WHITEPAPER

FOUR PILLARS FOR SUCCESSFUL RISK MANAGEMENT IN VALUE-BASED CONTRACTS

Strategic Approaches for ACOs to Navigate and Thrive in Value-Based Care

Executive Summary

Value-based contracts (VBCs) have rapidly become the cornerstone of the transition from fee-for-service to outcomes-focused reimbursement in the US healthcare system. While these risk-based contracts offer the potential for significant financial upside, they require robust strategies to manage and mitigate risk. This white paper outlines four foundational pillars for risk management that ACOs must address to achieve sustainable performance: Underwriting and Contracting, Risk Adjustment, Care Management, and In-Year Forecasting. Each pillar is vital to effective risk management, improved patient outcomes, and financial sustainability.

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Introduction

The shift to value-based care has reshaped incentives for providers and payers alike. ACOs, as stewards of population health and cost efficiency, play a critical role in this transformation. ACOs, through value-based contracts, are accepting insurance risk from CMS and other payer partners. Insurance risk means ACOs are agreeing to take a fixed payment in exchange for the obligation to cover all future expenses for their beneficiaries. With this transfer of risk and increasing levels of downside risk, ACOs must adopt a comprehensive framework for risk management. This white paper offers a practical road map that highlights key considerations and action steps for navigating value-based contracts.

Effective risk management begins with the ACO identifying their risk profile and risk tolerance. For instance, ACOs should be asking themselves the following questions:

> *What are your ACO's core competencies? Does your clinical model work best in the community, institutional, or home setting? Are you focused on urban or rural populations? Do you have a clinical model that is software based, or do you rely on boots on the ground? Does your ACO focus on high-need beneficiaries or younger and healthier beneficiaries?*

Once you can articulate the risk profile that fits your care model the best, it is time to review risk tolerance. Insurance risk is predictable but there can be significant variance year-to-year depending on the macro environment, population size, and risk profile. Your ACO needs to understand the variance of your risk profile and of your organization. For some ACOs, a $1 million variance could be manageable; for others, it could be catastrophic. Before looking at the potential savings a value-based contract could provide, it is important to understand your ACO's risk tolerance.

PILLAR 1: UNDERWRITING AND CONTRACTING

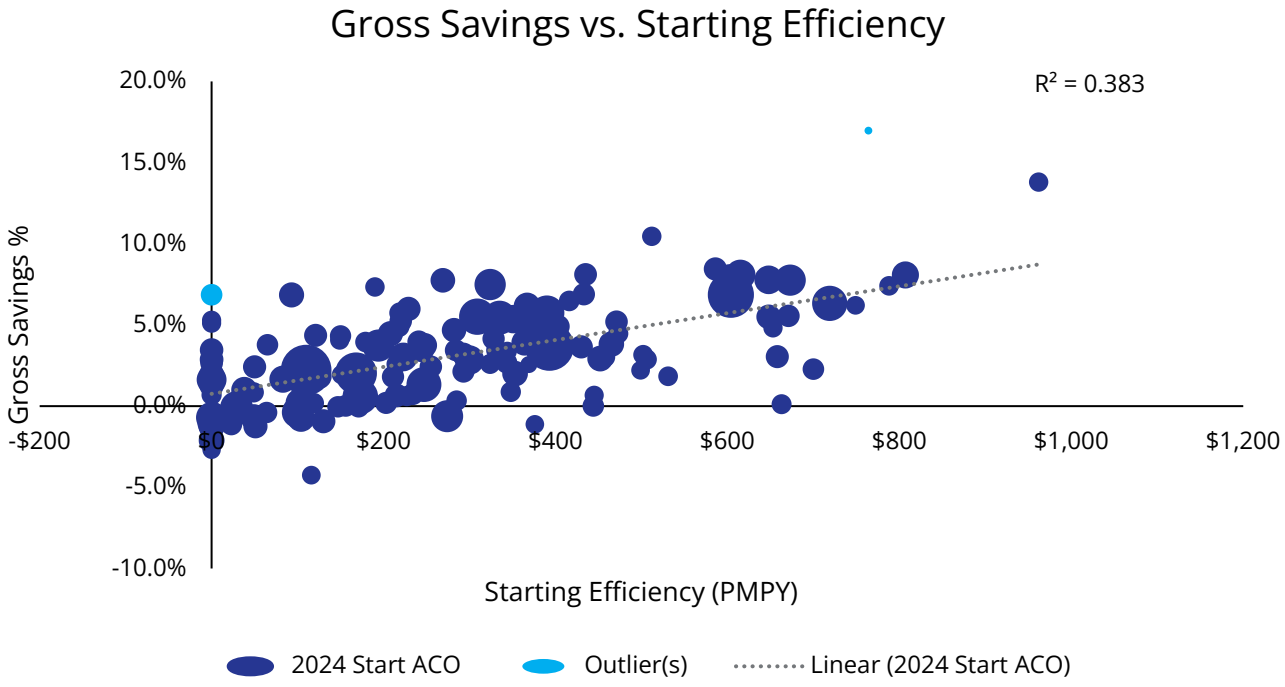
The Importance of Sound Underwriting

Once you establish your ACO's risk profile and risk tolerance, you can begin the underwriting process. Underwriting involves the assessment of an attributable population and its risk, building program-specific benchmarks, estimating future trends, and ultimately optimizing the ACO risk path. Accurate underwriting is a key component of managing the overall risk exposure.

Accurate underwriting goes beyond point estimates—
it requires a deep understanding of the full range of possible outcomes, both on the benchmark and expenditure side.

Rather than focusing on a single predicted result, successful ACOs must identify the true bookends of performance: the best- and worst-case scenarios that could materialize under various market, population, or policy conditions. By mapping out this spectrum and zeroing in on the most probable outcomes, organizations can more completely grasp their total risk exposure. This approach empowers leadership to make informed decisions about contract terms, risk corridors, and operational planning, ultimately providing a sturdier foundation for sustainable value-based success.

ACOs should ask themselves: how confident am I in the baseline savings within my ACO, before interventions? ACOs without a clear understanding of their ideal risk profile and a strategy to underwrite and optimize their network construction for that profile may be missing out on significant cost savings. Even worse, they may be accepting an unknown risk or a profile they are not equipped to handle. Whether you are a REACH or MSSP ACO, an ideal partner should have the capabilities to help you identify your risk profile and provide program-specific tools, built using the 100 percent FFS database to underwrite future year risk. To illustrate how critical underwriting is to performance, consider the chart below. For MSSP ACOs starting a new agreement period in 2024, 38 percent of gross savings can be attributed to the ACO's starting efficiency (regional adjustment or savings from prior agreement period).



A strategic underwriting partner should offer tools that enable ACOs to simulate different network configurations, forecast financial outcomes based on variable trends, and stress-test contract terms against historical performance. ACOs are typically looking for four types of support:

- **New ACOs that need to model the risk profile of participating providers.** These ACOs often have insights into some of their providers, but not necessarily all or in aggregate. CMS provides membership estimates at the TIN level, but they do not provide any historical benchmark, risk scores, or efficiency metrics.
- **Established ACOs that are looking to make strategic additions or subtractions to their existing ACO's network.** Regional health systems are often asked by their local primary care providers or affiliated providers to join their ACO. These decisions can have unknown consequences if the ACOs cannot evaluate potential new groups compared to existing providers.
- **Providers looking to join an existing ACO or ACO convenor.** The contractual terms around joining an existing ACO will be impossible to model without understanding your provider's historical performance. For example, if analyzing your historical benchmark and performance projects a 3 percent gross savings, that could have implications on how much risk you are willing to take. It may be better to pay a management fee to the convenor than split savings 50/50.
- **ACO convenors.** These ACOs have large growth teams that talk to primary care and specialist groups every week. These teams need a quick way to evaluate historical performance and generate contracting terms.

Sophisticated data analytics, actuarial modeling, and benchmarking resources are essential, empowering organizations to make confident decisions and negotiate risk corridors that reflect the true profile of their membership. Such expertise allows for transparent performance comparisons and supports the identification of actionable opportunities for network optimization. By leveraging specialized underwriting capabilities, ACOs can more reliably anticipate future cost opportunities, refine their attribution methodologies, and proactively manage risk exposure as the market continues to evolve.

In summary, the success of any ACO's underwriting strategy hinges on partnering with organizations that possess both robust data resources and advanced actuarial expertise. By ensuring that their partners can offer comprehensive analytics and deep actuarial insight, ACOs position themselves to carry out nuanced risk assessments, optimize network composition, and negotiate contracts that reflect the true complexity of their population. This blend of data-driven intelligence and actuarial proficiency is essential for navigating the uncertainties of value-based care and achieving long-term financial sustainability.

PILLAR 2: RISK ADJUSTMENT

Foundations of Risk Adjustment

Accurate risk adjustment is critical to ensuring that ACOs are fairly compensated for the acuity of their population.

Accuracy in this context comes down to documentation. ACOs should make sure that chronic conditions are consistently documented annually, suspect conditions are properly assessed, and any coding gaps are thoroughly closed. This ensures that the documented risk of the population is a true depiction of their anticipated healthcare needs and consumption, thereby allowing for better alignment of revenue (benchmark) and healthcare expenditure. Given that the population risk score resets each calendar year, this redocumentation effort can be a massive operational lift for providers.

In addition to the operational challenge, many ACOs struggle with estimating and projecting the current year risk score and associated downstream revenue. Lags in risk score production schedules create blind spots for providers in determining their full-year risk score, especially in the first half of the performance year. To best address this challenge, ACOs need reliable analytics and actuarial support to accurately forecast full-year risk scores. ACOs in full risk arrangements (Enhanced MSSP, Global ACO REACH, or MA contracts) should be able to:

1) Quantify current year risk scores (prior year diagnosis) to model the financial impact to benchmarks
2) Forecast year-to-date risk scores to estimate the full-year risk scores
3) Monitor monthly YTD annual wellness visits (AWVs) or other risk score re-validation efforts relative to a benchmark of a well-managed population or prior year performance

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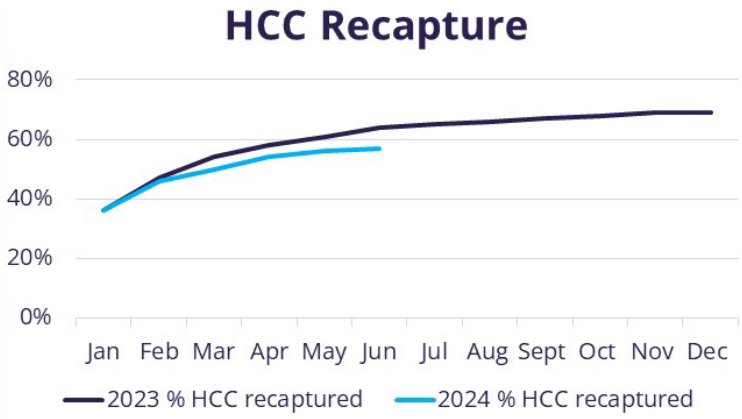
The exhibits below are examples of the types of analytics that ACOs should be monitoring monthly to help inform their risk adjustment strategy:

Client RAF Projections	
Current YTD RAF:	0.853
Projected RAF (EOY):	1.111
2023 Final RAF:	1.020
2024 Final RAF:	1.045
Δ vs. Prior Year:	*5.6%*

Benchmark	2023 RAF	Client vs. BMRK
Top ACOs	1.250	-11.1%
Middle ACOs	1.100	1.0%
Bottom ACOs	0.950	17.0%

Tracks YTD RAF and compares the projected EOY RAF to prior-year periods and benchmark ACOs to orient user to progress of YTD risk adjustment. Helps to understand progress against financial goals/budgeting.



Tracks YTD recapture of chronic HCCs compared to prior-year period. Provides visibility into YTD operational performance and whether resource reallocation may be necessary to hit recapture goals.

Leveraging advanced analytics and predictive modeling can provide a more accurate understanding of future risk, allowing organizations to allocate resources effectively, anticipate financial outcomes, and manage their patient populations proactively. It is imperative that organizations in value-based contracts get visibility early in the performance year to build clinical documentation strategy.

ACOs should ensure that they have an actuarial partner who maintains a robust process to estimate risk scores, project a range of full-year outcomes based on historical completion and recapture rate data and provide clients with insights into their biggest areas of opportunity. In addition to robust analytics, ACOs should seek out an actuarial partner who can deliver forward-looking guidance on looming policy changes, model updates, and evolving coding and normalization trends.

By understanding how these factors will shape future revenue streams, organizations can make strategic decisions with confidence and anticipate the impact of regulatory shifts and industry developments well ahead of time. The combination of advanced analytics and expert actuarial consulting will increase an ACO's confidence in financial projections and provide an operational blueprint for clinical documentation efforts.

PILLAR 3: CARE MANAGEMENT

Effective and Targeted Care Management

Bending the cost curve takes a tremendous amount of coordination, planning, and operational expertise. It is critical for ACOs to be analyzing advanced data and analytics to guide them to their biggest areas of opportunity. Groups that attempt to bite off the entire Total Cost of Care (TCOC) elephant risk being paralyzed by the operational complexity and resources necessary to tackle all expenditure areas. When done effectively, care management can identify key opportunities to reduce avoidable utilization, improve outcomes, and ultimately drive cost savings. Areas that ACOs should explore when developing a care management strategy include:

- **Population Health Programs**: Develop targeted interventions for high-risk and rising-risk patients, such as care transitions, remote patient monitoring, and disease management.
- **Care Coordination:** Employ nurse navigators, social workers, and care managers to bridge gaps across settings and providers. Focus on transitional care, closing care gaps, ensuring medication adherence, and supporting social determinants of health.
- **Utilization Management:** Implement evidence-based protocols for managing high-cost services, including inpatient admissions, specialist referrals, and post-acute care utilization. Use analytics to identify "frequent flyers" and intervene proactively.
- **Quality Improvement:** Align medical management initiatives with quality metrics tied to contract performance. Support providers with actionable data and best practice guidelines.

Population health, care coordination, utilization management, and quality improvement are all great ways for ACOs to use their limited resources, but the question will always be: how do we make the biggest impact with limited resources? That is where strong medical economics reporting can help surface insights for the clinical leadership to evaluate and design programs around and then track those programs as they progress throughout the year.

Monitoring program performance is critical. The worst-case scenario is your ACO is 1.0 percent better than budget, but you can't prove it was from your care management or random fluctuations in healthcare claims. Should you double down on your care management program or should you focus resources in other areas?

ACOs need to be able to design and monitor clinical programs. Great medical economics reporting should be comprehensive enough to track high-level trends for major and minor service categories, but also have enough granularity to filter down to detailed population segmentations like region, beneficiary type (non-dual, dual, disabled, ESRD), or attributed provider. Once you isolate your target segment, you should develop a benchmark comparison to understand opportunities for that population segment. If your ACO beats the benchmark on PCP visits seven days post-discharge and has a best-in-class re-admission rate, you do not want to allocate limited resources to post-acute discharge planning. Without proper benchmarks, allocating resources can be a gamble with an unknown ROI.

With all this complexity brings analysis paralysis.

Data is worthless if it cannot be distilled down into insights.

Wakely's expertise working with dozens of ACOs can help you filter down your data to find insights your clinical leadership can design programs around. Wakely is platform agnostic, whether you are using our medical economics tool or one of the many population health vendors we can leverage analytics to help you find insights.

Total Member Months	**21,727**	**24,942**	**23,913**	**NA**
Average Raw Risk Score	**0.871**	**0.917**	**0.925**	**1.046**

			Total	Total	Total	Medicare FFS Benchmark	
Service Category	**Category**	**Short Description**	**2022**	**2023**	**2024**	**Normalized**	**Variance**
Inpatient Facility	a	IP Facility	$224	$285	$276	$265	($11)
Skilled Nursing Facility	b	SNF	$39	$46	$40	$69	$30
Home Health	c	Home Health	$31	$50	$45	$41	($4)
Ambulance	d	Ambulance	$6	$9	$8	$9	$2
DME	e	DME	$17	$29	$30	$38	$8
OP Facility - Emergency	f	OP ER	$21	$20	$21	$19	($3)
OP Facility - Surgery	g	OP Surg	$104	$115	$113	$58	($55)
OP Facility - Other	h	OP Other	$73	$77	$69	$100	$31
Professional	i	Prof	$225	$261	$276	$191	($84)
Part B Rx	j	Part B Rx	$125	$142	$115	$117	$2
Other Medicare Part B	k	Other Part B	$1	$1	$0	$1	$0
Total			**$865**	**$1,036**	**$994**	**$909**	**($85)**

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PILLAR 4: IN-YEAR FORECASTING

The Financial & Operational Importance of In-Year Forecasting

One of the biggest challenges with the federal ACO programs is how much movement can occur in benchmark and expenditures assumptions, even late into the performance year. ACOs need processes to accurately estimate their in-year performance to avoid the surprises that can come with a booking-to-budget approach. Most organizations develop and set a budget for the ACO prior to the performance year, but many do not revise that budget until deep into, or even after the performance year due to lack of visibility provided by CMS. CMS and CMMI unfortunately do not provide enough information to fully evaluate the risk, and additional work is required to develop a full-year projection. ACOs should have an actuarial partner to help develop those projections and communicate their potential financial performance as a range of outcomes. This can help quantify the potential variance and also help plan for the most reasonable scenarios.

21,100	Person Years

Percentile	Total Gross	Total Net	Bench Mark	Gross PBPY	Gross Savings %	Net Savings %
99%	24,176,000	18,132,000	13,021	$1,146	8.8%	6.6%
90%	19,694,000	14,770,500	12,847	$933	7.3%	5.4%
80%	18,052,000	13,539,000	12,766	$856	6.7%	5.0%
70%	16,679,000	12,509,250	12,709	$790	6.2%	4.7%
60%	15,373,000	11,529,750	12,649	$729	5.8%	4.3%
Best Est.	14,461,000	10,845,750	12,607	$685	5.4%	4.1%
50%	14,360,000	10,770,000	12,596	$681	5.4%	4.1%
40%	13,353,000	10,014,750	12,554	$633	5.0%	3.8%
30%	12,314,000	9,235,500	12,512	$584	4.7%	3.5%
20%	11,285,000	8,463,750	12,458	$535	4.3%	3.2%
10%	9,686,000	7,264,500	12,386	$459	3.7%	2.8%
1%	5,678,000	4,258,500	12,190	$269	2.2%	1.7%

For REACH, the ACO needs to make estimates for quality, retro-trend adjustment, ACO specific IBNR, risk score completion, and coding intensity.

For MSSP, the ACO needs to make estimates for trend (ACO, national, regional), risk scores (ACO and regional), membership churn, and risk score re-normalization.

The accuracy of the assumptions individually and in aggregate can be the difference between confidently tracking the ACO's performance and playing the waiting game for final settlement.

Regular financial updates allow ACOs to monitor performance, anticipate negative trends, and course-correct before contract year-end.

Estimates should be developed on a monthly or quarterly basis to help the leadership team set budgets, hire staff, make decisions on care management programs, and evaluate existing programs and underperforming contracts.

Developing this process can be a daunting task. CMS and payer reports often do not tell the whole story and need to be revised for critical assumptions that will materially impact savings from YTD to year-end. Developing IBNR, expenditure seasonality, risk score seasonality and completion, and full-year trend estimates is a heavy lift, but critical to the financial and operational success of ACOs.

Wakely answers the why and how behind the financial projections by developing actuarially sound profitability models that provide our ACO partners with the key insights necessary to understand the true drivers of performance. This includes drilling down into profitability drivers such as by provider, geography, member, disease state, and more. This proactive approach to forecasting not only fosters financial stability but also empowers clinical teams to strategize with confidence. By combining robust analytics with ongoing scenario planning, ACOs can adapt swiftly to emerging trends, transforming uncertainty into opportunity for sustainable growth.

CONCLUSION

Managing risk in value-based contracts is both an art and a science. ACOs excel by building the right foundation in underwriting and contracting, ensuring accurate risk adjustment, deploying robust medical management, and maintaining nimble in-year forecasting and response capabilities. Each pillar is essential, and their integration defines the ACO's ability to deliver high-value care while thriving financially.

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WAKELY EXPERTISE

Wakely Consulting Group is an actuarial consulting firm that provides a comprehensive array of expert actuarial services and strategic consulting to the medical and healthcare sectors. Wakely works with hundreds of provider organizations to help them manage risk and performance in value-based payment models across Medicare ACOs and other lines of business. Wakely has developed a comprehensive suite of solutions, called ACO Foundations, designed to support its clients at every step of the value-based care journey. From underwriting and contracting and in-year forecasting, to risk adjustment and medical economics, Wakely maintains the robust tools and actuarial expertise to guide ACOs toward financial and operational success. If your ACO would benefit from additional actuarial support or wants to learn more about optimizing performance under risk-based arrangements, Wakely's team stands ready to partner with you. Reach out to the Wakely consultants below to discover how our experience, innovative tools, and customized strategies can help your ACO achieve its goals and deliver high-quality outcomes to the populations you serve.

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ABOUT WAKELY

Founded in 1999, Wakely Consulting Group, an HMA Company, is well known for its top-tier healthcare actuarial consulting services. With nine locations nationwide, Wakely boasts deep expertise in Medicare Advantage, Medicaid managed care, risk adjustment and rate setting, market analyses, forecasting, and strategy development. The firm's actuaries bring extensive experience across all sectors of the healthcare industry, collaborating with payers, providers, and government agencies.

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