

Improving risk adjustment in the Medicare program

ISSUE: CMS uses the CMS hierarchical condition category (CMS–HCC) model to risk adjust capitated payments in the Medicare Advantage (MA) program to reflect the expected costliness (risk) of plan enrollees. The CMS–HCC model has been shown to perform better than previous risk adjusters that CMS has used. Nevertheless, the CMS–HCC model substantially underpredicts the costliness of the highest-cost beneficiaries and overpredicts the costliness of the lowest-cost beneficiaries.

KEY POINTS: In this paper, we evaluate options that have been suggested for improving how well the CMS–HCC model predicts the costliness of high-cost beneficiaries.

ACTION: Commissioners should review the findings in preparation for a discussion of Medicare’s risk adjustment methods and its applications to fee-for-service Medicare, accountable care organizations, and MA.

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