# The Medicare Advantage Risk Adjustment System: What It Is and Why It's Important

## Risk Adjustment in Medicare Advantage

**What Is It?** The purpose of the risk adjustment system is to adequately cover the costs of providing covered benefits for Medicare Advantage enrollees, including those with complex conditions.

**How Does it Work?** The Medicare Advantage risk adjustment system assigns a value or "risk score" to each beneficiary according to his or her age, gender, health status, and other factors. The beneficiary's risk score reflects the person's predicted health costs compared to those of an average beneficiary. Risk scores for plan enrollees are multiplied by the plan's base payment amount – either the plan's bid for covering costs of an average beneficiary or the benchmark if the bid is equal to or greater than the benchmark. This risk adjusted base payment amount is then added to the rebate for plans bidding below the benchmark to determine total reimbursement.

### Risk Adjustment: By the Numbers

**-2.1%**

A new Oliver Wyman study finds the new model proposed by CMS is likely to reduce overall funding support for Medicare Advantage by 2.1%. appropriately for the costs of providing covered benefits for their enrollees.

**$2.6 billion**

A new Avalere study found recent changes that went fully into effect this year under-predict costs for individuals with multiple chronic conditions by $2.6 billion on an annual basis.

## So What Is To Be Done?

AHIP strongly supports a risk adjustment model that more accurately predicts costs of care, particularly for beneficiaries who are dually eligible for Medicare and Medicaid and others with complex needs. However, proposals reducing funding to Medicare Advantage may promote instability for the beneficiaries who depend upon plans to provide better care and improve outcomes compared to the traditional Medicare program.

**CMS should not move forward with the 2017 model as is currently constructed.**

Instead, the agency should work with Medicare Advantage plans and others to improve the model so that it continues to support health plan innovations that are improving care for more than 17 million beneficiaries.

Sources: Giese, Glenn, Sober, Josh, Fitzpatrick, Randall. "2017 Advance Notice: Changes to Medicare Advantage Payment Methodology and the Potential Effect on Medicare Advantage Organizations." Oliver Wyman. March 3, 2016.
Analysis of the Accuracy of the CMS-Hierarchical Condition Category Model, Avalere (January 2016).

## Risk Adjustment 101: How Are Risk Scores Determined?

Federal law provides CMS with the discretion to establish and maintain the risk adjustment system. CMS has established a risk model that uses data from claims in the traditional Medicare program to assign the relative values for health care conditions (e.g., diabetes, chronic kidney disease, congestive heart failure), and other factors, that determine Medicare Advantage risk scores.

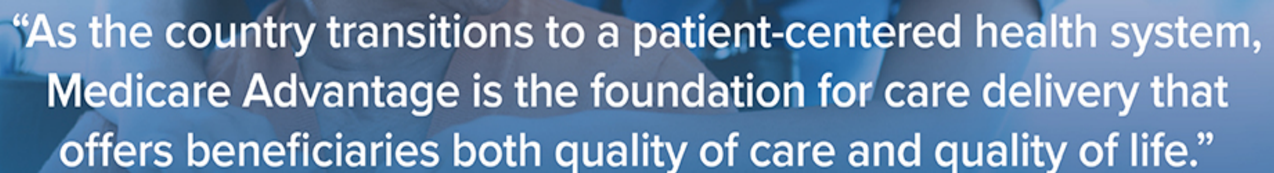
An individual beneficiary's risk score in one year is based on diagnoses from the prior year. The agency makes periodic adjustments to the model based on analyses of costs for beneficiaries in the traditional Medicare program.

## What Changes is CMS Proposing for 2017?

CMS has stated that the risk adjustment model currently in place does not adequately reflect the costs of certain low-income beneficiaries who are eligible for the Medicare and Medicaid programs (known as dual eligibles) and individuals with disabilities. In response, CMS has developed values for each of the diseases in the model (e.g., diabetes) that vary based on the beneficiary's dual eligible and/or disability status.

However, the new model reduces reimbursement for providing care to beneficiaries with chronic conditions. These new policies exacerbate other changes to the risk adjustment system that fully went into effect this year.

AHIP STATEMENT ON MEDICARE ADVANTAGE

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