



Advising the Congress on Medicare issues

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
x *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

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

Risk adjustment step 2: Calculation

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

Demographic Characteristic or HCC	Coefficient
85 year-old male	0.700
Congestive heart failure (CHF)	0.377
85 year old male + CHF risk score	1.077

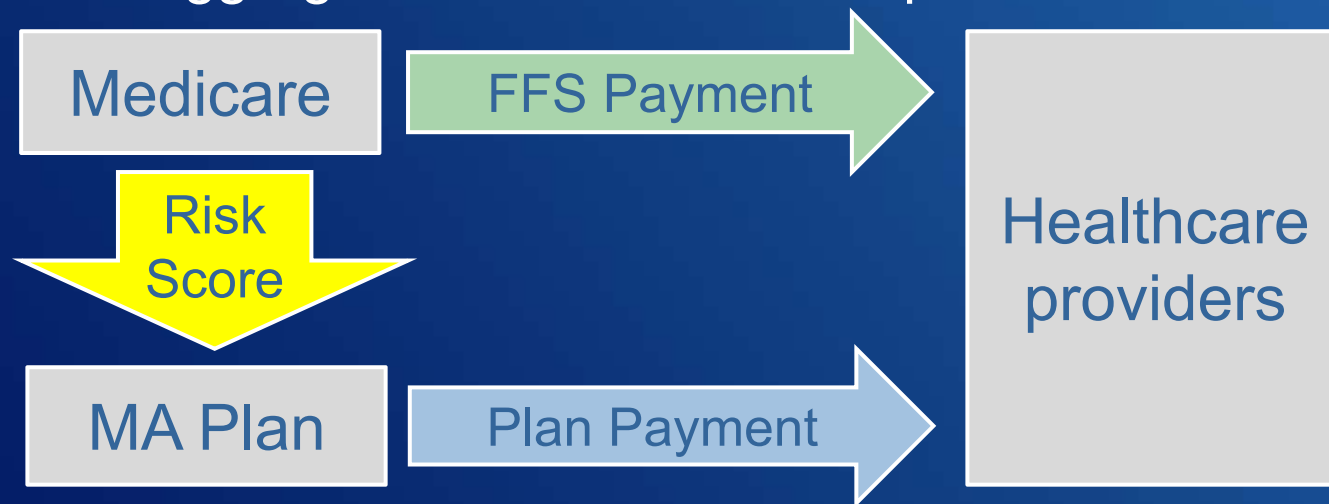
Source: CMS MA Advance Notice for 2014

- 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