



AN UPDATE ON THE RETROSPECTIVE TREND ADJUSTMENT IN DIRECT CONTRACTING AND ACO REACH

Brian Machut, FSA, MAAA
612.716.7988 • brian.machut@wakely.com

Brad Heywood, ASA, MAAA
720.221.9601 • brad.heywood@wakely.com

Note that this brief assumes the reader has a basic understanding of the Centers for Medicare and Medicaid Services Innovation Center (CMMI) Global and Profession Direct Contracting and ACO REACH programs.¹²

A Refresher on the Retrospective Trend Adjustment

When CMMI designed the Global and Professional Direct Contracting Model (GPDC) and ACO REACH programs, a cornerstone of the programs' financial methodology was the development of a prospectively set, county-level rate book which would serve as the foundation for each ACO's Performance Year (PY) benchmark. To set the prospective rates, CMMI would take a National Reference Population's³ expenditure from a previous year (e.g., 2019 expenditures were used to project PY2022 rates) and trend the expenditures forward to the performance year using an adjusted version of the U.S. Per Capita Cost (USPCC) trend⁴.

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 if the adjusted USPCC trend differed by more than 1% from the observed expenditure trend in the National Reference Population. To-date, all indications from CMS point to 2022 National Reference expenditures coming in well below projected, resulting in a likely significant retrospective trend adjustment (RTA) that will decrease ACO's PY2022 benchmarks relative to initial estimates. For this reason, the RTA has become one of the more contentious aspects of GPDC and ACO REACH.

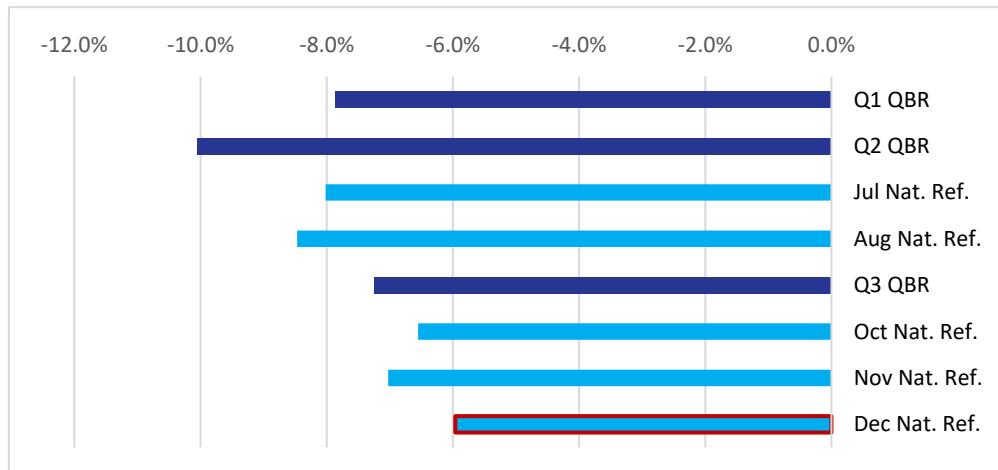
For a more comprehensive explanation of the RTA, refer to Wakely's earlier whitepaper [Demystifying the Retrospective Trend Adjustment in Direct Contracting and ACO REACH](#).

Tracking the 2022 RTA – Where are we now?

CMMI has provided two sources of RTA information in 2022—through Quarterly Benchmark Reports (QBRs) and monthly National Reference Population data files. In early 2022, the QBRs were the only way to track the development of the RTA. Midway through the year, CMMI began releasing monthly National Reference Population data reports to program participants which contain an aggregation of expenditures for all Medicare beneficiaries eligible for alignment, along with the latest RTA estimate. The latest such estimate, released on January 18, 2023, points to a current RTA of -6.0%—the smallest adjustment we have seen to-date in 2022. Figure 1 below provides a chronology of RTA estimates throughout the year, as pulled from QBRs and monthly National Reference files.

Recent CMMI reports estimate a current RTA of -6.0%—the smallest adjustment to-date in 2022

Figure 1: CMMI RTA Estimates Throughout 2022



As shown in Figure 1, there has been significant volatility in the RTA estimates throughout the year. The last three monthly estimates, however, have generally come down from earlier reports and have fallen within a range of -6.0% and -7.0%. Other factors, such as an abnormally early and severe flu season, may not be fully reflected in the data yet and may result in further reductions to the RTA estimate in the coming months. As a reminder, the PY2022 RTA will not be finalized until claims incurred through December, with three additional months of claims runout, is available.

Getting ahead for 2023 – What can we expect?

In August of 2022, Wakely released an initial white paper report, [Demystifying the Retrospective Trend Adjustment in Direct Contracting and ACO REACH](#) (same as referenced above), following the publication of the PY2023 ACO REACH rate book. Based on where PY2022 National Reference Population expenditures were emerging at the time, and comparing against the published PY2023 rate book, we stated that PY2023 was likely to experience another year of an RTA that would downward adjust ACO's initial benchmarks. While emerging YTD 2022 National Reference Population expenditures have since appeared to come up in recent months, it is still our belief that an RTA will apply again in PY2023, reducing benchmarks from initial rate-book-based estimates.

We believe the ACO REACH program is still likely to experience negative RTA adjustments again in PY2023

In a recent webinar hosted by CMMI to welcome PY2023 ACO REACH participants, CMMI indicated that initial RTA estimates **will not be included in QBRs until the Q3 report comes out in October-November of 2023**. Monthly National Reference Population reports, however, will still be made available. As such, it will be important for ACO REACH participants to build models to project the PY2023 RTA throughout the year. Failure to do so, and relying solely on QBRs, may result in overly optimistic projections of financial performance.

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

OUR STORY

Weekly's Expertise

We move fast to keep our clients ahead of the healthcare curve.

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.

Your advocate. Our actuarial experts and policy analysts continually monitor and analyze potential changes to inform our clients' strategies – and propel their success.

Deep data delivery. Because of Wakely's unique access to various data sources, we can provide insights that may not be available from other actuarial firms.

Learn more about Wakely Consulting Group at www.wakely.com

¹ <https://innovation.cms.gov/innovation-models/gpdc-model>

² <https://innovation.cms.gov/innovation-models/aco-reach>

³ The National Reference Population is the full population of Medicare FFS beneficiaries eligible for alignment to an ACO in GPDC/ACO REACH

⁴ More information on Adjusted USPCC can be found on Page 15 of the ACO REACH Financial Operating Guide, <https://innovation.cms.gov/media/document/aco-reach-py2023-financial-op-guide>

Appendix – Incurred and Paid Dates Associated with 2022 CMMI RTA Estimates

Report	Claims Incurred Through:	Claims Paid Through:
Q1 QBR	March	April
Q2 QBR	May	June
July National Reference Population Report	June	July
August National Reference Population Report	July	August
Q3 QBR	August	September
October National Reference Population Report	September	October
November National Reference Population Report	October	November
December National Reference Population Report	November	December