IAP | Medicaid Innovation Accelerator Program

Key Considerations for Incentivizing Value-Based Payment in Medicaid Managed Care through Withhold Arrangements

Value-Based Payment and Financial Simulations Technical Assistance

In July 2014, the Centers for Medicare & Medicaid Services (CMS) launched a collaborative between the Center for Medicaid and CHIP Services and the Center for Medicare & Medicaid Innovation (CMMI) called the Medicaid Innovation Accelerator Program (IAP). The goals of IAP are to improve health and health care for Medicaid beneficiaries and to reduce costs by supporting states in their ongoing payment and delivery system reforms. The Value-Based Payment and Financial Simulations functional area began in September 2016 and this resource, which was originally developed to meet state technical assistance requests, is now available to a national audience to further advance VBP efforts among state Medicaid agencies.

Introduction

A "withhold" is a type of risk arrangement to encourage health plan or provider performance. In a "withhold arrangement"[1] between a state Medicaid agency and a managed care plan (MCP),[2] a portion of the expected capitation payment is withheld. The MCP must meet targets, such as quality or cost performance targets specified in their contract, to receive withheld funds from the state at the end of the performance period.[3] A withhold may be used with an "incentive arrangement" in which an MCP may receive additional funds over and above the capitation rates based on meeting targets.[4] As states examine approaches for incentivizing value-based payment (VBP)[5] models, some have incorporated VBP adoption targets in their withhold arrangements. Therefore, the return of withheld funds depends on MCP progress toward VBP targets, such as a target percentage of provider payments or plan members that MCOs cover through VBP arrangements.

This brief describes key considerations for states that are designing a withhold arrangement tied to VBP targets.[*] To properly implement a withhold arrangement with an MCP, states must consider the federal regulations governing withhold arrangements, which are described in Exhibit 1 on page 4. This brief also highlights the activities of four Medicaid agencies—Arizona, Louisiana, South Carolina, and Washington State—that use a withhold approach to encourage VBP adoption.[6]

[*] The state contract information contained in this document is current as of May 2020.

Key Considerations for Encouraging VBP through a Withhold Arrangement

There are five steps that states encouraging VBP adoption through a withhold arrangement can consider:

1. Setting the percentage of capitation rate at risk
2. Setting a VBP target and determining withhold processes
3. Incorporating quality targets
4. Validating and reporting VBP performance
5. Pairing the withhold arrangement with an incentive arrangement

See Exhibit 2 for examples of these considerations, drawn from withhold arrangements for Arizona, Louisiana, South Carolina, and Washington State.

Setting the percentage of capitation at risk

When implementing a withhold arrangement, states must ensure that the capitation payment is actuarially sound, considering both the total withhold amount and the achievability of the targets in the withhold arrangement.[7] Unlike incentive arrangements, which are subject to a five percent cap,[8] federal rules do not set a similar numerical limit for withhold arrangements. Under 42 C.F.R. § 438.6(b)(3), the capitation payment minus any portion of the withhold "that is not reasonably achievable" must be actuarially sound. The states included in this report withheld between one to two percent of the capitation rates.

Setting VBP targets and determining withhold processes

In a VBP withhold arrangement, the state returns withheld funds if the MCP meets VBP targets specified in its contract. These targets may require MCPs to make progress toward increasing: (1) the percentage of managed care members receiving care under a VBP arrangement; (2) the percentage of provider payments tied to VBP; (3) the percentage of provider contracts that incorporate VBP approaches; or (4) the percentage of medical expenditures tied to VBP. States often set their initial targets based on baseline data on the VBP adoption within their state. Many states work to incrementally increase the target in each contract year to encourage VBP adoption among MCPs.

States must determine an appropriate methodology for returning withheld funds subject to their MCPs meeting (or partially meeting) these VBP targets. Some states take an "all-or-nothing" approach. Arizona for example, requires their MCPs to fully meet VBP targets to receive any withheld funds for each contract year.[9] Under this approach, states do not grant credit to those that partially meet VBP targets. Conversely, Washington will return a portion of withheld funds to MCPs for partial progress toward VBP targets.[10]

The MCP does not receive the withheld amount until the MCP meets the conditions for payment in the withhold arrangement.[11] However, states withhold and release funds at different times during the contract period. Louisiana withholds a percentage of the capitation rate at the time it pays MCPs their monthly capitation payment; it also releases withheld funds and reduces the percentage withheld throughout the year as the MCP meets contract requirements.[12] Alternatively, Arizona pays MCPs the full capitation rate throughout the year. After the completion of the contract year, Arizona recoups the full amount withheld from each MCP and places it in a quality pool.[13] The state then returns the percentage of withheld funds earned between one and three months after quality reports for the measurement year are issued.[14]

Incorporating quality targets

As a component of its overall quality and performance improvement strategy, states often include both quality and VBP targets in their withhold arrangements. Withhold arrangements, in accordance with 42 C.F.R. § 438.6(b)(3)(v), must be necessary for the specified activities, targets, performance measures, or quality-based outcomes that support program initiatives as specified in the state's quality strategy. Therefore, incorporating quality and VBP targets may allow states to align their withhold arrangement with their quality strategy and any related performance improvement initiatives.

Some states employ a "bucketed" approach to ensure that adequate progress is made toward different sets of targets. These metric buckets are often independent of one another, but progress must be across all sets of targets to receive the entirety of the withheld funds. For example, Washington divides the amount that MCPs can earn back into three independent buckets. The state returns up to 75 percent of the withheld funds to MCPs for meeting quality metric targets; up to another 12.5 percent of the withheld funds to MCPs for meeting VBP targets (i.e., the percentage of payments to providers associated with VBP contracts); and up to 12.5 percent of the withheld funds to MCPs for meeting provider incentive targets (i.e., the percentage of incentives and disincentives for provider cost and quality performance, relative to total assessed payments). An MCP in Washington cannot receive the entirety of its withheld funds without meeting targets in each area.[15] Similarly, Louisiana divides its withheld funds into two independent buckets.[16] The state returns half of the withheld funds based on meeting quality performance targets and the other half based on advancing VBP goals. Like Washington, MCPs must meet targets for both quality and VBP to receive the entirety of the withheld funds. In addition, Louisiana requires MCPs to demonstrate how their VBP models align with the MCP performance measures in their contract with the state.

Arizona and South Carolina use VBP targets as a threshold requirement, which means that satisfactory VBP progress acts as a "gatekeeper" for quality targets. In these states, the amount MCPs can earn from their withheld funds is primarily calculated through their performance on quality measures. However, in order to be eligible for the full portion of the funds, the MCP must meet state-specified VBP targets. For example, MCPs in Arizona must first meet state VBP targets to qualify to earn withheld funds and incentives as part of the state's "Earned Withhold and Quality Measure Performance Incentive Payment Program." If the MCP does not meet the VBP targets, it will not receive any portion of its withheld payments, regardless of its quality scores.[17] Relatedly, MCPs in South Carolina participate in a "Quality Withhold and Bonus Program," which requires MCPs to make progress toward quality metrics to earn withheld funds. Although the program focuses on quality metrics, the MCP forfeits 25 percent of withheld funds for failure to meet state VBP targets.[18] Therefore, the MCP can receive, at most, 75 percent of its withheld funds based on satisfactory progress on quality metrics, if it fails to meet state VBP targets. If the MCP meets the state VBP targets, then 100 percent of the withheld funds are tied to meeting quality metrics.

Validating and reporting VBP performance

States encouraging VBP approaches through withhold arrangements must also implement reporting requirements and approaches to validating MCPs' achievement of VBP targets. States often require MCPs to complete a detailed report demonstrating their achievement of VBP targets. For example, Washington requires MCPs to delineate total payments made under a VBP arrangement, and uses a third-party validator to ensure the report's accuracy.[19] Louisiana allows for MCPs to submit individual VBP reports based on a state template—to ensure consistency across MCPs—which are then reviewed by a third party for compliance with state standards.[20]

Creating a paired incentive arrangement

Implementing both incentive and withhold arrangements, some states pay bonuses to high-performing MCPs out of an incentive pool tied to the amount of unearned withheld funds. For example, both South Carolina and Arizona create a pool from unearned funds and use this pool to pay bonuses to high-performing MCPs. Washington also offers value-based purchasing incentives out of a challenge pool funded with delivery system reform incentive payment (DSRIP) and unearned withheld funds.[21] Because states cannot simply repurpose and redistribute unearned withheld funds, a state must abide by federal rules on both incentive arrangements and withhold arrangements when creating an incentive arrangement tied to unearned withheld funds.[22] Under 42 C.F.R. §

438.6(b)(2), an MCP may not receive more than 105 percent of their capitation payments.[23] Therefore, bonuses given to MCPs, out of unearned withheld funds or otherwise, may not exceed this limit.

Exhibit 1: Federal Regulations to Consider when Implementing a Withhold Arrangement

Federal Regulations to Consider when Implementing a Withhold Arrangement
• Definition (42 C.F.R. § 438.6(a)): Withhold arrangement means any payment mechanism under which a portion of a capitation rate is withheld from a Managed Care Organization (MCO), Prepaid Inpatient Health Plan (PIHP), or Prepaid Ambulatory Health Plan (PAHP) and a portion of or all of the withheld amount will be paid to the MCO, PIHP, or PAHP for meeting targets specified in the contract. The targets for a withhold arrangement are distinct from general operational requirements under the contract. Arrangements that withhold a portion of a capitation rate for noncompliance with general operational requirements are a penalty and not a withhold arrangement. • 42 C.F.R. § 438.6(b)(3) (i-v): For all withhold arrangements, the contract must provide that the arrangement is— ○ For a fixed period of time and performance is measured during the rating period under the contract in which the withhold arrangement is applied. ○ Not to be renewed automatically. ○ Made available to both public and private contractors under the same terms of performance. ○ Does not condition MCO, PIHP, or PAHP participation in the withhold arrangement on MCO, PIHP, or PAHP entering into or adhering to intergovernmental transfer agreements. ○ Necessary for the specified activities, targets, performance measures, or quality-based outcomes that support program initiatives as specified in the state's quality strategy under 42 C.F.R. § 438.340. • 42 C.F.R. § 438.6(b)(3): Contracts that provide for a withhold arrangement must ensure that the capitation payment minus any portion of the withhold that is not reasonably achievable is actuarially sound as determined by an actuary. • 42 C.F.R. § 438.6(b)(3): The total amount of the withhold, achievable or not, must be reasonable and take into consideration the MCO's, PIHP's or PAHP's financial operating needs accounting for the size and characteristics of the populations covered under the contract, as well as the MCO's, PIHP's, or PAHP's capital reserves as measured by the risk-based capital level, months of claims reserve, or other appropriate measure of reserves. • 42 C.F.R. § 438.6(b)(3): The data, assumptions, and methodologies used to determine the portion of the withhold that is reasonably achievable must be submitted as part of the documentation required under 42 C.F.R. § 438.7(b)(6).

Exhibit 2: 2019 State Examples of Withhold Arrangements with VBP Targets

State	Total Percent of Capitation at Risk	Portion of the Withhold Tied to VBP Targets	Portion of the Withhold Tied to Quality Performance Targets	Paired Incentive Arrangement?
Arizona[24,25]	1%	VBP target is a threshold requirement. In order to qualify for an Earned Withhold and/or Quality Measure Performance (QMP) Incentive payment, the Contractor must meet the state's VBP targets.[26]	All earned withhold and incentive payments will be made to contractors based on relative contractor performance for the measurement year on selected Quality Management Performance Measures.	Yes
Louisiana[27]	2%	Half of the total withhold amount shall be applied to incentivize VBP arrangements.	Half of the total withhold amount shall be applied to incentivize quality and health outcomes.	No
South Carolina[28,29]	1.5%	VBP target is a threshold requirement. Failure to meet the Alternative Payment Model (APM) target shall result in forfeiture of 25% of the withhold dollars.	MCPs earn back all withheld funds by meeting performance and improvement standards on quality indices of Healthcare Effectiveness Data and Information Set (HEDIS) metrics.	Yes
Washington[30]	1.5%	Up to 12.5% of the withhold may be earned back by implementing qualifying provider incentives /disincentives. Up to 12.5% of the withhold may be earned by ensuring that a certain percentage of payments is tied to VBP.	Up to 75% of the withhold may be earned by achieving quality improvement and attainment targets.	Yes

Additional information on the Value-Based Payment and Financial Simulations functional area can be found at: https://www.medicaid.gov/resources-for-states/innovation-accelerator-program/functional-areas/value-based-payment-financial-simulations/index.html.

References

[1] Full definition included in Exhibit 1. See Managed Care 42 C.F.R. § 438.6(a) (defining "withhold arrangement"). Available at: https://www.govinfo.gov/content/pkg/CFR-2016-title42-vol4/pdf/CFR-2016-title42-vol4-sec438-6.pdf

[2] Here, the term "managed care plan" (MCP) includes managed care organizations (MCOs), prepaid inpatient health plans (PIHPs), and prepaid ambulatory health plans (PAHPs)—terms defined in 42 C.F.R. § 438.2.

[3] Ibid.

[4] Ibid.

[5] VBP refers to payment models that range from rewarding for performance in fee-for-service to capitation, including alternative payment models and comprehensive population-based payments.

[6] According to the Kaiser Family Foundation Survey of Medicaid Officials in 50 states and DC, for state fiscal year 2019, 21 states require MCOs to set targets for payments through alternative payment models and 14 of these have an incentive or penalty associated with these targets. Of these 14 states, the number that use withholds specifically is not known. Available at: http://files.kff.org/attachment/Report-A-View-from-the-States-Key-Medicaid-Policy-Changes

[7] See 42 C.F.R. § 438.6(b)(3) ("Contracts that provide for a withhold arrangement must ensure that the capitation payment minus any portion of the withhold that is not reasonably achievable is actuarially sound as determined by an actuary.") Available at: https://www.govinfo.gov/content/pkg/CFR-2016-title42-vol4/pdf/CFR-2016-title42-vol4-sec438-6.pdf

[8] See 42 C.F.R. § 438.6(b)(2) ("Contracts with incentive arrangements may not provide for payment in excess of 105 percent of the approved capitation payments attributable to the enrollees or services covered by the incentive arrangement, since such total payments will not be considered to be actuarially sound.")

[9] See State of Arizona, AHCCS Contractor Operations Manual, 306 – Alternative Payment Model Initiative – Withhold and Quality Measure Performance Incentive, page 3 of 5. ("In order to qualify for an Earned Withhold and/or QMP Incentive payment, the Contractor shall meet the APM strategies qualifying criteria as described in ACOM Policy 307.") Available at: https://www.azahcccs.gov/shared/Downloads/ACOM/PolicyFiles/300/306.pdf

[10] Washington State, Integrated Managed Care Contract, Effective January 1, 2020 – December 31, 2020, Exhibit E. Available at: https://www.hca.wa.gov/assets/billers-and-providers/ipbh_fullyintegratedcare_medicaid.pdf

[11] See 81 Fed. Reg. 27580 ("The withhold amount is not paid to the managed care plans until the conditions for payment are met by the managed care plan. Therefore, the state claims FFP for the amount of the withhold through the CMS-64 only if a managed care plan has satisfied the conditions for payment under the withhold arrangement and the amount has been paid to the managed care plan. If a managed care plan does not earn some or all of the withhold amount, no federal or state dollars are expended for those amounts.") Available at: https://www.govinfo.gov/content/pkg/FR-2016-05-06/html/2016-09581.htm

[12] State of Louisiana, Managed Care Contracts, Section 5.4. Available at: http://ldh.la.gov/index.cfm/page/1763

[13] State of Arizona, Ibid.

[14] State of Arizona, Ibid.

[15] Washington State, Fully Integrated Managed Care Contract, Effective January 1, 2020 – December 31, 2020, Exhibit D. Available at https://www.hca.wa.gov/assets/billers-and-providers/ipbh_fullyintegratedcare_medicaid.pdf

[16] State of Louisiana, Ibid.

[17] State of Arizona, Ibid.

[18] South Carolina Department of Health and Human Services, Contract between South Carolina Department of Health and Human Services and Contractor for the purchase and provision of medical services under the South Carolina Medicaid Managed Care Program. Section 15.5. July 1, 2018. Available here: https://msp.scdhhs.gov/managedcare/sites/default/files/2018%20MCO%20Contract%20-%20Final.pdf

[19] State of Washington, Ibid.

[20] State of Louisiana, Ibid.

[21] State of Washington, Ibid.

[22] In its preamble to the final managed care rules published in 2016, the Centers for Medicare & Medicaid Services stated that unearned amounts under a withhold arrangement do not create a residual pool to be repurposed and redistributed. 81 Fed. Reg.

27497, 27580.

[23] 42 C.F.R. § 438.6(b)(2).

[24] State of Arizona, Ibid.

[25] Arizona Health Care Cost Containment System, AHCCCS Complete Care, Contract No. YH19-0001, https://www.azahcccs.gov/Resources/Downloads/ContractAmendments/ACC/ACC_Contract_Amend_1.pdf

[26] State of Arizona, 307– Alternative Payment Model Initiative – Strategies and Performance-Based Payments Incentive. Available at: https://www.azahcccs.gov/shared/Downloads/ACOM/PolicyFiles/300/307.pdf

[27] State of Louisiana, Ibid.

[28] South Carolina, Healthy Connections Medicaid, Policy and Procedures Guide for Managed Care Organizations, July 1, 2018. Available at: https://msp.scdhhs.gov/managedcare/sites/default/files/MCO%20PP%20July%202018_Final%20Post%2006-29-18.pdf

[29] State of South Carolina, Ibid.

[30] State of Washington, Ibid.