# How Medicare Predicts Expenditures for Cost Performance Benchmarking

The Benchmark year (1 year ago) is the standard against which the performance year (current year) is measured

Medicare calculates 4 benchmarks using 3 years of historical Fee-For-Service data (data is based on FFS claims for patients who would have qualified as ACO beneficiaries over the past 3 years)

Data from each of the prior 3 years is weighted:

3 years ago – 10%

2 years ago – 30%

1 year ago – 60%

## Calculating the benchmark

**Step 1: Calculate the adjusted benchmarks of the prior 3 years**

Adjusted benchmarks (B) of the prior years are adjusted relative to last year’s data, using 4 variables (where n=current year etc):

* PMPM cost (ie average cost)
* Risk score (where risk = R)
* Trended Spend (PMPM cost \* national PMPM growth rate ^ n-1,2,3) – where Trended Spend is T
* Risk Index – In-1 = (Rn-1/Rn-1) – where Risk index is I and Rn-1 is the constant numerator

Using the above derived values for each variable, you can calculate the adjusted benchmark (Ba)

Ba = Tn-1 \* In-1

Bf = (Bn-3 \* 0.1) + (Bn-2 \* 0.3) + (Bn-1 \* 0.6)

**Step 2: Trend the most recent year benchmark to the performance year**

Add the projected national Medicare average increase in PMPM cost (P) to Final Benchmark to calculate updated Benchmark (Bu)

Bu = Bf + P

Then calculate the performance year benchmark (Bn)

Bn = Bu \* (1 + P/Bu)

Once actual costs are revealed, calculate the final performance year benchmark (Bp) by dividing the actual risk (Ra) by year n-1 risk (Rn-1)

Bp = Bn \* (Ra/Rn-1)

## Determining Shared Savings

Two models for shared savings

**Variables:**

S = Shared savings to which an ACO is entitled

E = Number of eligible beneficiaries

A = Actual PMPM cost

C = (Bp – A)/Bp < - Savings rate, loss rate if negative

Q = Performance Quality Score (as a %)

L = 1-(Q \* 0.6) <- Loss multiplier

O = Shared losses

### One-sided model:

ACO’s do NOT share any financial risk for losses, and are eligible to share cost savings above 2% (Minimum Savings Rate) of benchmark. They have a maximum sharing rate of **50%** of savings

Assuming savings above 2%, shared savings (S) are calculated:

S = A \* C \* Q \* (12 \* E) \* 0.5

Where 0.5 corresponds to the maximum sharing rate of the one-sided model

### Two-sided model:

ACO’s are at risk for expenditures above 2% of benchmark (Minimum Loss Rate), but are eligible to share in the savings if costs are at least 2% below benchmark. They have a hire maximum sharing rate of 60% of savings

Assuming savings above 2%, shared savings (S) are calculated:

S = A \* C \* Q \* (12 \* E) \* 0.6

Where 0.6 corresponds to the maximum sharing rate of the two-sided model

If costs run above the Minimum Loss Rate of 2% or 0.02, the loss payment is calculated:

O = A \* L \* -C \* (12 \* E)

For both models, assuming the ACO achieves above the Minimum Savings Rate, the amount of shared savings is dependent upon performance on the ACO quality metrics.

Overall score is determined by performance across each of the four domains (ie quality metrics are grouped within the four domains)

1. Patient/Caregiver Experience
2. Care Coordination/Patient Safety
3. Preventive Health
4. At-Risk Population

ACO’s are scored across each domain (each metric has a max total points) and each domain is weighted equally. The cumulative percentage of points across all four domains establishes the composite quality score, and represents the percentage of the maximum savings that the ACO will share for the performance year.

Performance By Year:

Year 1: ACO merely has to report on all 33 metrics, is not graded

Year 2: ACO is graded on 25 of 33 metrics (ACO chooses?)

Year 3: ACO is graded on 32 of 33 metrics

To be eligible for shared savings (Year 2), ACO must achieve a minimum 70% score in each domain. Points scored for each metric are based on a sliding scale, so the ACO must surpass the 30th percentile of a national quality benchmark to meet minimum attainment threshold for each metric. Performance at or above the 90th percentile will receive maximum points for the metric.

## Yabbit Peformance Score Impacts

Our focus:

**Domain 1, Patient/Caregiver Experience:**

ACO 5 – Health Promotion and Education (required reporting for performance years 2 and 3)

**Domain 3, Preventive Health:**

ACO 16 – Adult Weight Screening and Followup (req. reporting for performance years 2 and 3)

ACO 18 – Depression Screening (req. reporting for performance years 2 and 3)

**Domain 4, At-Risk Population:**

ACO 28 - % of pop. With hypertension who have BP < 140/90 (req. reporting for performance years 2 and 3)