

Risk adjustment issues in Medicare managed care

ISSUE: What are the details of the risk adjustment system CMS will begin using for M+C payments in 2004? How well does prescription drug data risk adjust payments for non-drug benefits provided by plans? On January 1, 2004, CMS will begin using a new system (the CMS-HCC) to risk adjust payments in Medicare+Choice. CMS addressed many issues, such as producing different versions of the CMS-HCC for special populations, including the long-term institutionalized, ESRD beneficiaries, and frail beneficiaries. This brief discusses the details of the CMS-HCC. In addition, this brief examines the use of prescription drug data to risk adjust payments for non-drug benefits. If the Congress passes legislation that requires managed care plans to offer prescription drugs, using prescription drug data to risk adjust payments for the comprehensive coverage that plans provide may become a point of interest.

KEY POINTS: The CMS-HCC model that CMS will begin using in 2004 performs much better than the current risk adjuster, explaining much more of the variation in beneficiaries' costliness. The reason for this better performance is the CMS-HCC uses diagnoses from hospital inpatient, outpatient, and physician encounters, while the current risk adjuster—the PIP-DCG—uses only inpatient diagnoses. In addition to developing distinct versions of the CMS-HCC for specific beneficiary populations, CMS has addressed four issues:

- Payments will be adjusted for changes over time in providers' coding patterns.
- The time separation (lag) between the collection year of diagnosis data and the year those data are used to determine M+C payments will be eliminated.
- A transition period from 2004-2007 has been established, where an increasing fraction of payments will be based on the CMS-HCC. The remainder will be based on a demographic adjuster.
- Aggregate payments based on the CMS-HCC will be made budget neutral with the payments that would occur if adjusted with the demographic adjuster.

Use of prescription data to risk adjust payments for comprehensive coverage has received considerable attention from researchers. Several papers compare the performance of prescription data and diagnosis data, which is used in M+C risk adjustment. These papers show that prescription data alone performs fairly well, but, in general, not as well as diagnosis data. Nevertheless, researchers have identified advantages of prescription data including better quality, availability, and timeliness. Also, research shows that adding prescription data to models that use only diagnosis data improves their performance.

ACTION: At this meeting, staff seek guidance on the issues related to risk adjustment that the Commission would like to pursue.

STAFF CONTACT: Dan Zabinski (202-220-3722).