CEDAR GATE™
High-Performance Healthcare

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Unchartered Waters: How COVID-19 Impacts Risk-based Contracts and How Providers Can Mitigate Risks

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Abstract

Purpose: To inform healthcare providers about how medical claims associated with COVID-19 could negatively impact the performance of their risk-based contracts and what actions they should take.

What You Need to Know:

- COVID-19 claims will impact the financial performance of every risk-based contract, but its impact will vary by contract type.
- Prospective Accountable Care contracts, where Medical Cost Targets/Benchmarks and assumptions are set prior to the performance year with no retrospective adjustment for actual performance, will not account for the cost impact of COVID-19. This includes Medicare Next Generation ACOs, percentage of premium contracts and prospectively based Commercial Risk contracts.
- Capitation and Sub-capitation contracts are exposed to the same risks as Prospective Accountable Care contracts.
- Retrospective Accountable Care contracts, where Medical Cost Targets/Benchmarks and assumptions are set after the performance year, will account for the cost impact of COVID-19. This includes Medicare Shared Savings Program (MSSP) as well as retrospectively adjusted Commercial Risk contracts.
- CMS and Commercial Risk contracts typically do have clauses in their program documentation to allow for adjustments due to unforeseen circumstances, but they are not guaranteed.
- Bundled Payment programs for elective procedures will experience lower volume while all bundled programs will experience higher risk of loss for patients with COVID-19 co-morbidities.

How Cedar Gate Will Help:

- As part of our quarterly financial processes, we will be tracking costs associated with the testing, diagnosis and treatment of COVID-19 for clients beginning this spring.
- Our Advisory Services team will help you assess and mitigate the impact of COVID-19 on all your risk-based assistance contacts. Contact your Cedar Gate representative to learn more.

Background

The onset of the COVID-19 pandemic has created uncertainty on resources and access to health care globally. Along with meeting demands for care, there is concern that COVID-19 could increase claim expenditures to levels which have not been historically experienced and observed. This is especially a concern for providers participating in risk-based contracts where they are financially accountable for patient cost of care.

All risk-based contracts that rely on claim expenditure experience from historical periods to "set" Revenue Levels or Medical Cost Targets (MCTs) against which current year claim expenditures are to be paid or measured will be impacted including:

- Medical Cost Target (MCT) contracts with financial gain/(loss) sharing: CMS MSSP; CMS Next Generation ACO; Commercial ACOs.
- Medical Loss Ratio Targets with gain/(loss) sharing
- Capitation contracts

The concern is that as the costs of COVID-19 are not included in historical time periods used to calculate these amounts, there is rightful concern that 2020 calculated Revenue/Medical Cost Targets will be insufficient to cover claim expenditures, leading to financial losses for providers.

The most direct risk mitigation approach to take to account for the value-based contract risks of COVID-19 costs is to exclude claims related to the identification, diagnosis, and treatment of COVID-19 from risk-based contracts. This approach would have providers reimbursed by payers for these costs through separate fee-for-service mechanisms.

Unfortunately, this may not be a thorough or practical risk mitigation solution as it is likely COVID-19 will cause changes, both increases and decreases, in other claim types that cannot be directly linked to COVID-19.

Risk to Medical Cost Target (MCTs) in Accountable Care Contracts

Medical Cost Target (MCT) in Accountable Care contracts are based on historical observed claim expenditures, typically adjusted for Medical Expense Trends and changes in Population Health status (e.g., Risk Scores).

While the historical claim expenditures used for starting points of these calculations will not include costs for COVID-19, it is possible the cost impact of COVID-19 will be captured in the Medical Expense Trend applied to calculate the target for the performance year.

However, this depends on how the Medical Expense Trend assumption is developed by the payer, which is typically done on one of two bases: Prospective or Retrospective.

Prospective:

Prospective Medical Expense Trend adjustments are calculated before the performance year based on historical observations incorporating payer performance goals and are typically not influenced by events occurring in the performance year (CMS Next Generation ACOs use prospective trends).

For risk-based contracts with Prospective Trend Adjustments**,** including Next Generation ACOs, the impact of COVID-19 costs will not be captured in the current 2020 Medical Cost Targets as these costs have not been experienced historically in the data used to set baseline costs or prospective trends. However, for Next Generation ACOs CMS can adjust prospective trends as stated in their Performance Year 4 Benchmarking Methodology Document :

> "Under limited circumstances, CMS may adjust the Prospective Base Year Trend during or after the Performance Year in response to unforeseeable events such as legislative actions that have a substantial impact on Medicare FFS expenditures."

Providers in Prospective contracts should immediately reach out to their Payer Network Management Personnel or their CMS Account Manager to discuss how COVID-19 costs will be accounted for or excluded from their risk-based contract settlement.

Retrospective:

Retrospective Medical Expense Trend adjustments are calculated after the performance year (plus an allotted time for claim processing runout) and are influenced by events occurring in the performance year (e.g. CMS MSSP ACOs use retrospective trends).

Since the trends can be calculated including or excluding specific populations (Medicare, Exchange vs. Large Group, TANF Adult vs TANF Child, etc.) and geographic areas (regional, national) as well as other market-based dimensions.

While COVID-19 costs have not been experienced historically in the data used to set baseline costs, the retrospective trend calculation used to set the 2020 Medical Expense Target will likely recognize the change in claim expenditures.

However, while the use of retrospective trends recognizes the change in claim expenditures, the measurement will reflect the *average impact* of COVID-19 which creates some risks and opportunities:

- A given provider may experience COVID-19 medical expense impacts greater than or less than the average impact observed in the retrospective trend measure.
- If a national trend is used to credit the benchmark, providers who reside regions with higher than average COVID-19 costs will be unfavorably impacted, and vice versa.
- In the CMS MSSP program, CMS has the authority to reduce losses for ACOs that have experienced "extreme and uncontrollable circumstances", and there is a possibility CMS will use this authority for COVID-19. If so, it will not change whether an ACO has gains or losses, but for those with losses it will reduce the loss based on the percentage of the ACO's members that are in affected areas.

Risk Coding:

As most Prospective and Retrospective Accountable Care programs adjust Medical Cost Targets based on patient diagnoses reported by providers (i.e. risk scores), it is possible that the COVID-19 pandemic will limit the ability of providers to complete thorough documentation of all patient diagnoses. If this occurs, under reporting of diagnoses leads to lower risk scores and will result in lower Medical Cost Targets against which performance will be measured.

In all cases, providers should immediately reach out to their Payer Network Management Personnel or their CMS Account Manager to discuss how COVID-19 costs will be accounted for or excluded from their risk-based contract settlement.

Risk to Premium Based Contracts, Capitation and Sub-capitation

As there are no standard contract provisions or solutions that have been proposed for these types of contracts, the best course of action is to reach out to the contracting payer or government entity to discuss what measures they plan to implement to account for COVID-19 claim expenditures. Possible solutions include:

- As discussed above, exclusion of COVID-19 costs from capitation, with providers filing COVID-19 claims that are separately reimbursed by the payer on a fee-for-service basis
- Adjusted capitation to cover expected COVID-19 costs

For percentage of premium contracts tied to Medicare Advantage or Medicaid beneficiaries, it is possible that CMS (Centers for Medicare and Medicaid Services) and/or States will provide premium adjustment to payers to account for cost changes. In these cases, providers should discuss how these premium adjustments will be passed through as part of the percentage of premium agreement.

Bundled Payments

Like the risks associated with Accountable Care programs, COVID-19 also introduces additional risks to Bundle Payment programs:

Volume Risk (Retrospective and Prospective Bundles)

The risks are similar for both retrospective and prospective bundles. For procedural type bundles, some procedures may be considered elective and thus put off until after the crisis lifts. This will cause a decrease in utilization (volume) greater than expected. In addition, there will be an increase in volatility of results as there is less volume to mitigate downside risk (i.e., a provider can no longer spread costs over many vs. fewer cases

Cost Impact Risk (Retrospective and Prospective Bundles)

For providers involved in chronic care condition bundles like COPD, Sepsis or Heart failure, or even some procedural type bundles like open heart bypass, whether retrospective or prospective, a patient with a COVID-19 co-morbidity along with the underlying bundle disease will be much more complicated to take care of, resulting in the retrospective target or prospective price being insufficient to cover the cost of the risk. This will negatively impact gainsharing in retrospective bundles and will negatively impact net income (bundle margins) in risk pools for prospective bundles.

As an example, in prospective bundles, a patient who has COVID-19 and has an AMI which requires open heart bypass will most certainly exceed the prospective bundle price derived prior to go live which will negatively impact bundle margin and the risk pool (net income for the program).

Risk Scoring Risk (Retrospective Bundles)

Like Accountable Care Programs, it is possible that the COVID-19 pandemic will limit the ability of providers to complete thorough documentation of all patient diagnoses. For retrospective programs, where target prices are adjusted for patient risk scores, under-reporting of diagnoses will lead to lower risk scores which will result in lower Bundle Target Prices against which performance will be measured.

What Providers Should Do

In all cases, providers should immediately reach out to their Payer Network Management Personnel or their CMS Account Manager to discuss how COVID-19 claims will be accounted for and or excluded from their risk-based contract settlement. They should conduct contract reviews, track COVID-19 cost and utilization, and identify and assess financial risk mitigation approaches.

Cedar Gate can help. For assistance please contact your account representative.