Improving MA risk adjustment by limiting the influence of outlier predictions

ISSUE: Risk adjustment is used to account for beneficiary health care cost differences in Medicare payments to Medicare Advantage (MA) plans. Risk scores are generated using the CMS–HCC model, which uses claims data from fee-for-service (FFS) beneficiaries to predict medical costs. Each demographic and health component in the model has a coefficient that represents the expected medical costs associated with that component. In general, the CMS-HCC model succeeds at avoiding systemic underpayments and overpayments for most enrollees. However, data used to estimate the coefficients includes FFS beneficiaries who have annual Medicare costs that that are very high or very low. Including these outlier beneficiaries in the risk model estimation introduces bias in the coefficients and generates payment inaccuracy in MA.

KEY POINTS: The literature has argued that a system of reinsurance and repayment could be used to address substantial overpayments and underpayments in the MA program at the enrollee level. However, MA cost data are insufficient to support a system of reinsurance and repayments, so we evaluated whether a method developed by McGuire, Schillo, and van Kleef of limiting the influence of cost data for FFS beneficiaries with large prediction errors during the risk model estimation (simulating reinsurance and repayment) improves the accuracy of the risk adjustment model overall.

ACTION: Commissioners will discuss the material and provide guidance for completing this work.