

Direct Contracting Model

Global and Professional Options

Financial

Operating Policies: Capitation and Advanced Payment Mechanisms

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Reference Documents

Title
Direct Contracting Model Global and Professional Options: Financial Operating Guide: Overview
Direct Contracting Model Global and Professional Options: Financial Companion to Operating Guide Overview: Standard DCE
Direct Contracting Model Global and Professional Options: Financial Companion to Operating Guide Overview: New Entrant DCE
Direct Contracting Model Global and Professional Options: Financial Companion to Operating Guide Overview: High Needs Population DCE
Direct Contracting Model Global and Professional Options: Financial Companion to Capitation and Advanced Payment Mechanisms
Direct Contracting Model Global and Professional Options and Kidney Care Choices Model: DC/KCC Rate Book Development
Direct Contracting Model Global and Professional Options and Kidney Care Choices Model: Risk Adjustment
Direct Contracting Model Global and Professional Options: Financial Reconciliation Companion
Direct Contracting Model Global and Professional Options: Beneficiary Alignment Document

Acronyms

ACO	Accountable Care Organization
APO	Advanced Payment Option
CMMI	Center for Medicare & Medicaid Innovation
CMS	Centers for Medicare & Medicaid Services
CY	Calendar Year
DC	Direct Contracting
DCE	Direct Contracting Entity
FFS	Fee-for-service
GAF	Geographic Adjustment Factor
NGACO	Next Generation ACO
PCC	Primary Care Capitation
PY	Performance Year
SSM	Shared Systems Maintainers
TCC	Total Care Capitation

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1.0 Introduction

This document provides a detailed description of the payment mechanisms of the Direct Contracting Model Professional and Global Options: Total Care Capitation (TCC); Primary Care Capitation (PCC); and the optional Advanced Payment Option (APO).

Direct Contracting Entities (DCEs) will receive a capitated payment for certain Part A and B services covered under the fee-for-service (FFS) program or Original Medicare provided by DC Participant Providers and those Preferred Providers who elect to participate in the payment mechanism(s). These payment mechanisms are designed to give DCEs flexibility through prospective monthly payments to support population health, including investments in technology, resources, care delivery, or innovative value-based payment arrangements with their providers. The amount of the capitated payment made by CMS to the DCE will partially depend on the risk arrangement option and capitation payment mechanism selected by the DCE. The two risk arrangement options that a DCE may choose from are the Global Option and the Professional Option:

1. The Global Option is a full risk option with 100 percent Shared Savings/Shared Losses. DCEs that choose the Global option may choose either the TCC payment mechanism or the PCC payment mechanism. DCEs choosing the PCC payment mechanism also have the option to also participate in the APO.
2. The Professional Option is a lower-risk option with 50 percent Shared Savings/Shared Losses. DCEs that choose the Professional Option are required to participate in the PCC payment mechanism and have the flexibility to also participate in the APO. TCC is not available for DCEs selecting the Professional Option.

All DCEs must have a Capitation Payment Mechanism. The three Payment Mechanisms are TCC, PCC, and APO:

1. Under Total Care Capitation (TCC), the capitated payment to the DCE applies to all Medicare Part A & B services to aligned beneficiaries that are provided by DC Participant Providers and by Preferred Providers who have opted into the capitation arrangement. The TCC payment amount will reflect the estimated total cost of care for services provided by the Participant and Preferred Providers to the DCE's aligned population. The TCC payment mechanism is only available to DCEs that have selected the Global Option.
2. Under Primary Care Capitation (PCC), the capitated payment to the DCE applies to primary care Part A & B services to aligned beneficiaries that are provided by certain DC Participant Providers and Preferred Providers who have opted into the capitated arrangement. The default PCC payment amount will be equal to 7 percent of the DCE's prospective benchmark, although, as described in Section 2.2, under certain circumstances a DCE may have a lower or higher PCC payment amount than the default. The PCC payment mechanism is required for all DCEs that have selected the Professional Option for risk sharing arrangement.

As mentioned, DCEs that select the PCC payment mechanism also have the option to select the APO to receive an advanced payment for claims not subject to PCC.

3. Under the Advanced Payment Option (APO), the supplemental payment to the DCE applies to the subset of services to aligned beneficiaries not covered by PCC. For primary care specialist DC Participant Providers and Preferred Providers who opt into the APO arrangement, the payment will cover only non-PCC services. For non-primary care specialist DC Participant Providers and Preferred Providers who opt into the APO arrangement, the payments will cover all services, including PCC services (more detail on provider eligibility for PCC is provided in Section 2.2.2). Each individual DC Participant Provider or Preferred Provider may choose a claim reduction amount between 1 and 100 percent for the APO payment.

The Payment Mechanisms, TCC, PCC, and APO, that are available in each risk arrangement option are highlighted in **Table 1**.

Table 1. Direct Contracting Model risk arrangements and payment mechanisms available for selection by the DCE.

Payment Mechanism elected by the DCE ¹	Risk Arrangement elected by the DCE	
	Global Option (Full Risk)	Professional Option (Partial Risk)
Total Care Capitation (TCC)		
... Scope of Capitation Payment	All Services ²	Not Available
... Capitation payment <i>replaces</i> FFS payment ³	Yes	
... Capitation payment reconciled against FFS payment ⁴	No	
Primary Care Capitation (PCC)		
... Scope of Capitation Payment	Primary Care ⁵	Primary Care ⁵
... Capitation payment <i>replaces</i> FFS payment ⁶	Yes	Yes
... Capitation payment reconciled against FFS payment ⁴	No	No
Advanced Payment Option (APO)		
... Scope of Advanced Payment	Non-primary care services ⁷	Non-primary care services ⁷
... FFS provider payment ⁸	Reduced	Reduced
... Advanced payment reconciled against FFS payment ⁹	Yes	Yes

¹ The DCE elects which payment mechanism(s) to participate in, after which each DC Participant Provider and Preferred Provider may individually elect the claims reduction amount for each payment mechanism.

² The capitation payment under TCC applies to any eligible Part A and Part B service provided to an aligned beneficiary by a DC Participant Provider or a Preferred Provider electing to participate in TCC, with certain exceptions (e.g., claims that contain any substance abuse service or claims from beneficiaries who have opted out of data sharing will not be included). These exceptions apply to all payment mechanisms (TCC, PCC, and APO).

³ A DC Participant Provider in TCC receives no FFS payment for covered services provided to DCE-aligned beneficiaries. A Preferred Provider can elect to reduce a portion of their claims (1-100%).

⁴ The TCC payment is not reconciled against FFS payments that would otherwise have been made, and only the TCC payment amount is included in the financial settlement. FFS payments to which TCC is not applied will also be included in financial settlement.

⁵ The capitation payment under PCC applies to specified primary care services, which are defined services with a primary care CPT/HCPCS code provided by a provider who is a primary care specialist. More detail of the definition can be found in Section 2.2.

⁶ Both DC Participant Providers and Preferred Providers can individually elect to reduce a portion of their primary care claims (1-100%), though DC Participant Providers' elections have a certain floor dependent on the PY (see details in Section 2). DC Participant Providers and Preferred Providers will continue to receive payments on a FFS basis for claim amounts not applicable to the PCC capitation payments.

⁷ The APO is for DCEs that have selected PCC. This optional arrangement allows DCEs to receive monthly advanced payments equivalent to the estimated value of FFS claims, based upon agreed upon FFS reductions for services provided by DC Participant Providers and Preferred Providers *not* covered by the PCC payments. APO will only apply to non-primary care FFS claims from DC Participant Providers and Preferred Providers in the DCE, and to all FFS claims from DC Participant Providers and Preferred Providers who are not primary care specialists.

⁸ Reduction in FFS payments for APO is between 1-100%, as agreed to by a) the DCE and b) DC Participant Providers and Preferred Providers.

⁹ Advanced Payments are reconciled against actual FFS claims reductions during Final Financial Reconciliation.

2.0 Payment Mechanisms

2.1 TCC

The TCC payment is a per beneficiary per month (PBPM) capitated payment for all Medicare Part A and Part B services provided to DCE-aligned beneficiaries by all DC Participant Providers and by those Preferred Providers who have opted into the capitated arrangement. The TCC payment amount will reflect the estimated total cost of care for the DCE’s aligned population for services provided by DCE providers participating in the capitation mechanism.

Under TCC, DC Participant Providers will be required to agree to 100 percent FFS claims reductions. However, Preferred Providers, are not required to enter into the TCC arrangement. Preferred Providers that do opt into TCC may individually select a lower claims reduction amount (1–100 percent). **Table 2** summarizes the percent claims reduction allowed by provider type under TCC. CMS will continue to pay Preferred Providers their remaining portion of FFS claim amounts.

Table 2. Percent claims reduction by provider type under TCC.

Provider Type	Requirements	Claims Reduction
DC Participant Providers	Required	100%
Preferred Providers	Optional. May also individually choose the claims reduction amount.	1–100%

2.1.1 Monthly TCC Payment

The monthly TCC payment amount reflects an estimated total cost of care, and it is equal to the Monthly Performance Year (PY) Benchmark amount minus a withheld amount to account for the portion of care that is not furnished by provider participation in TCC (see below for full explanation).

$$\text{Monthly TCC Payment} = \text{Monthly PY Benchmark} - \text{TCC Withhold}$$

2.1.2 Monthly PY Benchmark

For each DCE, the Monthly PY Benchmark amount equals its prospective PBPM Benchmark multiplied by the expected eligible beneficiary-months for a given month. For detailed methodologies of the Benchmark Calculations or Beneficiary Alignment, refer to the Financial Overview document and the Beneficiary Alignment document, respectively (this varies by DCE Type).

2.1.3 TCC Withhold

Because it is expected that a portion of the total cost of care for aligned beneficiaries will be for services provided by providers and suppliers not participating in the TCC arrangement, CMS will “withhold” a portion of the monthly TCC amount to avoid the need for significant year-end recoupments from the DCEs. Thus, the withhold for remaining FFS claims accounts for (1) estimated service volume provided by providers not in the capitated arrangement and (2) remaining Preferred Provider claims that are not 100 percent reduced during the PY. This withhold will be referred to as the TCC Withhold.

The TCC Withhold for each DCE is estimated prior to the start of each PY. To estimate the TCC Withhold, CMS will identify all Part A and B claims from beneficiaries who would have been aligned through claims to the DCE during the lookback period. The lookback period for the TCC Withhold for each PY will have a 1-year duration, which will be on a rolling four-quarter basis, allowing 3 months of claims runout. For PY1 (Apr–Dec 2021), the lookback year would be calendar year (CY) 2019 (2020 is avoided due to COVID-19). For PY2 (CY2022), the lookback period is the first 9 months of 2021. CMS will calculate the total cost of care for aligned beneficiaries in the lookback year and identify the portion of the total cost associated with non-TCC providers or the remaining non-reduced claims amount from Preferred Providers who choose less than 100 percent claims reduction. This latter non-reduced amount is counted toward the TCC Withhold and is then expressed as a percentage of the total cost for the lookback year, i.e., the Withhold Percentage. Finally, the prospective, risk-adjusted, PBPM Benchmark is multiplied by the Withhold Percentage to estimate the risk-adjusted PBPM TCC Withhold amount.

CMS will monitor and update the TCC Withhold amount quarterly throughout the PY, as claims become available, to avoid substantial over-payments or under-payments during Financial Settlement. See [Section 3](#) for more details.

During the Financial Settlement (Final Reconciliation), the actual PBPM TCC Withhold amount is updated based on PY claims to reflect the actual portion of the total cost of care for aligned beneficiaries associated with non-TCC providers or the remaining non-reduced amount from Preferred Providers who choose less than 100 percent claims reduction. Any over-payments or under-payments to the DCE due to the difference between the actual and estimated TCC Withhold amounts will be recouped or reimbursed before the shared Savings/Losses calculations. See [Section 3.4](#) for more details.

2.1.4 Initial TCC Payments for DCEs with Limited Claims Experience

We expect to be able to establish a reliable Withhold Percentage for all DCEs, including those with limited claims experience in the lookback period, e.g., New Entrant DCEs that have not historically served a large Medicare population. However, in the extreme case, it is possible that a DCE will have insufficient claims history to establish a reliable Withhold Percentage. In such a case, CMS reserves the right to adjust the methodology for determining TCC payments until sufficient claims history is accrued to establish a reliable Withhold Percentage. Adjustments may include delaying claims reductions for DC Participant Providers and Preferred Providers in such DCEs during the first payment months of a PY, while providing interim monthly payments to ensure sufficient cash flow to fund value-based care activities.

Once sufficient claims history is accrued to establish a reliable Withhold Percentage, CMS would begin making regular prospective TCC payments alongside claims reductions for DC Participant Providers and Preferred Providers. As the payments made in the initial months would not be associated with claims reductions, these would be deducted from the TCC payments made in the remainder of the PY.

2.2 PCC

The PCC payment mechanism is available to DCEs who have elected either Global or Professional risk arrangement options. The PCC payment is a PBPM capitated payment for primary care services provided by DC Participant Providers and Preferred Providers who have opted into the capitated arrangement with the DCE and are considered primary care specialists based on their specialty codes (more detail in

[Section 2.2.2](#)). The default PCC payment amount will be equal to 7 percent of the estimated total cost of care for the DCE’s aligned population (i.e., 7 percent of the prospective Monthly PY Benchmark). We use the term “default” PCC payment amount because under certain circumstances the DCE will have the flexibility to choose a lower/higher PCC payment amount (see [Section 2.2.3](#) below for details). PCC is required for all DCEs in the Professional Risk option. DCEs that have selected the Global Risk option may choose between PCC or TCC.

For PY1, both DC Participant Providers and Preferred Providers may choose to elect the PCC payment mechanism. If they choose to do so, they can individually choose the amount of claims reduction ranging from 1–100 percent. Starting PY2, DC Participant Providers must have some portion of their eligible claims reduced via PCC, with a floor of at least 5 percent claims reduction, while Preferred Providers still have the option to opt out of PCC. This floor will increase to 10 percent for the PY3, 20 percent for the PY4, and 100 percent for PY5 and PY6. The percent claims reduction elected by each primary care specialist is applied to the total cost of primary care services provided by the same provider, and thus affects the monthly PCC payment amount a DCE receives. For primary care specialists, CMS will pay providers their remaining FFS claim amounts for primary care services and fully reimburse them under FFS for their non-primary care claims.

2.2.1 Default Monthly PCC Payment

The default monthly PCC payment is 7 percent of the DCE’s prospective monthly PY Benchmark. This payment amount is comprised of a Base PCC Amount and an Enhanced PCC Amount:

$$\begin{aligned} \text{Default Monthly PCC Payment} &= 7\% \text{ of Prospective Monthly PY Benchmark} \\ &= \text{Base PCC Amount} + \text{Enhanced PCC Amount.} \end{aligned}$$

The PY Benchmark for a DCE is calculated using the same method whether the DCE is participating in PCC or TCC. For a detailed description of the PY Benchmark calculation, refer to the Financial Overview and Companion documents (this varies by DCE Type).

2.2.2 The Base PCC Amount

The Base PCC Amount is an estimated payment intended to approximate the primary care-based services provided to aligned beneficiaries by the DC Participant Providers and Preferred Providers taking part in PCC.

To calculate the Base PCC Amount, CMS uses the list of beneficiaries who would have been aligned through claims to the DCE in the lookback period. The lookback period for the Base PCC calculation for each PY will generally have a 1-year duration allowing 3 months of claims runout. For PY1 (Apr–Dec 2021), the lookback year would be CY2019 (2020 is avoided due to COVID-19). For PY2 (CY2022), the lookback period is the first nine months of 2021. The historical claims from the lookback period are used to (1) calculate the total claim-based payment for all covered services, regardless of provider affiliation; and (2) identify the portion of claims subject to PCC provided to aligned beneficiaries, i.e., primary care services expenditure by each DC Participant Provider that is a primary care specialist or Preferred Provider that is a primary care specialist and opted into PCC.

CMS defines primary care-based services as claim lines from professional claims for Evaluation and Management (E/M) office visits for both new and established patients using the current procedural terminology (CPT) and Healthcare Common Procedure Coding System (HCPCS) codes described in **Appendix Table A1**. The primary care-based service must also be provided by a provider whose Provider Specialty in the Provider Enrollment, Chain and Ownership System (PECOS) is a primary care specialty code listed in **Appendix Table A2**. For institutional claims, only services billed by Federally Qualified Health Centers (FQHCs) and Rural Health Centers (RHCs), regardless of CPT/HCPCS or provider specialty, are eligible for PCC payments. This flexibility was created for FQHC and RHC facilities because these organizations are specifically designed to provide primary care to the populations they serve. **Table 3** summarizes the claims eligible for reductions for each payment mechanism.

This method of defining primary care-based services, however, for the purpose of PCC may be subject to revision from PY to PY. For example, CPT/HCPCS codes for primary care services may be updated from year to year to maintain consistency with the Medicare Shared Savings Program (MSSP) or the Medicare Physician Fee Schedule, along with other changes to support the policy intent of PCC.

Table 3. Claims eligible for reductions for each payment mechanism.

Type of Services	Professional Claims		Institutional Claims	
	Primary care specialists (Appendix Table A2)	All other specialties	FQHCs and RHCs	All other institutional providers
Primary care-based services (Appendix Table A1)	PCC	APO	PCC	APO
All other services	APO	APO	PCC	APO

After primary care services are identified, the payment amounts for claims subject to PCC (per **Table 3**) are aggregated to the provider level. CMS will apply the claims reduction percentage elected by each DC Participant Provider and Preferred Provider to the provider-level claim payment amounts. The total reduced primary care payment amount is then calculated as a percentage of the total claim-based payment for all covered services. This percentage is referred to as the Base PCC Percentage. Finally, the prospective, risk-adjusted, PBPM Benchmark is multiplied by the Base PCC Percentage to estimate the risk-adjusted PBPM Base PCC amount. The Base PCC Amount that a DCE receives is simply the Base PCC Amount PBPM multiplied by the projected eligible months for a given month.

2.2.3 The Enhanced PCC Amount

The purpose of the Enhanced PCC Amount is to provide an upfront, additional payment for DCEs to invest in and expand their primary care capabilities. As mentioned in the introduction to [Section 2.2](#), although the Default Monthly PCC Payment is equal to 7 percent of the prospective Monthly PY Benchmark, a DCE can choose a lower or higher PCC payment based on its choice of an Enhanced PCC Amount, depending on the circumstances described below. Prior to the first month of a PY, a DCE will learn of its Base PCC Percentage, and the range of Enhanced PCC Percentages that it can choose from.

When calculating the Base PCC Amount to pay to DCEs on a monthly basis, CMS will factor in the claims reduction percentages agreed to by each DC Participant Provider and Preferred Providers. However, when calculating the Enhanced PCC Amount a DCE is entitled to, CMS will assume a 100 percent claims reduction amount for all DC Participant Providers and actual claims reduction as elected by Preferred Providers. This ensures that a DCE's Enhanced PCC Payment is not artificially increased due to a lower claims reduction election. If 3 percent of the DCE's historical claims expenditures are determined to be for primary care-based services and that DCE elects 100 percent claims reduction, its Base PCC Amount will be 3 percent and its Enhanced PCC Amount will be 4 percent. However, if that DCE's DC Participant Providers elect (on average) only 50 percent claims reduction, the Base PCC Payment will be 1.5 percent and the Enhanced PCC Payment will remain 4 percent.

If a DCE chooses to receive an Enhanced PCC Amount, it can request an amount no more than the difference between 7 percent of the PY Benchmark and what the Base PCC Amount would have been with 100 percent claims reduction for all DC Participant Providers, unless that amount is less than 2 percent of the PY Benchmark, in which case the DCE is allowed to request an Enhanced PCC Amount up to 2 percent of the PY Benchmark. That means that in cases where a DCE's Base PCC Amount (assuming 100 percent claims reduction for DC Participant Providers) is greater than 5 percent of the PY Benchmark, the DCE may still request an Enhanced PCC Amount up to 2 percent of the PY Benchmark, even though the sum of the Base PCC Amount and the Enhanced PCC Amount may exceed 7 percent of the PY Benchmark. The DCE also has the option to not receive an Enhanced PCC Amount at all, in which case the PCC Payment will equal the Base PCC Amount.

For example, assume that a DCE's monthly PY Benchmark is \$1,000 PBPM and that the Base PCC Amount is determined to be \$40 PBPM, as calculated from historical claims. The \$40 PBPM Base PCC Amount is 4 percent of the monthly PY Benchmark ($\$40/\$1,000$). Since 7 percent of the monthly PY Benchmark is \$70 (7 percent of \$1000), the DCE may receive an Enhanced PCC Amount no larger than \$30 PBPM, which is 3 percent of the monthly PY Benchmark (7 percent minus 4 percent). The DCE may choose to not receive an Enhanced PCC Amount at all, in which case the DCE will receive a Monthly PCC Payment of \$40. In summary, in this example, the Monthly PCC Payment for the DCE has a minimum of \$40 and a maximum of \$70.

In the scenario where the DCE's Base PCC Amount already exceeds 7 percent of the monthly PY Benchmark, the DCE may receive an Enhanced PCC Amount no larger than 2 percent of the monthly PY Benchmark. For example, assume that a DCE's monthly PY Benchmark is \$1,000 PBPM and that the Base PCC Amount is determined to be \$80 PBPM, as calculated from historical claims. The \$80 PBPM Base PCC Amount is 8 percent of the monthly PY Benchmark ($\$80/\$1,000$), which is greater than 7 percent of the monthly PY Benchmark. In this case, the DCE may still receive an Enhanced PCC Amount no larger than 2 percent of the monthly PY Benchmark, which is \$20. The DCE may choose to not receive an Enhanced PCC Amount at all, in which case the DCE will receive a Monthly PCC Payment of \$80. In summary, in this example, the Monthly PCC Payment for the DCE has a minimum of \$80 and a maximum of \$100. Regardless of the Enhanced PCC Amount received, the value of the Enhanced PCC Amount is recouped in full by CMS at the end of the PY and is not considered in any Shared Savings/Losses calculations (for details, refer to the Financial Reconciliation document).

2.2.4 Initial PCC Payments for DCEs with Limited Claims Experience

We expect to be able to establish a reliable Base PCC Percentage for all DCEs, including those with limited claims experience in the lookback period, e.g., New Entrant DCEs that have not historically

served a large Medicare population. However, in the extreme case, it is possible that a DCE will have insufficient claims history to establish a reliable Base PCC Percentage. In such a case, CMS reserves the right to adjust the methodology for determining PCC payments until sufficient claims history is accrued to establish a reliable Base PCC Percentage. For such DCEs, during the initial months of the PY, CMS would continue to reduce claims for DC Participant Providers and Preferred Providers, while making monthly PCC payments equivalent to 7 percent of the PY Benchmark to ensure sufficient cash flow to fund value-based care activities.

Once sufficient claims history is accrued to establish a reliable Base PCC Percentage, CMS will recalculate the Base PCC Percentage and define the appropriate Base PCC Amount and Enhanced PCC Amount. Any under-payment of the Base PCC Amount during the initial months due to the recalculated Base PCC Percentage will be retrospectively deducted from the Enhanced PCC Amount. Similarly, any over-payment of the Base PCC Amount will be retroactively considered part of the Enhanced PCC Amount and will be recouped.

2.3 APO

DCEs that elect PCC will have additional flexibility to contract with DC Participant Providers and Preferred Providers under an additional payment mechanism, the APO. This optional payment mechanism is only available to DCEs that select the PCC capitation payment, is designed to serve as a cash flow to DCE, and is not considered in any Shared Savings/Losses. The Advanced Payments will only apply to non-primary care FFS claims from DC Participant Providers and Preferred Providers in the DCE who have primary care specialties, and all FFS claims from DC Participant Providers and Preferred Providers who do NOT have primary care specialties. **Table 4** distinguishes the claims eligible for PCC and those eligible for APO. DCE providers that are not participating in PCC are still eligible to opt into the APO.

Table 4. Definition of professional services that applies to PCC and APO. (Note: same as **Table 3**)

Type of Services	Professional Claims		Institutional Claims	
	Primary care specialists (Appendix Table A2)	All other specialties	FQHCs and RHCs	All other institutional providers
Primary care-based services (Appendix Table A1)	PCC	APO	PCC	APO
All other services	APO	APO	PCC	APO

Under the APO mechanism, DCEs can enter into arrangements whereby CMS would reduce APO-eligible claims payments for DCE-aligned beneficiaries for participating DC Participant Providers and Preferred Providers. The reduced claims payments can be between 1 and 100 percent of the value of the FFS claims payment amount. In return, CMS would make a monthly Advanced Payment to the DCEs equivalent to the estimated value of the FFS claims reductions for APO-eligible services.

The calculation of the APO payment amount estimated by CMS based on historical utilization of APO-eligible services to beneficiaries that would have been aligned through claims to DC Participant

Providers and Preferred Providers, as opposed to the primary care services used in the calculation of the Base PCC Amount. Unlike the Base PCC Amount, these APO payments will be reconciled against actual FFS claims reductions at Final Financial Reconciliation.

For a DCE participating in APO, all of the DC Participant Providers and Preferred Providers can each individually choose whether to opt into APO, and if so, at what percent claims reduction. The elected percent reduction may change from year to year, but this information must be submitted by the DCE prior to each PY. At the end of each PY, the APO payment will be reconciled against the FFS payment that was withheld from the provider's FFS payment.

Finally, a DCE can choose not to opt into APO, in which case no DCE provider will be able to participate in APO. **Table 5** summarizes the participation requirements for DC Participant Providers and Preferred Providers under TCC, PCC, and APO.

Table 5. Requirements and percent claims reduction allowed by provider type under DC Payment Mechanisms.

Payment Mechanism Elected by the DCE	DC Participant Providers	Preferred Providers
TCC	Must Participate 100% Claims Reduction, all PY's	Optional for all PY's If selected, 1-100% Claims Reduction, all PY's
PCC	Must Participate starting PY2 PY1: Primary Care Claims Reduction 1-100% (optional) PY2: Primary Care Claims Reduction 5-100% PY3: Primary Care Claims Reduction 10-100% PY4: Primary Care Claims Reduction 20-100% PY5: Primary Care Claims Reduction 100% PY6: Primary Care Claims Reduction 100%	Optional for all PY's If selected, 1-100% Claims Reduction, all PY's
APO (Option only available if PCC is also elected)	Optional If selected, 1-100% for all PYs	Optional If selected, 1-100% for all PYs

3.0 Quarterly Updates to Payments

CMS determines beneficiary alignment and calculates the monthly capitated payments to the DCE in advance of each quarter. Because of the quarterly cycle, the prospective monthly payment the DCE receives will be for all beneficiaries aligned for the quarter, and assumes continued alignment for the entire 3 months. However, a beneficiary may lose alignment if the beneficiary loses Part A or Part B coverage, joins a Medicare Advantage plan, loses Medicare as the primary payer, moves out of the Extended Service Area, or dies before or during the payment quarter. Beneficiaries failing to meet any of these eligibility criteria on the first day of a month are not eligible for payment reduction in that month. A beneficiary may also become newly aligned due to Prospective Plus Alignment. Because the PY benchmark is first calculated prior to the PY (prospectively), if the changes in aligned beneficiary counts are not accounted for, then the monthly prospective payment amounts (for TCC, PCC or APO) will lose precision.

Additionally, in the case of TCC, the Withhold Percentage is calculated based on the historical baseline period, which may be different than the actual proportion of services subject to the TCC Withhold in the PY (e.g., if there is an increase in care provided to aligned beneficiaries by DC Participant Providers or Preferred Providers). If this Withhold Percentage is significantly different between the baseline period and the PY, the Monthly TCC Payment may be over- or under-estimated.

Due to these limitations of a purely prospective estimate for monthly capitated payments and to avoid substantial end-of-PY fund transfers, CMS will update the capitated payments prior to every quarter based on the beneficiary experience in the current quarter. To account for the changes in beneficiary alignment and the actual portion of expenditures incurred outside of the capitation arrangement (TCC only), before each quarterly payment cycle (starting with the second quarter of each PY), CMS will recalculate the capitated payments for the upcoming quarter. **Table 6** summarizes the adjustments to be made during each quarterly payment update.

Table 6. Prospective and retrospective adjustments for by payment mechanism.

Quarterly adjustment	Prospective adjustment for the number of aligned beneficiaries in next quarter	Retrospective adjustment for the number of aligned beneficiaries in prior quarter(s)	Update % of total cost of care subject to capitation	Update based on updated benchmarks (e.g., as risk scores move from preliminary to final)
TCC	Yes	Yes	Yes (Withhold Percentage)	Yes
PCC	Yes	Yes	No (Base PCC Percentage)	Yes
APO	Yes	No ¹	No ¹	No ¹

(1) CMS will monitor for meaningful discrepancies between APO payments and FFS claims reduced under APO (e.g., >5% of payments made). We reserve the right to (but are not required to) adjust quarterly payments if the amount paid meaningfully diverges from the amount reduced during the year. See the Capitation and Advanced Payment Companion Paper for additional details.

3.1 Updating the Projected Eligible Months for the Upcoming Quarter

At the end of every quarter in PY, CMS will have a new alignment file that reflects the actual alignment in each month of that quarter. To continually adjust for the changes in alignment, CMS will assume a “retention rate” that predicts the percentage of eligible months left at the end of the upcoming month, compared with the beginning of the month. The retention rate will be based on the last year of the lookback period used to calculate the capitated payments, and is updated annually. It is calculated as the average of 12 separate retention rates, one for each month during the lookback year.

Average retention rate per month

$$= 1/12 \sum_{m=1}^{12} (\text{eligible months at end of } m) / (\text{eligible months at beginning of } m)$$

The average monthly retention rate is then multiplied by the actual eligible months in the current month to calculate the updated projected eligible months in the upcoming month.

Projected eligible months in upcoming month

$$= \text{Actual eligible months in current month} \times \text{retention rate}$$

For example, Q2 payments are updated in March, by which time the actual eligible months in Q1 are known (because eligibility determinations are made on a monthly basis, beneficiaries eligible on the first of the month are considered eligible for that month). The updated projected eligible months in April are then equal to the actual eligible months in March multiplied by the monthly retention rate.

3.2 Accounting for the Loss/Gain of Beneficiary Alignment in the Past Quarters

Using the actual eligible months from the current quarter, we can determine whether a beneficiary lost or gained alignment during the current quarter. Using the actual eligible months, CMS will calculate how much a DCE was overpaid or underpaid in that quarter due to differences in actual versus expected number of eligible beneficiary-months and apply that amount to the upcoming quarter’s payments to reflect previous over- or under-payments.

The over- or under-payment in Q4 will not be applied to Q1 of the upcoming PY, to avoid mixing payments in two different PYs. Instead, the over- or under-payment in Q4 will be accounted for during the Financial Settlement of that PY. As a result, there will be three adjustments for over- or under-payments during the PY, and again for the Provisional and Final Financial Reconciliation. For CY2021, there will only be two adjustments due to the shortened duration of the PY.

3.3 Updating the Withhold Percentage (TCC only)

The Withhold Percentage throughout the PY is updated to reflect the changes in the aligned population and the associated changes in utilization in and outside of the DCE. The re-estimation of the Withhold Percentage will be based on the most recent claims from the PY, as they become available. For example, at the end of PY Q2, CMS will look at the actual alignment in PY Q1, examine accrued claims from aligned beneficiaries during Q1, and re-estimate the Withhold Percentage for PY Q3. Because of the

3-month runout period of claims, the Withhold Percentage will be updated twice in a full PY—at the end of Q2 (Q1 claims would be available) and at the end of Q3 (Q1-Q2 claims would be available).

The updated Withhold Percentage can then be used to calculate capitated payments for the upcoming quarter, and update any over- or under-payments in the current quarter, which will be deducted or added to the upcoming quarter's payments.

3.4 Final Retrospective Adjustments at Financial Reconciliation

At provisional and final Financial Reconciliation, CMS will make final retrospective adjustments for the payments made during the PY prior to the Shared Savings/Losses calculations. Final retrospective adjustments reflecting actual PY beneficiary alignment will apply to all payment mechanisms. For APO, payments will be reconciled against the actual APO reductions made on claims during the PY at the time of Financial Reconciliation. For TCC, the actual Withhold Percentage will be calculated using all PY claims during Financial Reconciliation. For PCC, the only retrospective adjustment to the payments made to the DCE will be beneficiary alignment counts.

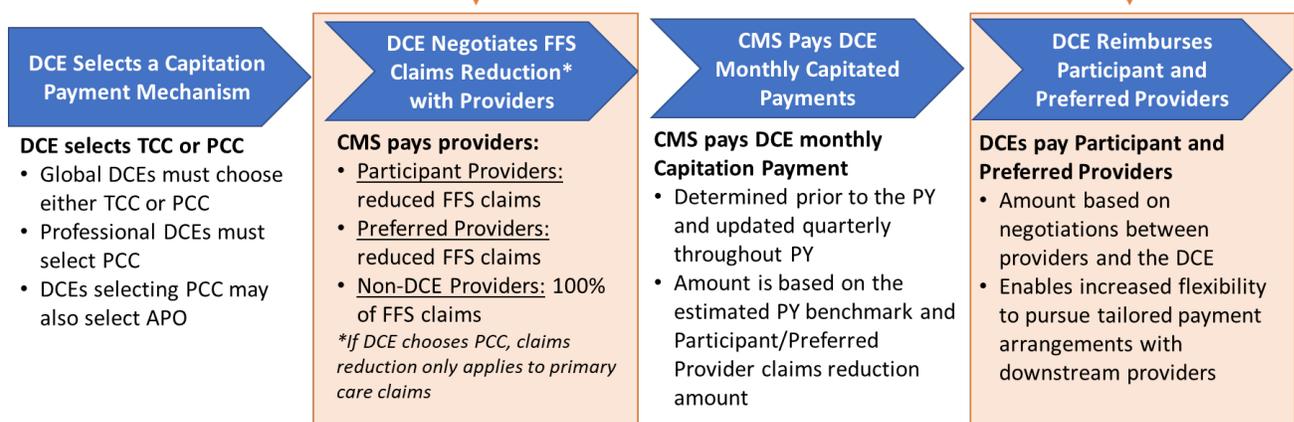
4.0 Capitation Payments Flow

Figure 1 below summarizes the overview of payment flow under the capitation payment mechanisms. A DCE selects a capitation payment mechanism, in addition to selecting the risk arrangement option. The DCE then negotiates with individual DC Participant Providers and Preferred Providers on the percent FFS claims reduction under the capitation. CMS will pay DCEs monthly capitated payments, which are determined prior to the PY, and will continue to pay the remaining claims by DC Participant Providers and Preferred Providers and all claims by non-associated providers on a FFS basis. Upon receiving the monthly capitated payments from CMS, the DCEs will reimburse DC Participant Providers and Preferred Providers based on prior negotiations between the DCE and the providers.

Figure 1. Payment flow overview

Capitation Payment Mechanisms

These amounts are determined based on negotiations between DCEs and providers



4.1 Claims Submission

Regardless of payment option, all providers shall continue to submit all claims for aligned beneficiaries to the Shared System Maintainers (SSMs) in accordance with standard Medicare FFS claims processing rules and procedures. Claims data supports monitoring, evaluation, and quality measurement.

4.2 Claims Processing and Reprocessing

When a claim is submitted to the SSMs, the SSMs adjudicate the claim and determine the payment amount to the provider(s). If a claim is for a service rendered to an aligned beneficiary by an aligned DC Participant Provider or Preferred Provider who has opted into any of the payment mechanisms (for TCC, PCC, or APO), based on the monthly updated provider and beneficiary alignment lists that the SSMs receives, the SSMs will reduce the Otherwise Payable Amount (OPA). The OPA is the amount the provider would have received from Traditional Medicare, i.e., the amount after accounting for beneficiary cost-sharing and the application of sequestration, that will be subject to alternative payment

reductions, which takes into account the percent claims reduction elected by the provider and reimburses the provider the remaining amount after the reduction.

Because the SSMs receives the monthly provider and beneficiary alignment lists prior to the start of a given month, the SSMs do not learn of a beneficiary's actual alignment status during the month until the next provider and beneficiary alignment lists are available. In cases where *a beneficiary has lost alignment during that month*, the SSMs would be reducing the OPA as if the beneficiary was still aligned, when the provider should have received the total OPA. In these cases, CMS will instruct the SSMs to re-process and re-adjudicate the claim, and reimburse the provider the OPA.

This process of claims reprocessing works similarly in the event that a DC Participant Provider or Preferred Provider terminates his/her agreement with the DCE during a given month. The services provided to aligned beneficiaries by the provider during this month are still eligible for reduction. Starting the next month, if any claims are erroneously reduced, CMS will instruct the SSMs to re-process and re-adjudicate the claims for services provided to aligned beneficiaries on or after the first day of that next month, and reimburse the provider the OPA. Providers added to the provider list during the PY are not eligible to participate in payment mechanisms and do not contribute to prospective monthly payment amounts. In addition, CMS reserves the right to adjust payments for a DCE if a significant number of the DC Participant Providers or Preferred Providers participating in capitation are removed from the DCE during the performance year.

In other cases, where *a beneficiary has become newly aligned* (e.g., because of Prospective Plus Alignment), CMS will establish a deadline before each quarter for the DCE to submit the list of voluntarily aligned beneficiaries. Beneficiaries' effective alignment date is on the first date of the subsequent quarter, which will be on or after the date the SSMs receive the updated alignment file. If the list is submitted after this deadline, the voluntarily aligned beneficiaries will not be considered aligned until the subsequent quarter.

Finally, through the SSMs, all DCEs will receive a weekly snapshot of all eligible Part A and B claims reduced and adjudicated in the prior week. This snapshot is known as the Weekly TCC/PCC/APO Reduction file. This file may serve a number of purposes to DCEs, from helping facilitate tailored payment arrangements between providers and DCEs to improving beneficiary engagement. This file will include fields related to the type and amount of claim reduction, beneficiary cost-sharing amounts, the linkage of an original claim to its adjustment, the source and type of a retrospective adjustment to a claim, and other relevant claim metadata.

4.3 CMS Payments to DCEs and DCE Payments to Providers

Prior to each quarter, CMS will calculate the monthly capitated payments for each DCE for the upcoming quarter, updated with the adjustments described in [Section 3](#). CMS will distribute directly to the DCEs the monthly TCC or PCC payments and, if applicable, the APO payments. CMS will continue to reimburse DCE Providers for services that are not applicable to the payment mechanisms on a FFS basis.

To ensure DCEs have sufficient cash flow to fund value-based activities and compensate downstream providers (e.g., if PY care patterns are meaningfully different than care patterns in the lookback period), CMS will add to the first month's payment of the PY an amount that is equal to 20 percent of the first month's payment. This additional amount will be deducted from the last month's payment of the PY.

After the DCE receives the monthly capitated payments from CMS, the DCE is responsible for distributing the payments to its DC Participant Providers and Preferred Providers, based on agreements between the DCE and each of its providers.

DCEs should be aware of the potential impact that the quarterly payment updates (see [Section 3](#)) and the claims reprocessing (see [Section 4.2](#)) may have on the monthly capitated payments received from CMS, and thus its payments to its providers. The payment update for the upcoming quarter may include over- or under-payments to the DCE from the previous quarter. The claims reprocessing due to beneficiary alignment changes in the previous quarter will also result in payment changes that a provider will directly receive from the SSMs. It is the DCE's and its providers' mutual responsibility to have an agreement on how to reconcile these payment adjustments.

5.0 Financial Reconciliation

At reconciliation, CMS compares the PY expenditure against the DCE's benchmark to determine shared savings or losses.

The PY expenditure is the total payment that has been made by Medicare for services provided to DCE-aligned beneficiaries during months in which they were aligned to the DCE. It is equal to the payments made to the DCE for services within the scope of the capitation payment (either via TCC or PCC), plus the FFS payments made to providers by the Medicare Administrative Contractors, including any reduction in FFS payments made under the APO (after they have been reconciled against actual reductions). The PY expenditure will then have the optional stop-loss payout and charge applied to it, when applicable.

The PY expenditure with stop-loss payout and charge applied to is then compared to the Total Benchmark Expenditure. The difference between the two terms is the Gross Savings/Losses, which can be expressed as the Gross Savings/Losses PBPM or as a percentage of the Total Benchmark Expenditure.

For detailed methodology of the Financial Reconciliation, refer to other specification papers such as the Financial Reconciliation document.

Appendix**Appendix Table A1.** Primary Care-Based Services Proposed to be Included Under the Primary Care Capitation (CPT¹/HCPC codes).

Administration of HRA	
96160	Administration of patient-focused health risk assessment instrument
96161	Administration of caregiver-focused health risk assessment instrument
Office or Other Outpatient Services	
99201	New patient, brief
99202	New patient, limited
99203	New patient, moderate
99204	New patient, comprehensive
99205	New patient, extensive
99211	Established patient, brief
99212	Established patient, limited
99213	Established patient, moderate
99214	Established patient, comprehensive
99215	Established patient, extensive
Domiciliary, Rest Home, or Custodial Care Services	
99324	New patient, brief
99325	New patient, limited
99326	New patient, moderate
99327	New patient, comprehensive
99328	New patient, extensive
99334	Established patient, brief
99335	Established patient, moderate
99336	Established patient, comprehensive
99337	Established patient, extensive
Professional Services Provided in a Non-Skilled Nursing Facility	
99304	Initial nursing facility care
99305	Initial nursing facility care
99306	Initial nursing facility care
99307	Subsequent nursing facility care
99308	Subsequent nursing facility care
99309	Subsequent nursing facility care
99310	Subsequent nursing facility care
99311	Subsequent nursing facility care
99312	Subsequent nursing facility care
99313	Subsequent nursing facility care
99314	Subsequent nursing facility care
99315	Nursing facility discharge services
99316	Nursing facility discharge services
99317	Nursing facility discharge services
99318	Other nursing facility care

Domiciliary, Rest Home, or Home Care Plan Oversight Services	
99339	Brief
99340	Comprehensive
Home Services	
99341	New patient, brief
99342	New patient, limited
99343	New patient, moderate
99344	New patient, comprehensive
99345	New patient, extensive
99347	Established patient, brief
99348	Established patient, moderate
99349	Established patient, comprehensive
99350	Established patient, extensive
Prolonged Care for Outpatient Visit	
99354	Prolonged visit, first hour
99355	Prolonged visit, add'l 30 mins
Telephone Visits – Online Digital or Audio Only	
99421	Online digital, Established patient, 5–10 mins
99422	Online digital, Established patient, 10–20 mins
99423	Online digital, Established patient, 21+ mins
99441	Phone, Established patient, 5–10 mins
99442	Phone, Established patient, 10–20 mins
99443	Phone, Established patient, 21+ mins
Chronic Care Management (CCM) Services	
99487	Extended care coordination time for especially complex patients (first 60 mins)
99489	Add'l care coordination time for especially complex patients (30 mins)
99490	Comprehensive care plan establishment/implementations/revision/monitoring
G0506	Add'l work for the billing provider in face-to-face assessment or CCM planning
Behavioral Health Integration (BHI) Services	
99484	Monthly services furnished using BHI models
99492	Initial psychiatric collaborative care management, first 70 mins
99493	Subsequent psychiatric collaborative care management, first 60 mins
99494	Initial or subsequent psychiatric collaborative care management, add'l 30 mins
Transitional Care Management Services	
99495	Communication (14 days of discharge)
99496	Communication (7 days of discharge)
Advance Care Planning	
99497	ACP first 30 mins
99498	ACP add'l 30 mins
Wellness Visits	
G0402	Welcome to Medicare visit
G0438	Annual wellness visit
G0439	Annual wellness visit
Depression and Alcohol Misuse	
G0442	Annual alcohol misuse screening
G0443	Annual alcohol misuse counseling

G0444	Annual depression screening
Professional Services Provided in Electing Teaching Amendment (ETA) Hospitals	
G0463	Professional services provided in ETA hospitals
Virtual Check-Ins	
G2010	Remote evaluation, Established patient
G2012	Brief communication technology-based service, 5-10 mins of medical discussion

¹ CPT codes, descriptions and other data only are copyright 2018 American Medical Association. All Rights Reserved. Applicable FARS/HHSAR apply. CPT is a registered trademark of the American Medical Association.

Appendix Table A2. Specialty codes used to identify primary care specialists.

Code¹	Specialty
1	General Practice
8	Family Medicine
11	Internal Medicine
37	Pediatric Medicine
38	Geriatric Medicine
50	Nurse Practitioner
89	Clinical Nurse Specialist
97	Physician Assistant

¹ The Medicare Specialty Code. A cross-walk between Medicare Specialty Codes and the Healthcare Provider Taxonomy is published on the CMS website at: <https://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/MedicareProviderSupEnroll/Downloads/TaxonomyCrosswalk.pdf>