or greater than the MS–DRG geometric mean, the normal MS–DRG payment is fully allocated to the episode.

(iii) If the actual length of stay that occurred during the episode is less than the geometric mean, the normal MS–DRG payment amount is allocated to the episode based on the number of inpatient days that fall within the episode.

(iv) If the full amount is not allocated to the episode, any remainder amount is allocated to the post-episode spending calculation (determined in §512.307(c)).

§ 512.305 Determination of the NPRA and reconciliation process.

(a) General. Providers and suppliers furnishing items and services included in the EPM episode bill for such items and services in accordance with existing rules and as if this part were not in effect.

(b) Annual reconciliation. CMS annually performs the processes described in paragraphs (c) and (d) of this section to determine actual episode payments for each EPM episode for the performance year (except for episodes that have been canceled in accordance with §512.240(a)(2), (b)(2), and (c)(2)) and determines the amount of a reconciliation payment to or Medicare repayment amount from EPM participants, if any, for that performance year.

(c) Annual reconciliation to establish NPRA. (1) Beginning 2 months after the end of each performance year and using the most recent claims data and non-claims-based payment data available, CMS performs a reconciliation calculation to establish an NPRA for each EPM participant based on the following process.

(2) CMS—

(i) Assesses whether EPM participants are in an acceptable or better quality category under §512.315; and

(ii) Calculates the NPRA for each EPM participant for each performance year by comparing the quality-adjusted target prices and the EPM participant’s actual episode payments for the performance year or portion of that performance year as described in §512.300 as follows:

(A) Determines actual EPM episode payments for each EPM episode included in the performance year or portion of that performance year.

(B) Multiplies the quality-adjusted target price by the number of non-canceled EPM episodes included in the performance year or portion of that performance year to which that episode quality-adjusted price applies and aggregates these amounts.

(C) Subtracts the amount determined under paragraph (c)(2)(ii)(A) of this section from the amount determined under paragraph (c)(2)(ii)(B) of this section.

(iii) Applies the following:

(A) Limitation on loss. Except as provided in paragraphs (c)(2)(iii)(C) and (D) of this section, the total amount of the NPRA and subsequent reconciliation calculation for a performance year or portion of that performance year cannot exceed the following:

(1) For performance year 2—

(i) Five percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year if the EPM participant elected downside risk for that year.

(ii) Five percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year for all other EPM participants.

(2) For performance year 3, 5 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(3) For performance year 4, 10 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(4) For performance year 5, 20 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(B) Limitation on gain. The total amount of the NPRA and subsequent reconciliation calculation for a performance year cannot exceed the following:

(1) For performance years 1, 2, and 3, 5 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(2) For performance year 4, 10 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(3) For performance year 5, 20 percent of the amount calculated in paragraph
(c)(2)(ii)(B) of this section for the performance year.

(C) Financial loss limits for rural hospitals, SCHs, MDHs, and RRCs. The total amount of the NPRA and subsequent reconciliation calculation for a performance year cannot exceed the following:

(i) For performance year 2—

(ii) Zero percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year for all other EPM participants.

(ii) For performance year 3, 3 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(iii) For performance years 4 and 5, 5 percent of the amount calculated in paragraph (c)(2)(ii)(B) of this section for the performance year.

(D) Financial loss limits for EPM volume protection hospitals. EPM participants may be determined to be an EPM volume protection hospital under an EPM.

(i) An EPM participant is determined to be an EPM volume protection hospital under a model if their total volume of EPM historical episodes is at or below the 10th percentile of hospital-specific historical EPM episodes for hospitals with one or more episodes located in the MSAs eligible for selection into that specific EPM.

(ii) CMS establishes thresholds as specified in paragraph (c)(2)(iii)(D)(1) of this section based on episodes beginning in the time period specified in §512.300(c)(1)(i).

(iii) For an EPM participant determined to have a low volume of episodes within a model as specified in paragraph (c)(2)(iii)(D)(1) but not paragraph (c)(2)(iii)(C) of this section, then the financial loss limits specified under paragraph (c)(2)(iii)(C) of this section are applied.

(iv) CMS posts to the CMS Web site the threshold established in this section and a list of CCNs of EPM participants that are classified as EPM volume protection hospitals.

(v) CMS communicates to each EPM participant whether it is classified as an EPM volume protection hospital at the same time that CMS communicates quality-adjusted target prices as described in §512.300(c)(9).

(E) Application of limitations on losses and gains. CMS establishes limits on losses and gains specifically with respect to and separately for each EPM.

(d) Determination of reconciliation or repayment amount—(1) General. (i) Subject to paragraphs (c)(2)(iii)(B) and (d)(1)(iii) of this section, for performance year 1, the reconciliation payment (if any) is equal to the NPRA.

(ii) Subject to paragraphs (c)(2)(iii)(A) through (D) and (d)(1)(iii) of this section, for performance years 2 through 5, results from the subsequent reconciliation calculation for a prior year’s reconciliation, as described in §512.307, and the post-episode spending and ACO overlap calculations, as described in §512.307(b) and (c), are added to the current year’s NPRA in order to determine the reconciliation or repayment amount.

(iii) The reconciliation or repayment amount may be adjusted as described in §512.460(b).

(2) Reconciliation payment. If the amount described in paragraph (d)(1) of this section is positive and the EPM participant quality category as described in §512.315 is acceptable, good, or excellent, Medicare pays the EPM participant a reconciliation payment in an amount equal to the amount described in paragraph (d)(1) of this section. If the EPM participant’s quality category as described in §512.315 is unacceptable, the EPM participant is not eligible to be paid a reconciliation payment.

(3) Repayment amount. If the amount described in paragraph (d)(1) of this section is negative, the EPM participant pays to Medicare an amount equal to the amount described in paragraph (d)(1) of this section, in accordance with §405.371 of this chapter. CMS waives this requirement for performance year 1.

(e) EPM participants found to be engaged in inappropriate and systemic under delivery of care. If the EPM participant is found to be engaged in an
inappropriate and systemic under delivery of care as specified in §512.460(b)(1)(i)(C), the quality of the care provided must be considered to be seriously compromised and the EPM participant must be ineligible to receive or retain a reconciliation payment for any period in which such under delivery of care was found to occur.

(f) Reconciliation report. (1) CMS issues each EPM participant a reconciliation report for the performance year. Each reconciliation report contains the following:

(i) Information on the EPM participant’s composite quality score described in §512.315.

(ii) The total actual episode payments for the EPM participant.

(iii) The NPRA.

(iv) Whether the EPM participant is eligible for a reconciliation payment or must make a repayment to Medicare.

(v) The NPRA and subsequent reconciliation calculation amount for the previous performance year, as applicable.

(vi) The post-episode spending amount and ACO overlap calculation for the previous performance year, as applicable.

(vii) The reconciliation payment or repayment amount.

(2) For performance year 2, the reconciliation report would also include information separately for the performance year 2 (DR) and performance year 2 (NDR) portions of that year.

§512.307 Subsequent calculations.

(a) Subsequent reconciliation calculation. (1) Fourteen months after the end of each performance year, CMS performs an additional calculation, which accounts for changes since the calculation of the initial NPRA, using claims data and non-claims-based payment data available at that time, to account for final claims run-out, final changes in non-claims-based payment data, and any additional episode cancellations due to overlap or other reasons as specified in §512.240(a)(2), (b)(2), and (c)(2).

(2) The additional calculation occurs concurrently with the reconciliation process for the most recent performance year and determines the subsequent calculation amount as follows:

(i) If the result of the subsequent reconciliation calculation is different than zero, CMS applies the stop-loss and stop-gain limits in §512.305(c)(2)(iii)(A) through (D) to the calculations in aggregate for that performance year (the initial reconciliation from §512.305(c)(2)(ii)(C), before application of the stop-loss and stop-gain limits, and the subsequent reconciliation calculation) to ensure the calculations in aggregate do not exceed the stop-loss or stop-gain limits. CMS then takes the difference between that amount and the initial NPRA after application of the stop-loss and stop-gain limits in §512.305(c)(2)(iii)(A) through (D) to determine the subsequent calculation amount.

(ii) CMS then applies the subsequent calculation amount to the NPRA for the most recent performance year in order to determine the reconciliation amount or repayment amount for the most recent performance year.

(iii) Because EPM participants that elected downside risk in performance year do not have financial repayment responsibility for performance year 1, for the performance year 2 reconciliation report only, the subsequent calculation amount (for performance year 1) is applied to the performance year 1 NPRA to ensure that the combined amount is not less than zero.

(iv) Because EPM participants that have not elected downside risk in performance year 2 do not have financial repayment responsibility for performance years 1 or 2, for the performance year 2 and performance year 3 reconciliation reports only, the subsequent calculation amount (for performance year 1 or performance year 2) is applied to the performance year 1 or performance year 2 NPRA to ensure that the combined amount is not less than zero.

(b) Additional calculations to determine the reconciliation payment or repayment amount. CMS reduces the reconciliation payment or increases the repayment amount for the subsequent performance year to account for shared savings paid to the ACO in the prior performance year by the amount of the EPM discount factor paid out to the ACO as shared savings in the prior performance year. This adjustment is only