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Accountable Care Organization Reinsurance:
Partnering with Providers on Downside Risk

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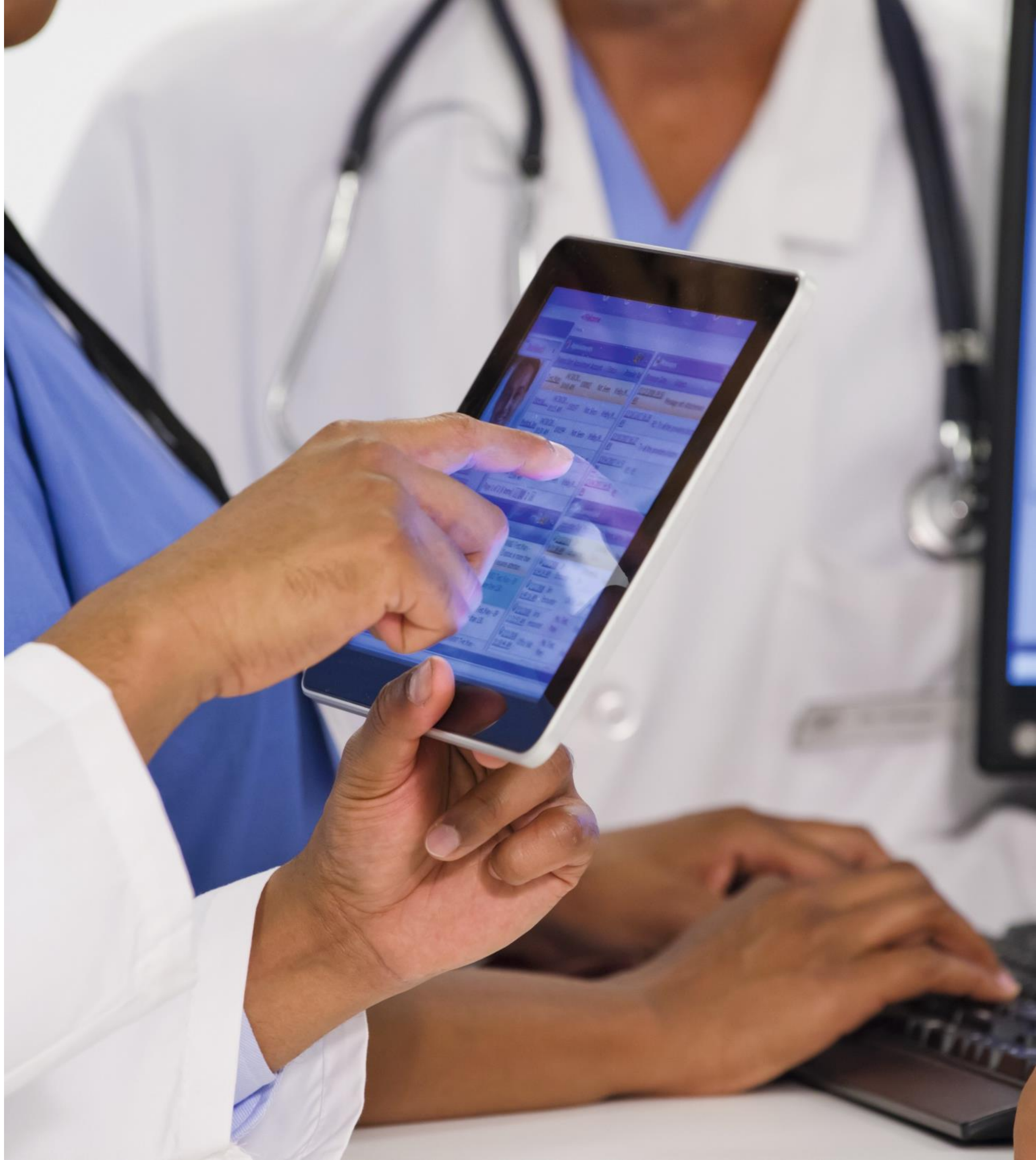
somewhat different



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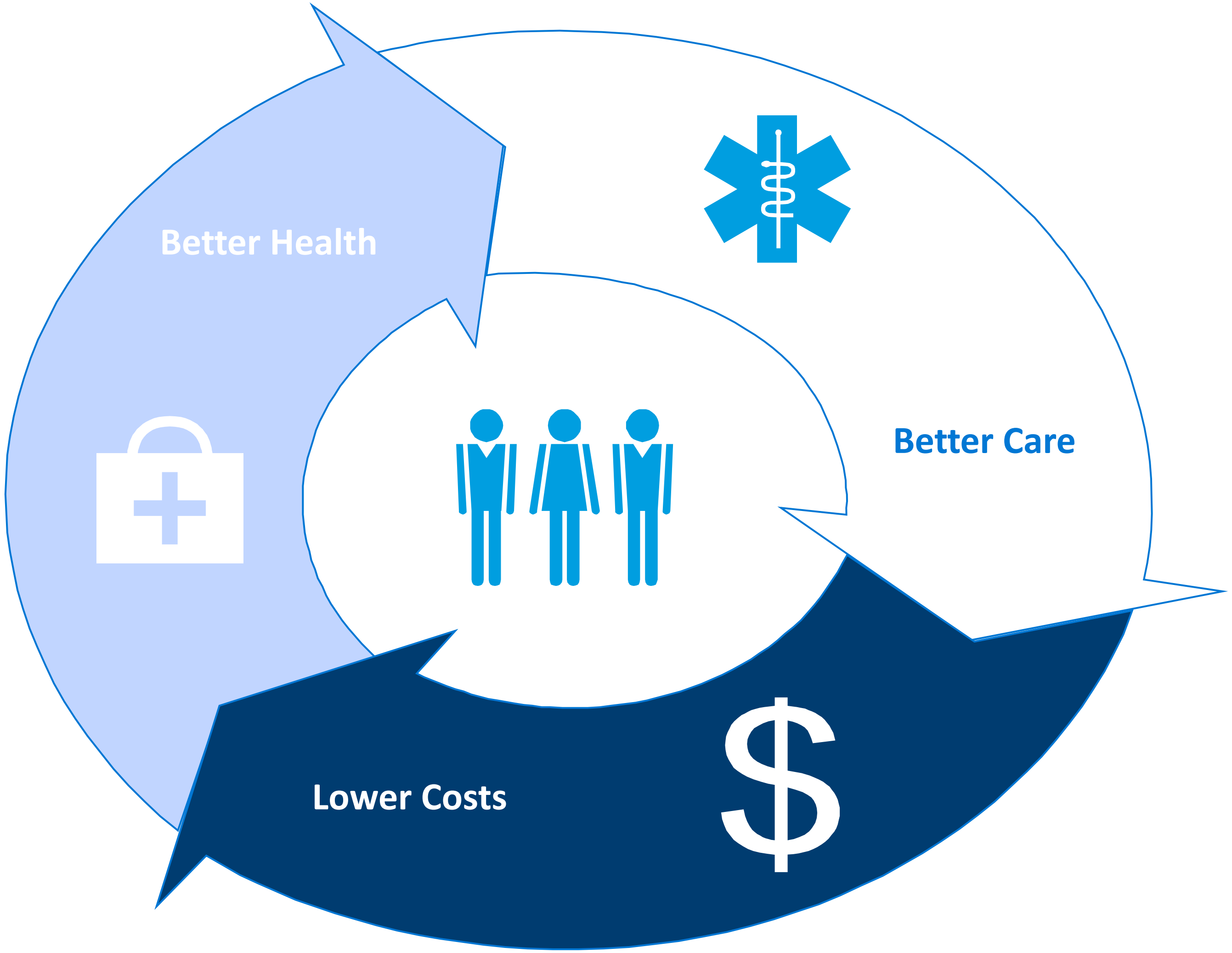
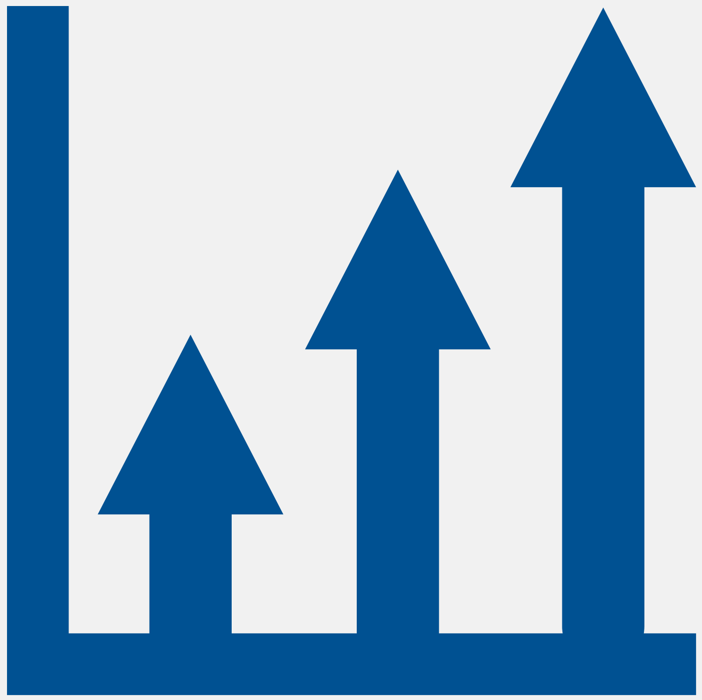
What Is Value Based Care?



Growth in Value Based Contracting

- Accountable Care Organizations (ACOs) with CMS leading the way
  - Over 700 ACO entities participating in 2024
  - ACOs now serve nearly half of individuals with traditional Medicare (13.7 million people)
  - CMS has the goal of having all traditional Medicare members in an ACO by 2030

- Payers making major investments
  - CVS purchase of Oak Street Health for $10.6B brings VBC to 1.6 million members in Indiana and Michigan
  - Humana had 70% of their individual Medicare Advantage members aligned VBC providers



Hurdles in Value Based Care

? - Lack of understanding on network adjustments and their impact on future performance
  - Revenue versus claims and impact of care management programs

? - Difficulty monitoring current year results
  - Risk adjustment and trend estimates

? - Contract negotiations and clarity around key terms
  - Member attribution logic and data timing

? - Financial Guarantees
  - Issues due to delays in settlements and large growth

! - New to risk taking and low risk tolerance
  - Lack of understanding of claims volatility

Types of Risks ACOs Face

Technical Risk

The risk that elements of the financial benchmark do not compensate the ACO for the expected cost of care

Insurance Risk

Risk associated with unknown or random variation in the utilization and cost of services

Performance Risk

The risk of inefficiency and/or suboptimal quality of the delivery of health care services

Operational Risk

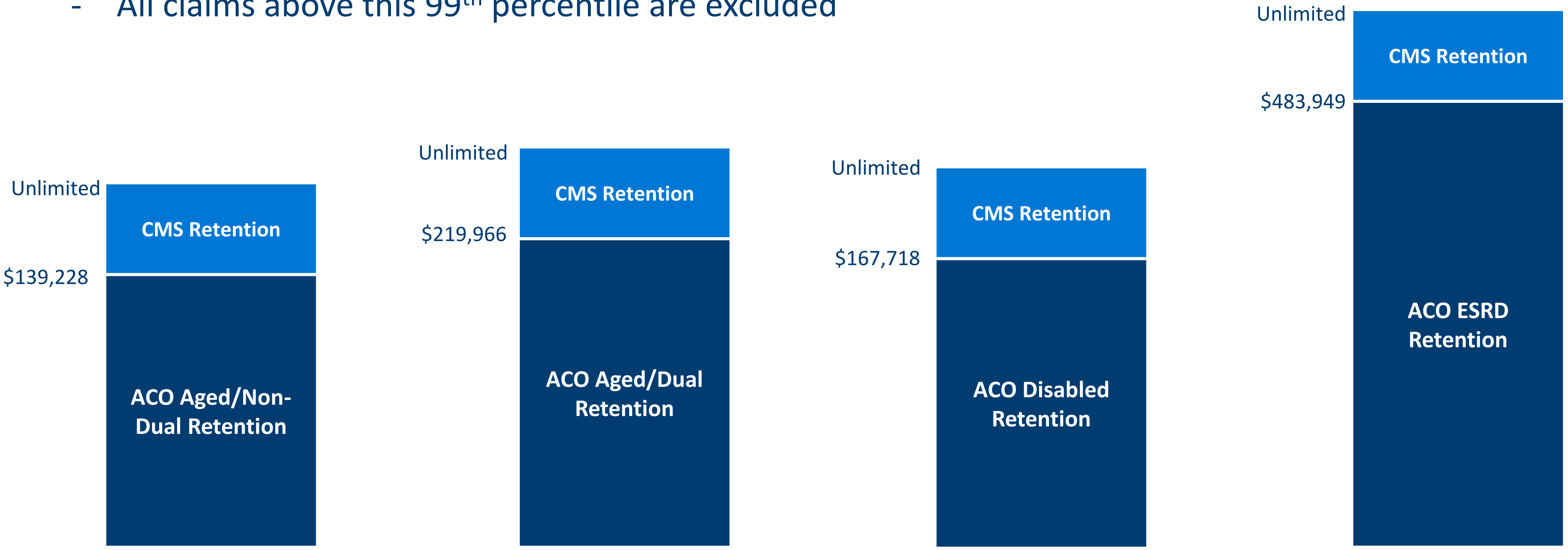
The risks related to operations of the ACO, for example, regulatory compliance

MSSP Specific Stop-Loss

MSSP ACOs have a truncation threshold built into the determination of final expenditures

- Each year, CMS calculates the 99th percentile of national un-weighted expenditures by enrollment type

- All claims above this 99th percentile are excluded



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ACO REACH Program Specific Stop-Loss

- ACO REACH specific stop-loss is individualized by beneficiary

- Each beneficiary has its residual expenditures calculated which is the excess in claims over the predicted expenditures
  - Predicted Expenditures = ACO Benchmark Ratebook Rate * Beneficiary Risk Score * Regional Baseline Adjustment * Months of Alignment in Performance Year * GAF Trend Factor

- Stop-Loss Attachment Point is calculated such that the total model payout for each historical year is equal to a set percentage of the total spend for the year (2% in 2024) and payouts must be budget neutral

- Specific Stop-Loss claims are paid in a banding approach as outlined in the table below:

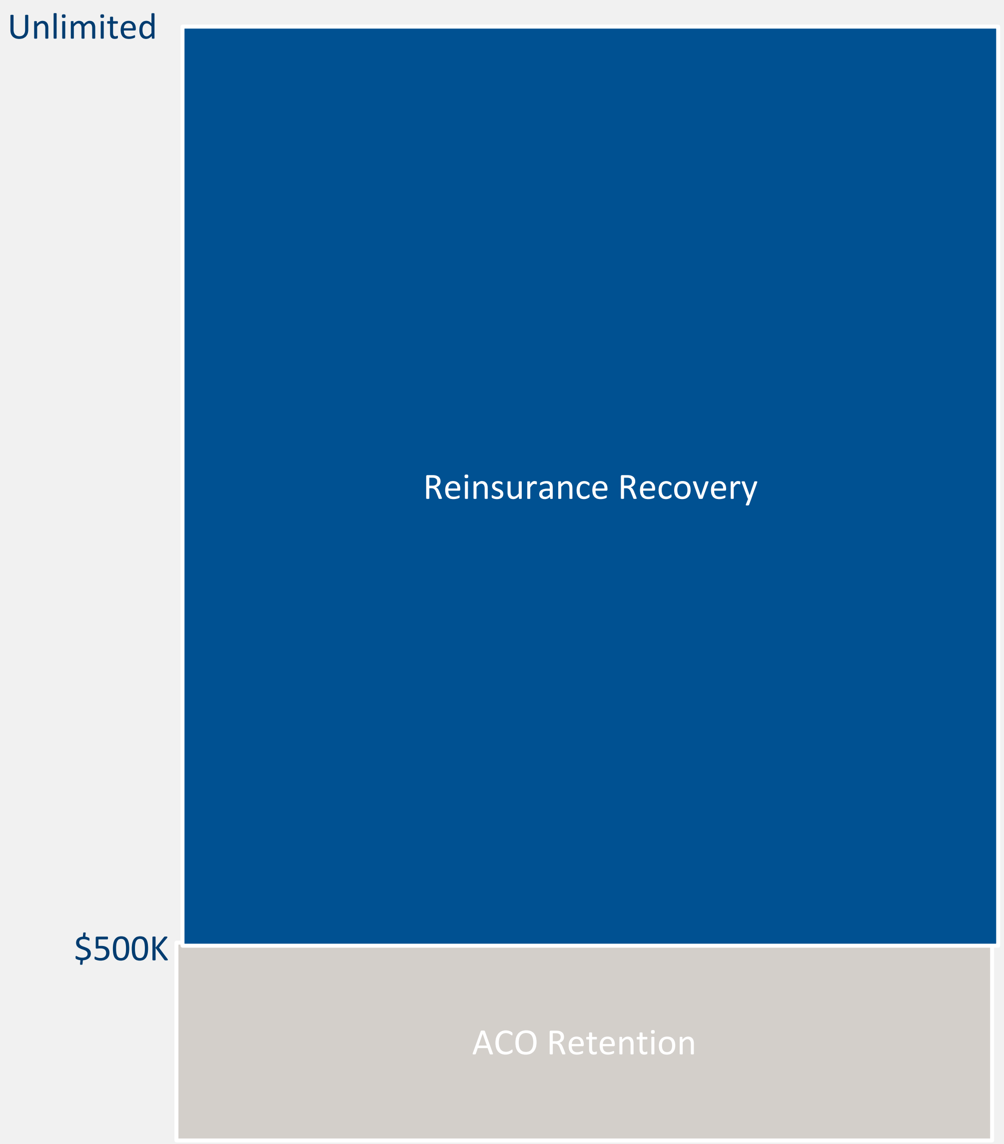
Stop-Loss Band	Start Band	End Band	Stop-Loss Payout Rate
Band 1	Beneficiary Attachment Point	200% of Beneficiary Attachment Point	80%
Band 2	200% Beneficiary Attachment Point	No Upper Limit	100%

ACO REACH Program Specific Stop-Loss Example

	Calculation of Stop-Loss Payout for Individual Beneficiary		Value
1	Attachment Point		$150,000
2	Predicted Spend		$100,000
3	Actual Spend		$500,000
4	**Residual Expenditure (Line 3 - Line 2)**		**$400,000**
		Below Attachment Point	$150,000
		Risk band 1 (100% to 200% of AP)	$150,000
		Risk band 2 (Beyond 200% of AP)	$100,000
5	**Total Payout**		**$220,000**
		Risk band 1 (80% Payout)	$120,000
		Risk band 2 (100% Payout)	$100,000

Commercial Specific Stop-Loss Reinsurance Basics

- Covers an individual ACO member's claims above a deductible
- Percentage of losses above deductible may vary
    - 80%-100% is typical
- Deductibles typically range from $200K to $1M
- Per member limits typically from $1M to unlimited
- Most familiar type of reinsurance coverage



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Comparison of ACO REACH Specific Stop-Loss Options

Commercial Specific Stop-Loss Option

Pros:

- Flexibility around attachment points
- Unique cost savings features
  - Lasers
  - Aggregating specific deductibles
  - Experience refunds
- Simple coverage terms
- Flexibility around rating methodology
- Competitive landscape

Cons:

- Requires some administrative work
- May include exclusions or limits
  - Wound care biologics
  - Members who opt out of data sharing

ACO REACH Specific Stop-Loss Option

Pros:

- No exclusions or limits
- No administration needed by the ACO after election
- No additional loads in rates

Cons:

- No flexibility around attachment points
  - Lower attachment points not appropriate for larger ACOs
- Difficult to understand
  - Banding approach
  - Predicted expenditures vary by member
- No flexibility around rating methodology

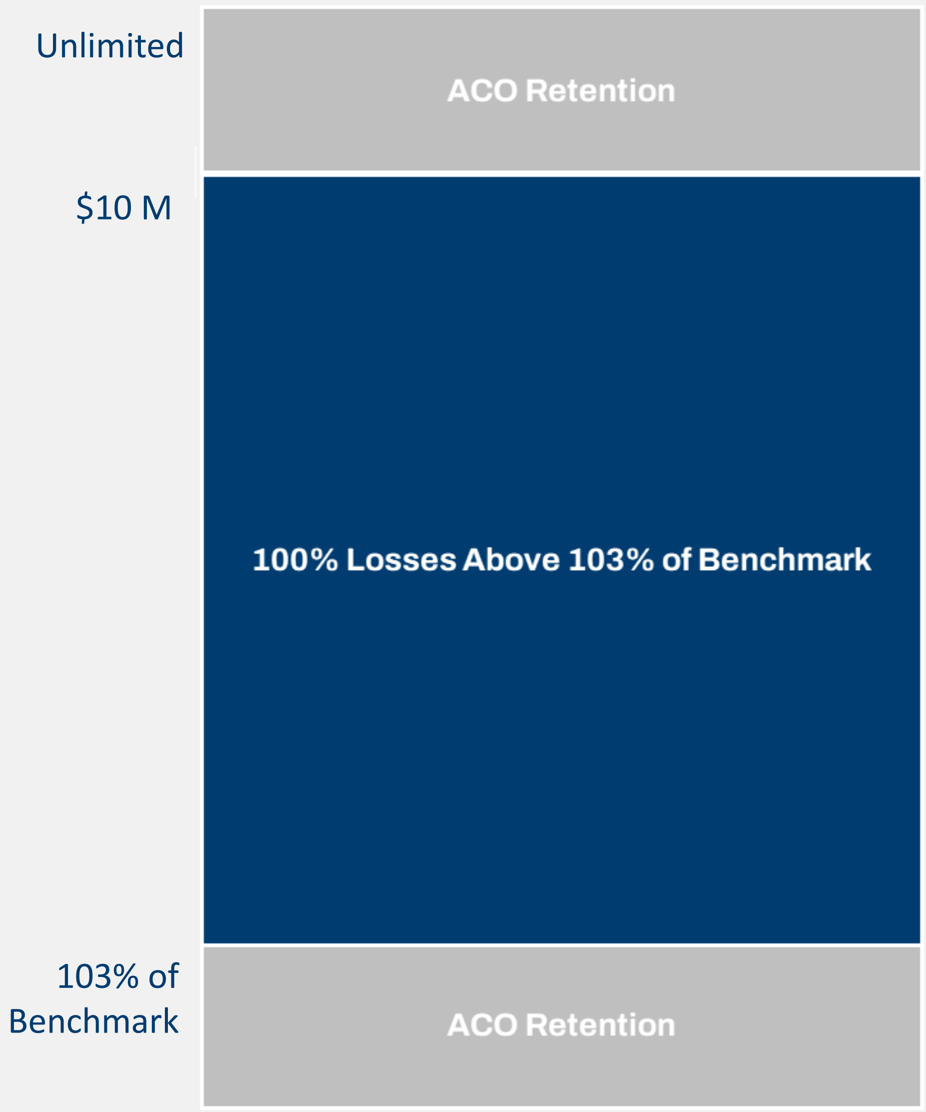
ACO Program Risk Corridors and Limits

- ACOs do not have a built-in aggregate stop-loss solution offered by CMS but instead have risk corridors and limits
- MSSP ACOs are responsible for losses up to 15% of their benchmark revenue
- ACO Reach entities have no maximum loss limit but instead have loss corridors
  - Global ACOs take 100% of losses up to 25% of benchmark revenue and a lesser share after
  - Professional ACOs use the risk table below

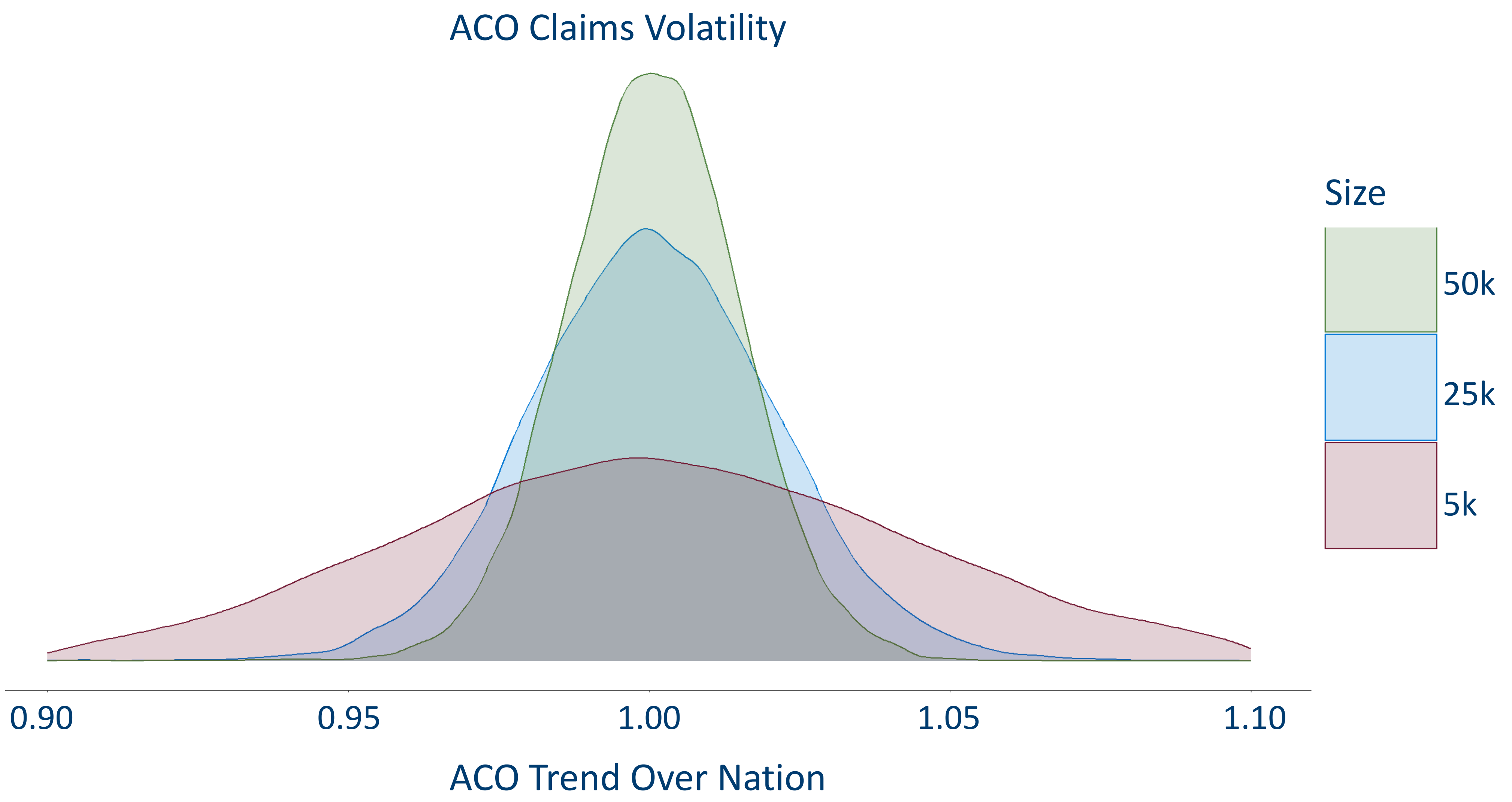
Risk Corridor	Savings/Losses
Less than 5%	50% of Savings/Losses
Between 5% and 10%	35% of Savings/Losses
Between 10% and 15%	15% of Savings/Losses
Greater than 15%	5% of Savings/Losses

Commercial Aggregate Reinsurance Basics

- Covers an ACO's claims above an attachment point
- Attachment point is set based off ACO benchmark
  - Can be set as a percentage or dollar deductible
  - Typically ranges from 101%-105% of benchmark
- Percentage of losses above attachment point may vary
  - 50%-100% is typical
- Maximum reinsurance payouts typically between $5M and $50M
- Follows CMS final settlement
- Maintains losses at ACO's preferred risk appetite



Evaluating Aggregate Risk – Claims Volatility



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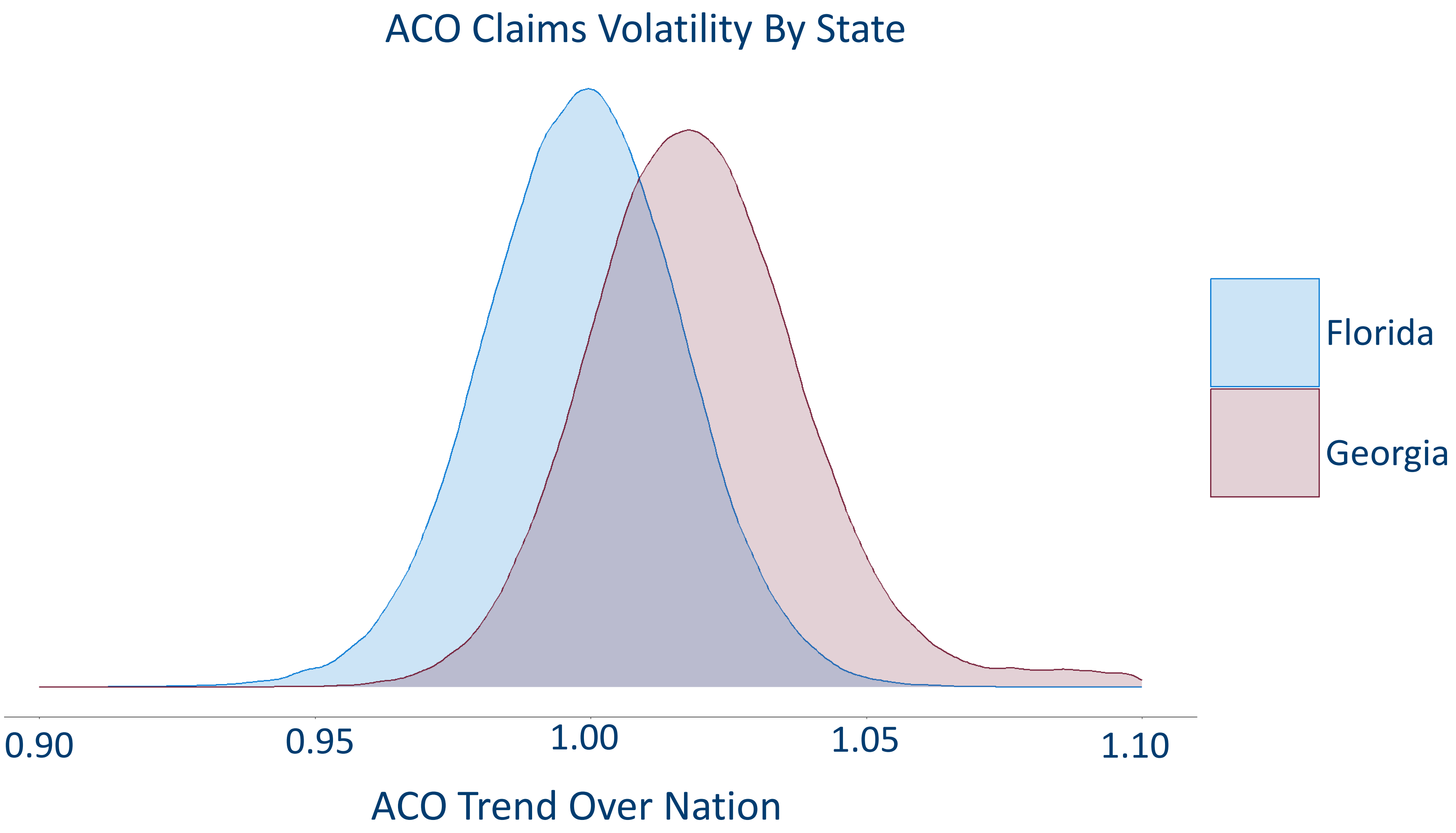

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Evaluating Aggregate Risk – ACO Baseline Expectation

ACO Baseline Expectation Build-up

Final Benchmark

Trend Adjustment

- Positive or negative performance relative to peers from base period to performance year

Regional Adjustment

- Positive or negative performance relative to regional peers in base period

BY 3 Relative to Benchmark

- Efficiencies/Inefficiencies created due to weighting of base period

Baseline Benchmark

- Determined using historical base period and program specific methodology

Evaluating An ACO's Performance Year

ACO Baseline Expectation

- 1% ACO baseline savings
  - 2% positive regional adjustment
  - -1% trend adjustment

Performance Year Claims Volatility

- ACO has 25,000 beneficiaries
- Providers located across the nation

Final Performance Year Result

- While the ACO has a 1% positive baseline expectation, general claims volatility can skew results
- Events outside of the ACO's direct control can lead to losses in any year
  - Unexpected change in specialist referral pattern behavior
  - Regional specific events outside of the ACOs control
- Reinsurance provides protection against this volatility in any given year

Comparison Of Specific And Aggregate Stop-Loss

Specific Stop-Loss

- Covers the risk that a member has an unexpected large increase in claims
  - Small number of members generating large claims
- Large individual claims are typically **not** the cause of ACOs generating a loss
  - The greater the benchmark revenue, the less impact specific stop-loss claims have on overall results
- Expect to receive specific stop-loss reimbursements every year

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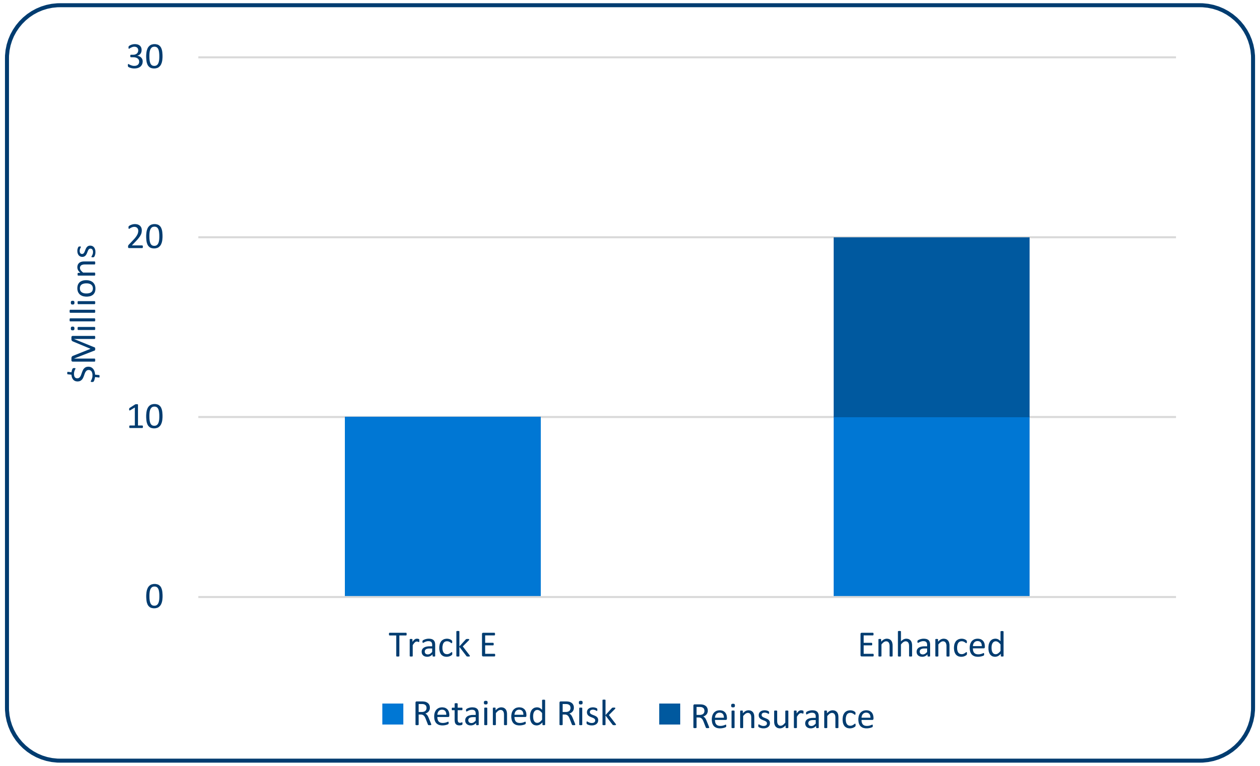
Aggregate Stop-Loss

- Covers the risk that the majority of the ACO population sees increased utilization of services relative to a reference population
  - Large number of members generating marginal increase in claims
- Can limit overall losses or manage risk to an appropriate level when moving risk tracks
  - Stronger budget certainty
- Reinsurance recovery is not expected every year

Aggregate Stop-Loss Solutions – Moving Risk Tracks

Reinsurance can be used to retain similar risk levels when moving risk tracks

- In order to retain additional savings additional risk must be taken
- Increase in risk through maximum exposure and risk share
- Reinsurance allows ACOs to cap downside risk at previous levels



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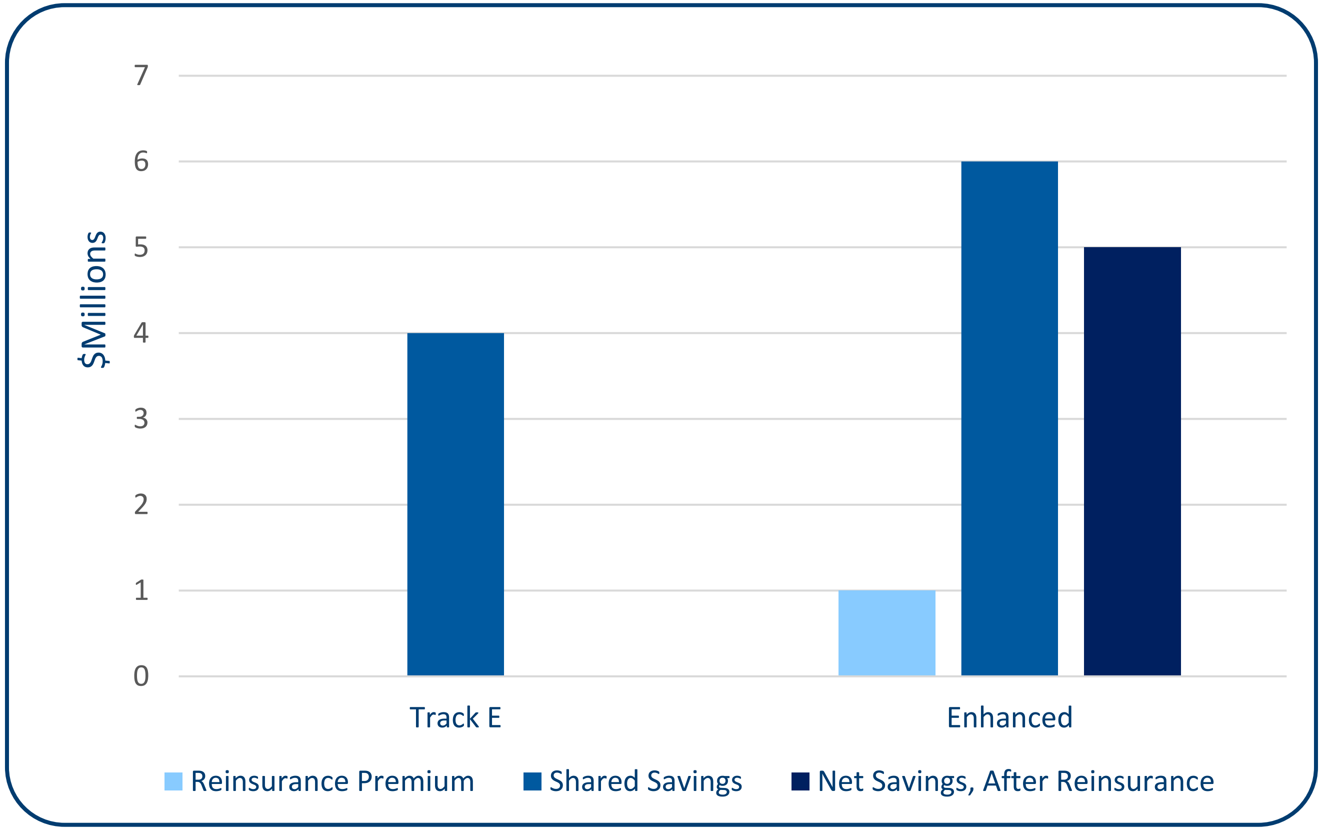
Aggregate Stop-Loss Solutions – Moving Risk Tracks

Reinsurance can be used to generate additional savings while maintaining similar risk levels

- Increase in savings is retained by the ACO

- More savings generated leads to a more efficient reinsurance structure



Aggregate Stop-Loss Solutions – Subgroup Aggregate

ACO Parent:
Retains 75% of Group A's Risk, and 70% of Group B's Risk

Provider Group A:
Retains 25% of financial risk

Provider Group B:
Retains 30% of financial risk

- Parent ACO may share financial risk differently with multiple provider groups
- Reinsurance coverage can be obtained for both the parent and/or subgroups
- Allows for additional, unique risk to be covered
- Protection in event new group added to ACO is a poor performer

Aggregate Stop-Loss Solutions – Pooled Aggregate

ACO 1:
20,000 Beneficiaries
3% Expected Savings

ACO 2:
10,000 Beneficiaries
1% Expected Savings

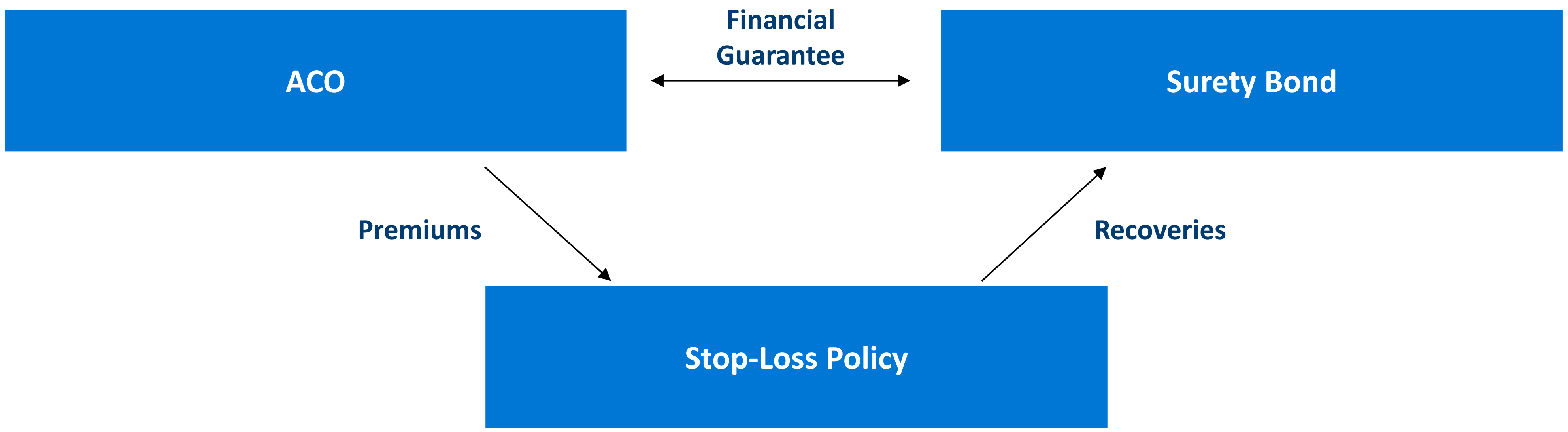
Pooled ACO 1 and 2:
30,000 Beneficiaries
2.3% Expected Savings

- ACOs may have a common parent company, allowing for pooled coverage
- Due to smaller size, ACO 2 is expected to be more volatile
- Combining ACO 1 and ACO 2 allows for diversification of risks and better pricing

ACO Solutions – Financial Guarantees

- ACOs are required to hold up to 4% of their revenue as a financial guarantee in one of the following forms:
  - Cash
  - Letter of Credit
  - Surety Bond (most common)

- A surety bond company will typically require some form of collateral in the event of a loss due to CMS
  - Reinsurance may be able to lower the collateral requirements of the ACO



Q&A