

**Attachment L**  
**Pricing Methodology for Accountable Care Organizations (ACOs) and Managed Care Organizations (MCOs)**

*The Commonwealth may modify this Attachment with the approval of CMS without amending the STCs.*

**1. Unified approach to setting Total Cost of Care (TCOC) Benchmarks for Primary Care ACOs and setting prospective Capitation Rates for MCOs and Accountable Care Partnership Plans**

Massachusetts will set TCOC Benchmarks for Primary Care ACOs using a uniform methodology that aligns with the methodology for setting prospective Capitation Rates for MCOs and Accountable Care Partnership Plans (Partnership Plans) (together, MCOs, Partnership Plans, and Primary Care ACOs are Managed Care Entities (MCEs)). As described in STC 8.6, Partnership Plans and MCOs will be paid prospectively rated capitation payments, which are subject to annual rate certification, and Primary Care ACOs will share savings and losses with the Commonwealth based on comparison between their TCOC Performance and TCOC Benchmark (i.e., their performance on managing the costs of their attributed or enrolled population). The Commonwealth may also pay Primary Care ACOs' Participating PCPs an enhanced fee-for-service rate for coordination of the care delivered to their attributed Primary Care ACO enrolled members, which will be set forth in the Participating PCP contracts. The TCOC benchmark (for Primary Care ACOs) or prospective Capitation Rate (for MCOs and Partnership Plans) will be developed as follows:

1. A benchmark or rate will be developed for each individual rate cell, where a rate cell is defined as a specific region and rating category (e.g., Rating Category I – Adults in Greater Boston Region).
2. All such benchmarks and rates will be based on a unified base dataset, which will be constructed as follows:
  - a) Claims and encounter experience for all Managed Care-eligible lives, including members enrolled in the MCEs and the Primary Care Clinician (PCC) Plan, will be aggregated for a baseline period established annually by the Commonwealth (e.g., one to three years of the most recent available history).
3. Only MCO and Accountable Care Partnership Plan covered services and Primary Care ACO TCOC included services will be included in the base data.
  - a) Actual prices paid for covered services during the baseline period will be re-priced to reflect MassHealth FFS rates for those services. The methodology used to re-price services delivered during the base period will be developed by the Commonwealth and be included in the ACPP and MCO rate certifications submitted to CMS.
4. For each rate cell, actuarial methods will be applied to the base dataset to estimate the average per-member per-month total cost of care ("market-rate TCOC"). Actuarial adjustments could account for factors such as, but not limited to, the following:
  - a) Changes in member risk and enrollment.
  - b) Completion for incurred but not reported encounters in the base data.
  - c) Anticipated program changes between the base period and the performance

- period.
  - d) Cost and utilization trends from the base period to the performance period.
  - e) Other adjustments as appropriate.
5. This market-rate TCOC will be consistent across all MCEs within each rate cell, and will be incorporated into the final benchmarks and rates, along with the Network Variance factor as described in the following section.

## **2. Development and incorporation of the Network Variance Factor in TCOC Benchmarks and prospective Capitation Rates**

The Commonwealth will incorporate an MCE-specific Network Variance Factor into the TCOC Benchmarks for Primary Care ACOs and into the prospective Capitation Rates for ACPPs and MCOs.

The Commonwealth will calculate and apply the Network Variance Factor for each MCE, for each Performance Year, as follows:

1. The Network Variance Factor will equal the MCE's projected TCOC divided by the market projected TCOC, after applying adjustments for each MCE's member mix across rate cells and member acuity.
  - a) For each MCE, using a similar methodology and adjustments to those used to calculate the market-rate TCOC, the Commonwealth will develop for each rate cell an MCE's historic TCOC based on the cost experience in the base period for the Managed Care eligible members attributed to primary care providers participating in the MCE.
  - b) The Commonwealth then projects the MCE-specific costs and the market costs from the base period to the Performance Year. The Network Variance Factor represents the variance between an MCE's projected TCOC and the market projected TCOC that cannot be explained by variation in price or member risk.
2. The Commonwealth will multiply each MCE's market-rate TCOC (after applying adjustments for each MCE's member mix across rate cells and member acuity) by the MCE's Network Variance Factor. The Commonwealth will calculate and apply the Network Variance Factor each year, but intends to place a decreasing weight on the Network Variance Factor over time.
3. Development and incorporation of non-market adjustments in TCOC Benchmarks and prospective Capitation Rates. There will be two adjustments to the market-based standard and MCE-specific TCOC build up described above: 1) the Provider Mix Modifier (relevant to all MCEs) and 2) the Primary Care Sub-Capitation Program (relevant to ACPPs and PCACOs only). These adjustments will be reflected in the core medical capitation rates and TCOC benchmarks.
  - a) The Provider Mix Modifier (PMM) is a MCE-specific adjustment that reflects the unique composition of a provider's network and the estimated impact on average payment per unit of service.
  - b) Through the tiered portion of the primary care sub-capitation model, increased payment will be tied to enhanced care delivery expectations to catalyze ongoing improvements in primary care services. These tiered payments will be reflected in an ACO-specific manner when developing rates or benchmarks.