Part A + Part B) Projected Cost						Direct Contracting Program Trends	
	MA Rate Announcements - Section A						Section B	Section C
	2021 Final Rate Ann. (April 2020)	yty Trend	2022 Final Rate Ann. (April 2021)	yty Trend	2023 Final Rate Ann. (April 2022)	yty Trend	Adjusted USPCC used for DC PY22 Prospective Trend	DC National Reference Population Through Aug 22
2019	\$886.51	4.5%	\$883.97	3.7%	\$883.82	3.8%	\$895.50	\$914.06
2020	\$932.34	5.2%	\$832.18	-5.9%	\$846.67	-4.2%		
2021	\$975.06	4.6%	\$929.69	11.7%	\$935.10	10.4%		
2022	\$1,015.84	4.2%	\$1,028.38	10.6%	\$1,023.31	9.4%	\$1,039.87	\$984.52
2023	\$1,065.05	4.8%	\$1,056.60	2.7%	\$1,078.63	5.4%		
2024	NA	NA	\$1,107.44	4.8%	\$1,132.07	5.0%		
2025	NA	NA	NA	NA	\$1,186.14	4.8%		
2019 to 2022 Total Trend	14.6%		16.3%		15.8%		16.1%	7.7%

CMS has yet to account for this disparity in the FFS estimates underlying MA Rates. We expect that the gap will narrow as 2022 experience runs out, considering flu and other late 2022 cost variables.

Sources: CMS Final Rate Announcements and Direct Contracting Webinars

Importantly, note that Sections A, B, and C above do not represent apples-to-apples comparisons (the reader should not compare across sections due to methodological/population differences). Rather, the emphasis is on the total trend/slope from 2019 to 2022.

Will other MA rate variables such as the 2022 to 2024 trend and FFS Normalization factor neutralize this anticipated material headwind? We will find out in a few weeks!

Please contact Tim Murray (tim.murray@wakely.com), Brad Heywood (brad.heywood@wakely.com), or Brian Machut (brian.machut@wakely.com) if you have any questions or want to discuss.

OUR STORY

Five decades. Wakely began in 1969 and eventually evolved into several successful divisions. In 1999, the actuarial arm became the current-day Wakely Consulting Group, LLC, which specializes in providing actuarial expertise in the healthcare industry. Today, there are few healthcare topics our actuaries cannot tackle.

Wakely is now a subsidiary of Health Management Associates. HMA is an independent, national research and consulting firm specializing in publicly funded healthcare and human services policy, programs, financing, and evaluation. We serve government, public and private providers, health systems, health plans, community-based organizations, institutional investors, foundations, and associations. Every client matters. Every client gets our best. With more than 20 offices and over 500 multidisciplinary consultants coast to coast, our expertise, our services, and our team are always within client reach.

Broad healthcare knowledge. Wakely is experienced in all facets of the healthcare industry, from carriers to providers to governmental agencies. Our employees excel at providing solutions to parties across the spectrum.

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Our Mission: We empower our unique team to serve as trusted advisors with a foundation of robust data, advanced analytics, and a comprehensive understanding of the health care industry.

We go beyond the numbers

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