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ACO REACH Program

Demystifying the Retrospective Trend Adjustment: Implications for Performance Years 2022 and 2023

When the Innovation Center at the Center for Medicare and Medicaid Services (CMS) introduced the Global and Professional Direct Contracting Model (also known as GPDC - which will transition 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 would be used in the development of the county-level Rate Book, as well as to trend forward an ACO's historical baseline expenditures to the Performance Year (PY) in establishing the ACO's benchmark. To prevent ACOs from being unfairly financially disadvantaged or rewarded as a result of major deviations from this prospective trend that were a result of factors outside of the control of ACOs, CMS retained the authority to apply a retrospective adjustment to the benchmark in such cases. Now, as a consequence of the COVID-19 pandemic making it increasingly difficult to project prospective trend factors, the retrospective trend adjustment has been the source of much confusion and consternation in the early stages of the GPDC / ACO REACH model.

Within this paper, we attempt to shed light on what the retrospective trend adjustment is, how it is calculated, and the implications of the adjustment on GPDC (ACO REACH) participants' benchmarks. At the end, we discuss how the recently released PY2023 Rate Book is likely to influence retrospective trend adjustments heading into 2023.

Prospective USPCC Trend and Rate Book Background

To understand the rationale for the retrospective trend adjustment, it is important to first acknowledge how CMS utilizes a prospective trend factor in the establishment of the county-level Rate Book and resulting ACO benchmark.

In the GPDC / ACO REACH model, an ACO's benchmark is dependent on the published county-level Rate Book. To determine the Rate Book for a Performance Year[1], CMS trends forward the historical per-beneficiary-per-month (PBPM) cost of the GPDC / ACO REACH National Reference Population[2] by a prospective trend factor that is based off the projected, adjusted, US Per Capita Cost (USPCC) growth

[1] Exact details of how the Rate Book is developed are outside the scope of this white paper

[2] The National Reference Population is the full population of beneficiaries eligible for alignment to an ACO in GPDC / ACO REACH

trend. The USPCC growth trend[3] is developed annually by the CMS Office of the Actuary (OACT) and published each April as part of the annual Medicare Advantage Rate Announcement. Importantly, this growth trend is determined in the April *preceding* the performance year (i.e. the growth trend used to set the PY2022 Rate Book were based on the USPCC trends released in April of 2021). This USPCC developed by OACT is adjusted from the standard FFS (Fee For Service) USPCC to align with the underlying risk of the ACO REACH population, such as including hospice costs, etc…

Table 1 displays an example of the pertinent information CMS used to develop the Rate Book for PY2022. Note that only the Non-ESRD (also known as Aged & Disabled) numbers are reported here, but separate estimates exist for the ESRD population.

Table 1: PY2022 USPCC and Rate Book Inputs

Year	2019	2020	2021	2022
Non-ESRD, Adjusted FFS USPCC Current Estimate	$895.50	$844.05	$941.96	$1,039.87
Non-ESRD, Adjusted FFS USPCC Trend		-5.7%	11.6%	10.4%
Non-ESRD National Conversion Factor	$921.46			$1,070.02

Using Table 1, we can walk through the high-level steps taken by CMS to determine the PY2022 county-level PBPM Rate Book:

1. CMS takes the adjusted USPCC estimates to calculate a three-year trend factor from 2019 to 2022 of 16.1% [(1,039.87 / 895.50) -1 = 16.1%]

2. CMS then calculates the GPDC / ACO REACH National Reference Population PBPM expenditures in 2019 of $921.46

3. The National Conversion Factor used in the PY2022 Rate Book is then calculated by trending forward the 2019 National Reference Population PBPM expenditure by the projected USPCC growth rate, resulting in a PBPM of $1,070.02 [$921.46 * (1+16.1%)]

4. The final county-level rates in the PY2022 Rate Book are calculated by taking the National Conversion Factor of $1,070.02 and multiplying by county-specific relative cost indices

The Retrospective Trend Adjustment

How it works: CMS stipulates that if the adjusted USPCC trend differs by at least 1% from the observed expenditure trend in the National Reference Population, a retrospective trend adjustment will be applied to the benchmark to reflect the difference. In other words, the retrospective trend adjustment is borne from a difference in actual versus expected trends for the National Reference Population. Taking PY2022 as an example, CMS has calculated that the *observed* trend from 2019 to 2022, year-to-date, has been 4.4%. This is 10.1% **lower** than the projected 16.1% trend using the adjusted USPCC estimates from

[3] CMS uses a modified USPCC growth trend for GPDC / ACO REACH, adjusted to remove uncompensated care and include hospice

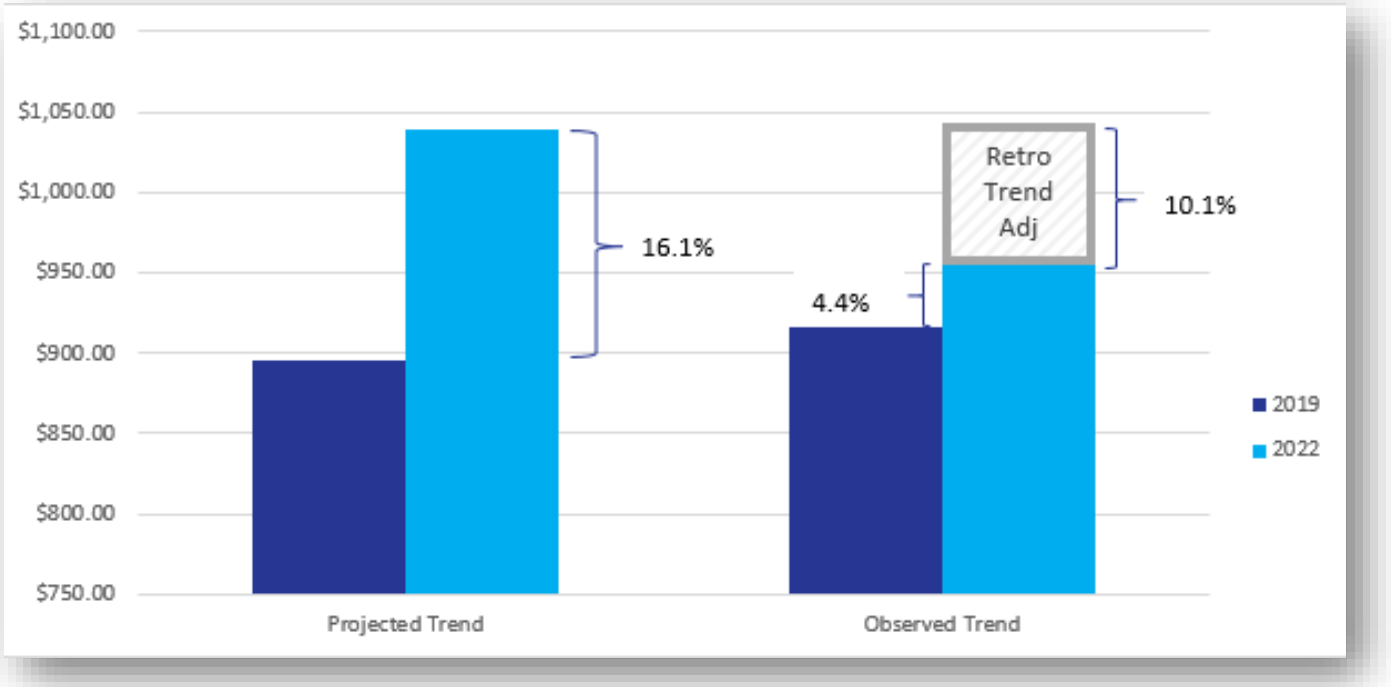
above [(1+4.4%) / (1+16.1%) – 1 = 10.1%]. Since this difference of 10.1% in the projected versus observed trend is greater than 1%, a retrospective trend adjustment is applied directly to each participating ACO's benchmark, reducing the benchmark by 10.1%.

Table 2 outlines CMS's most recent PY2022 retrospective trend calculation, as of the GPDC Quarter 2 Benchmark Reports. Figure 1 provides a visual aid representing the same calculation. It is important to note that the current CMS retrospective trend adjustment of -10% is an *estimate* – the retrospective trend adjustment will not be official until the Final Settlement, which will compare observed full-year 2022 claims with 3 months of runout against observed full-year 2019 claims with 3 months of runout.

Table 2: Calculation of Retrospective Trend Adjustment, PY2022 Aged & Disabled Only

	2019	2022	Trend
Adjusted USPCC used for PY22 Prospective Trend	$895.50	$1,039.87	16.1%
Observed PY22 YTD Nat. Reference Expenditures - PBPM	$916.97	$957.69	4.4%
Implied Retro Trend Adj. to Benchmark			**0.899 (-10.1%)**

Figure 1 – Visual Representation of Retrospective Trend Adjustment



Why it matters: When the GPDC / ACO REACH model was first developed, one of the reasons for using a prospective, USPCC-based trend factor was to base the calculation of the benchmark, in part, on exogenous factors, meaning factors less likely to be influenced by the individual ACO or collective performance of ACOs. The use of a prospective trend factor was thought to allow for improved planning and provide a target for ACOs to compare their performance against. Indeed, prior to the COVID-19 pandemic, CMS indicated that it was unlikely for the prospective trend to differ by greater than 1% from actual experience. As a result of the pandemic, however, it has become increasingly difficult to predict medical expenditure trends, and the retrospective trend adjustment was intended to function as a safeguard to both CMS and participating ACOs against unfairly assessed savings or losses due to inaccuracies in the prospective trend predictions.

Fast forward to today, and CMS is currently reporting a PY2022 retrospective trend adjustment of about -10%, which is a direct and significant negative adjustment to participating ACOs' benchmarks. On one hand, the retrospective trend adjustment is doing exactly what it was intended to do, which is to account for situations in which the observed National Reference expenditure trend is significantly different than projected. This is currently the case as it appears that the 2019-to-2022 USPCC trends are likely significantly overstated. On the other hand, the retrospective trend adjustment has been met with much consternation from ACOs and affiliated parties as the volatility in the reported retrospective trend estimates each quarter has made benchmarks increasingly difficult to estimate. CMS modifications to the calculation have resulted in additional uncertainty. Consequently, it has become critical for ACOs to understand how the retrospective trend adjustment is calculated and how to estimate final retrospective trend adjustments as ACOs prepare PY2022 settlement projections and prepare for PY2023.

Implications for PY2023

With CMS having recently published the 2023 ACO REACH Rate Book, ACOs can start to plan ahead on what PY2023 may look like from a retrospective trend adjustment perspective. Table 3 outlines the important parameters used in the development of the 2023 Rate Book. Again, only values for the Non-ESRD population are shown here.

Table 3: PY2023 USPCC and Rate Book Inputs

Year	2021	2022	2023
Non-ESRD, Adjusted FFS USPCC Current Estimate	$947.64	$1,038.09	$1,094.23
Non-ESRD, Adjusted FFS USPCC Trend	—	9.5%	5.4%
Non-ESRD National Conversion Factor	$967.63	—	$1,117.32

In looking at the PY2023 Rate Book, we see that the 2021-to-2022 projected USPCC trend is 9.5%. This, coupled with an expected 2022-to-2023 trend of 5.4% results in a projected ACO REACH National Reference population PBPM expenditures of $1,117.32 in 2023. This value will then be adjusted by county-level relative cost indices to develop the county-specific rates in PY2023 and form the basis for the ACO REACH benchmarks in 2023.

Key Takeaways: What sticks out immediately from the PY2023 Rate Book parameters is that the adjusted FFS USPCC values for 2021 and 2022 are quite similar to the per capita estimates in the PY2022 Rate Book (refer to Table 1 above).

*This leads us to believe the ACO REACH program is **likely to experience another year of large, negative retrospective trend adjustments in PY2023***

To expand further by means of an example, let's assume that the estimated 2022-to-2023 trend of 5.4% will perfectly project observed expenditure trends in the ACO REACH National Reference Population from 2022 to 2023. In order for there to be zero retrospective trend adjustment in PY2023, 2022 National Reference expenditures would need to reach a value of $1,060 PBPM [$1,117.32 / (1+5.4%)]. At the same time, CMS is currently reporting observed 2022 National Reference expenditures of $974[4] with claims incurred through June and paid through July (and with IBNR applied). This means that the 2022 National Reference PBPM expenditures would need to increase 9% ($1,060 / $974 = 9%) over what is currently being reported year-to-date in order for there to be zero retro trend adjustment in PY2023. Given this is unlikely to occur (and barring any major increase in trend from 2022-to-2023 over expectations), we believe it is likely that there will be a significant negative retro trend adjustment again in 2023. This would decrease benchmarks and may create similar difficulties in projecting 2023 financials as has been experienced in 2022.

It may seem perplexing how CMS could be reporting year-to-date 2022 expenditures that are significantly lower than the USPCC-based expectations used in the 2022 Rate Book, but then continue to use elevated 2022 trend expectations in the 2023 Rate Book. Said another way, why hasn't this apparent disconnect in 2022 observed versus expected expenditures been corrected for in the 2023 Rate Book? Recall that the USPCC trends are published annually in April at the time of the Medicare Advantage Final Rate Announcement. This means that the USPCC trends used to build the PY2023 Rate Book were likely developed by the actuaries at CMS well ahead of the April 4, 2022 release date, at a time when little emerging 2022 experience would have been available to inform the trend projections. Due to these timing constraints, it appears that the PY2023 Rate Book is likely overstated for another year.

Conclusion

From the above discussion, we see that the retrospective trend adjustment has the ability to move benchmark estimates and create significant volatility quarter over quarter when CMS releases their estimates of the adjustment factor. Relying upon the estimates provided within each quarterly benchmark report has led to frustration and confusion from many groups as they see material differences within their financial reporting. Starting in early August, CMS has noted that they will begin releasing Monthly Expenditure Reports (MER) that will include the national reference data that builds up this adjustment.

Here at Wakely, we continue to review this adjustment and the MER from CMS to refine the retrospective trend adjustments to help current Direct Contracting Entities project what this factor might ultimately result

[4] The provided value was calculated using the most recent DC National Reference Population Monthly Expenditure Report published by CMS as of the time of writing

in for PY2022, and strategically think through how it might progress in 2023. While this adjustment is still a large unknown factor for PY2022, these estimates help provide groups with a more stable benchmark estimate to help mitigate material changes to their financials.

If this is something that your group is concerned or frustrated with as you see large swings within your benchmark reports, Wakely can help make sense of the adjustment and provide more stable estimates.

Please contact Brad Heywood at Brad.Heywood@wakely.com or Brian Machut at Brian.Machut@wakely.com with any questions or to follow up on any of the concepts presented here.

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.

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