Using encounter data for risk adjustment in Medicare Advantage

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Presentation outline

- Medicare Advantage (MA) risk adjustment overview & current use of FFS cost data
- Issues related to using MA plan cost data for risk adjustment
- State of MA plan cost information in MA encounter data
MA risk adjustment

- Medicare pays MA plans a capitated rate
  - Rate = base $ amount \times \textit{beneficiary-specific risk score}

- Risk scores
  - Increase base rate for more costly beneficiaries
  - Decrease base rate for less costly beneficiaries

- Risk scores produced by CMS-HCC model
  - Demographic characteristics & conditions (HCCs)
Risk adjustment step 1: Calibration

- CMS-HCC model calibrated with FFS data
  - Produces a *coefficient* for each demographic characteristic and HCC
  - Coefficients represent expected medical costs, relative to average FFS spending

<table>
<thead>
<tr>
<th>Demographic Characteristic or HCC</th>
<th>Expected medical cost (FFS basis)</th>
<th>Coefficient ($9,050 avg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>85 year-old male</td>
<td>$6,335</td>
<td>0.700</td>
</tr>
<tr>
<td>85 year-old female</td>
<td>$6,281</td>
<td>0.694</td>
</tr>
<tr>
<td>Congestive heart failure (CHF)</td>
<td>$3,412</td>
<td>0.377</td>
</tr>
<tr>
<td>Diabetes without complication</td>
<td>$1,095</td>
<td>0.121</td>
</tr>
</tbody>
</table>

Source: CMS MA Advance Notice for 2014
Risk adjustment step 2: Calculation

- CMS calculates risk score
  - Identify relevant demographic characteristics & HCCs
  - Sum of coefficients relevant for MA enrollee

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<tr>
<td>85 year old male + CHF risk score</td>
<td>1.077</td>
</tr>
</tbody>
</table>

Source: CMS MA Advance Notice for 2014

- Payment to plan, given a base rate of $1,000

\[1.077 \times \$1,000 = \$1,077\]
Risk adjustment data sources

- Risk scores applied to payments from Medicare to MA plans (yellow)
  - Current basis: FFS Medicare payments (green)
  - Future basis: MA plan payments (blue)
    - In aggregate referred to as MA plan costs
Effects of using different populations for calibration and application

- CMS uses FFS data to calibrate CMS-HCC model, but applies it to MA enrollees
- MA plans have incentive to encourage more intensive coding of conditions than in FFS
  - MA payments depend on conditions coded; FFS payments often do not
  - Leads to higher MA risk scores and payments
- Cost of treating conditions may be different in MA than in FFS (Newhouse et al. 2011)
  - Incentive to avoid conditions that are more costly in MA; attract conditions that are less costly in MA
Effects of using MA encounter data to calibrate CMS-HCC model

- Coding issue:
  - No need to adjust MA payments for coding; coding would be the same for the population used to calibrate the model and the population the model is applied to
  - Plans still have incentive to code intensively

- Incentive to avoid conditions that are more costly in MA than in FFS:
  - Plans no longer benefit from avoiding conditions that are less costly in FFS; coefficients in CMS-HCC model reflect cost of treatment in MA
  - Plans have incentive to compare their costs to the average plan; for a given plan, new condition-specific incentives may emerge
Encounter-based risk adjustment moves away from financial neutrality

- Commission has consistently supported MA payments being financially neutral with FFS
  - MA payments equal to what enrollee is expected to cost in FFS; 100% of local FFS spending adjusted for risk
  - Encourages care in more efficient sector, MA or FFS
- Financially neutral MA payments: (Cost of nat’l avg. FFS beneficiary in county) x (Risk score based on FFS data)
- Use of encounter-based risk adjustment is inconsistent with attaining financial neutrality
State of MA encounter data

- HCC data is good quality, issues to consider regarding payment data
- Admin. costs & profits not in encounter data
- Many plans pay providers capitation or salary
  - Difficult to determine payment for encounter
  - Capitated encounters show $0 payment in data
- Aggregate 2013 payments to providers in encounter data 30% less than estimate based on aggregate Medicare payments
- Capitated encounters concentrated by plan type
Methods to address capitated encounter payments

- Use FFS Medicare price information to estimate the cost of each MA encounter
  - MA cost structure lost, difficult to implement

- Use only MA enrollees with complete (i.e., FFS) encounter payment information
  - Group- and staff-model HMOs excluded

- Allocate each plan’s MA capitated payment amounts to MA enrollees
  - Additional plan effort, difficult to implement
Summary of MA plan encounter data

- Encounter data and risk adjustment
  - Addresses coding intensity, but creates new issue
  - Establishes cost competition among MA plans, rather than between MA and FFS
  - Severs connection with FFS (and financial neutrality): Issue for premium support
  - Involves data and implementation challenges

- Next steps for MA encounter data
  - Risk adjustment: Assess feasibility of allocating capitated payments and calibrate an MA-based model
  - Utilization patterns: Compare MA utilization with FFS