

---

# Oregon’s Health Care Cost Growth Target Program - Examples of When a Penalty Would Apply

May 2024

The following are examples of when a financial penalty would apply to an accountable entity in the Health Care Cost Growth Target Program.

In order for an accountable entity to be subject to a financial penalty, the entity must have 3 instances of exceeding the target with statistical confidence and without an acceptable reason in 5 sequential years within a given market (i.e. commercial, Medicare Advantage, or Medicaid/Oregon Health Plan). For the purpose of this document, assume any instance of exceeding the target met statistical confidence thresholds and there was no acceptable reason for exceeding the target.

## The Rolling Five-Year Penalty Period

### Example #1

Entity’s year-to-year growth of total medical expenses (TME) per member per month (PMPM) are as follows:

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Cost growth	3.9%	3.5%	4.2%	3.3%	3.0%
Exceeded target?	Yes	Yes	Yes	No	No

The five-year period shown in the table above is from the 2021-2022 period through the 2025-2026 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027 <sup>1</sup>
<b>Cost growth</b>	3.9%	3.5%	4.2%	3.3%	3.0%	4.1%
<b>Exceeded target?</b>	Yes	Yes	Yes	No	No	Yes

The five-year period has shifted to the right and is now from the 2022-2023 period through the 2026-2027 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario. Note that an entity will be penalized only once for a given year's performance, which means the *value* of the penalty will only reference the 2026-2027 period because the entity already paid a penalty for the previous years' worth of growth (2022-23 and 2023-24 and received the benefit of being under the target in 2024-2025 and 2025-2026).

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
<b>Cost growth</b>	3.9%	3.5%	4.2%	3.3%	3.0%	4.1%	2.9%
<b>Exceeded target?</b>	Yes	Yes	Yes	No	No	Yes	No

The five-year period has shifted to the right and is now from the 2023-2024 period through the 2027-2028 period. The entity did not exceed the target in three of the five years. No penalty applies.

### **Example #2**

Entity's year-to-year growth of total medical expenses (TME) per member per month (PMPM) are as follows:

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<b>Cost growth</b>	3.0%	2.8%	4.2%	3.9%	5.8%
<b>Exceeded target?</b>	No	No	Yes	Yes	Yes

---

<sup>1</sup> Starting in 2026, the cost growth target is assumed to be 3.0%, as directed by the Cost Growth Target Implementation Committee.

The five-year period shown in the table above is from the 2021-2022 period through the 2025-2026 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>Cost growth</b>	3.0%	2.8%	4.2%	3.9%	5.8%	4.1%
<b>Exceeded target?</b>	No	No	Yes	Yes	Yes	Yes

The five-year period has shifted to the right and is now from the 2022-2023 period through the 2026-2027 period. The entity exceeded the target in at least three of the five years. A financial penalty applies to this scenario. Note that an entity will be penalized only once for a given year’s performance, which means the value of the penalty will only reference the 2026-2027 period because the entity already paid a penalty for the previous years’ worth of growth.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
<b>Cost growth</b>	3.0%	2.8%	4.2%	3.9%	5.8%	4.1%	3.0%
<b>Exceeded target?</b>	No	No	Yes	Yes	Yes	Yes	No

The five-year period has shifted to the right and is now from the 2023-2024 period through the 2027-2028 period. The entity exceeded the target in three of the five years but has already been penalized for these years. The entity will not face a penalty for this year.

**Example #3**

Entity’s year-to-year growth of total medical expenses (TME) per member per month (PMPM) are as follows:

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%
<b>Exceeded target?</b>	No	Yes	Yes	No	Yes

The five-year period shown in the table above is from the 2021-2022 period through the 2025-2026 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%	4.1%
<b>Exceeded target?</b>	No	Yes	Yes	No	Yes	Yes

The five-year period has shifted to the right and is now from the 2022-2023 period through the 2026-2027 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario. Note that an entity will be penalized only once for a given year’s performance, which means the value of the penalty will only reference the 2026-2027 period because the entity already paid a penalty for the previous years’ worth of growth.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%	4.1%	3.0%
<b>Exceeded target?</b>		Yes	Yes	No	Yes	Yes	No

The five-year period has shifted to the right and is now from the 2023-2024 period through the 2027-2028 period. The entity will not face a penalty for this year because they have already been penalized for the previous years.

**Example #4**

Unlike all other examples in this document, Example #4 shows the result of an entity that exceeds the target with an acceptable reason.

Entity's year-to-year growth of total medical expenses (TME) per member per month (PMPM) are as follows:

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%
<b>Exceeded target?</b>	No	Yes	Yes	No	Yes

The five-year period shown in the table above is from the 2021-2022 period through the 2025-2026 period. The entity exceeded the target in three of the five years. However, for the 2025-2026 performance period, the entity provided acceptable reasons for exceeding the cost growth, which accounted for more than 0.5% of the cost growth, thus successfully justifying the excess above the target of 3.4%.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%
<b>Exceeded target?</b>	No	Yes	Yes	No	Yes
<b>Acceptable Reason for exceeding target?</b>	Not applicable	No	No	Not applicable	Yes

Therefore, no penalty applies for the five-year period.

A single year passes.

	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027 <sup>2</sup>
<b>Cost growth</b>	3.2%	3.5%	4.2%	3.3%	3.9%	4.1%
<b>Exceeded target?</b>	No	Yes	Yes	No	Yes, but acceptable	Yes

The five-year period has shifted to the right and is now from the 2023-2024 period through the 2026-2027 period. The entity exceeded the target without an acceptable reason in three of the five years. The growth in 2025-2026 exceeded the target but there was an acceptable reason. Therefore, the 2025-2026 does not count towards the minimum of three out of five years exceeding the target. A financial penalty applies for this year because the entity exceeded the target without an acceptable reason three times in the most recent five years.

---

<sup>2</sup> Starting in 2026, the cost growth target is assumed to be 3.0%, as directed by the Cost Growth Target Implementation Committee.

## Calculating the Penalty

### Example #1

Using the values in Example 1 from the section above, the following illustrates how the penalty would be calculated.

Entity's total medical expenses (TME) per member per month (PMPM), growth percentage, and number of member months are as follows:

	2021	2022	2023	2024	2025	2026
<b>TME PMPM</b>	\$500	\$519.50	\$537.68	\$560.27	\$578.75	\$596.12
<b>Growth Percentage from previous year</b>	-	3.9%	3.5%	4.2%	3.3%	3.0%
<b>Member Months</b>	100,000	100,000	100,000	100,000	100,000	100,000
<b>Exceeded target?</b>	-	Yes	Yes	Yes	No	No

After calculating the most recent growth percentage in 2026, OHA will look back to the previous five years (2022-2026) when determining if a penalty is required. The entity exceeded the target in three out of five years and a penalty is warranted. For the purposes of this example, the entity's growth rates are over the target with statistical confidence and without an acceptable reason.

To calculate this entity's penalty amount, assess how far over or under the TME PMPM is from the target.

	2021	2022	2023	2024	2025	2026
<b>Exceeded target?</b>	-	Yes	Yes	Yes	No	No
<b>How far over (or under) the target?</b>	-	0.5%	0.1%	0.8%	(0.1)	0
<b>Multiply how far over (or under) the target by the TME PMPM</b>		\$2.50	\$0.52	\$4.30	(\$0.56)	\$0.00
<b>Multiply the row above by Member Months</b>		\$250,000	\$51,950	\$430,146	(\$56,027)	\$0

Next, sum across all five years:

$$\$250,000 + \$51,950 + \$430,146 + (-\$56,027) + \$0 = \$676,069$$

Finally, apply the deflator value. Given that this is the first instance of a penalty for this entity for this market, the deflator value is 5%.

$$5\% * \$676,803 = \mathbf{\$33,803}$$

A single year passes.

	2021	2022	2023	2024	2025	2026	2027
<b>TME PMPM</b>	\$500	\$519.50	\$537.68	\$560.27	\$578.75	\$596.12	\$625.92
<b>Growth Percentage from previous year</b>	-	3.9%	3.5%	4.2%	3.3%	3.0%	5.0%
<b>Member Months</b>	100,000	100,000	100,000	100,000	100,000	100,000	100,000
<b>Exceeded target?</b>	-	Yes	Yes	Yes	No	No	Yes

The five-year period has shifted to the right and is now from the 2022-2023 period through the 2026-2027 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario. The entity already received a penalty for the 2021-2022 through the 2025-2026 period and will not be double penalized. Therefore, only the growth rate in 2027 (the 5.0%) will inform the calculation of the penalty.

	2021	2022	2023	2024	2025	2026	2027
<b>Exceeded target?</b>	-	Yes	Yes	Yes	No	No	Yes
<b>How far over (or under) the target?</b>	-	0.5%	0.1%	0.8%	(0.1)	0	2.0%
<b>Multiply how far over (or under) the target by the TME PMPM</b>		\$2.50	\$0.52	\$4.30	(\$0.56)	\$0.00	\$11.92
<b>Multiply the row above by Member Months</b>		\$250,000	\$51,950	\$430,146	(\$56,027)	\$0	\$1,192,233

The entity was already penalized for cost growth exceeding the target through 2026. The most recent year of 2027 is the only year that applies to the penalty calculation.



Sum across all years that have not yet been accounted for in a previous penalty. In this case, the value for 2027 is the only value, which is \$1,192,233.

Finally, apply the deflator value. Given that this is the *second* instance of a penalty for this entity for this market, the deflator value is 10%.

$$10\% * \$1,192,233 = \mathbf{\$119,223}$$

Three years pass, including one year (2028) of cost growth below the target and two years (2029 and 2030) above the target, such that the entity's costs and cost growth are as follows:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>TME PMPM</b>	\$500	\$519.50	\$537.68	\$560.27	\$578.75	\$596.12	\$625.92	\$638.44	\$715.05	\$740.08
<b>Growth Percentage from previous year</b>	-	3.9%	3.5%	4.2%	3.3%	3.0%	5.0%	2.0%	12.0%	3.5%
<b>Member Months</b>	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
<b>Exceeded target?</b>	-	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes

The five-year period has shifted to the right and is now from the 2025-2026 period through the 2029-2030 period. The entity exceeded the target in three of the five years. A financial penalty applies to this scenario. The entity already received a penalty after exceeding the target in 2027 and the entity will not be double penalized. Therefore, only the growth rate in 2029 (the 12.0% growth) and in 2030 (the 3.5% growth) will inform the calculation of the penalty.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Exceeded target?	-	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes
How far over (or under) the target?	-	0.5%	0.1%	0.8%	(0.1)	0	2.0%	(1.0%)	9.0%	0.5%
Multiply how far over (or under) the target by the TME PMPM		\$2.50	\$0.52	\$4.30	(\$0.56)	\$0.00	\$11.92	(\$6.26)	\$57.46	\$3.58
Multiply the row above by Member Months		\$250,000	\$51,950	\$430,146	(\$56,027)	\$0	\$1,192,233	(\$625,922)	\$5,745,967	\$357,527

The entity was already penalized for cost growth exceeding the target through 2027. The years 2028 through 2030 are the only years that apply to the penalty calculation.

Sum across all years that have not yet been accounted for in a previous penalty.

$$(-\$625,922) + \$5,745,967 + \$357,527 = \$5,477,572$$

Finally, apply the deflator value. Given that this is the *third* instance of a penalty for this entity for this market, the deflator value is 15%.

$$15\% * \$5,477,572 = \mathbf{\$821,636}$$