Proposed MA Risk Adjustment – Don't Miss Out on the Nuanced Impacts to County Level Benchmark Rates

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Note that this brief assumes the reader has a basic understanding of the Average Geographic Adjustment (AGA) factors used in the county level Part C benchmark rates used for payment in Medicare Advantage (MA).

Background on Risk Scores in Part C Benchmark Rates

The Part C benchmarks are derived from the county level fee-for-service (FFS) rates. The Centers for Medicare and Medicaid Services (CMS) calculate county level FFS rates by multiplying the estimated nationwide average non-ESRD FFS United States per Capita Cost (USPCC) and the county level AGA factor (in addition to other minor adjustment factors). The AGA factor measures the five-year average historical relationship of a county's per capita Medicare expenditures to the national average per capita Medicare expenditures. The five-year average of the geographic indices is divided by the five-year enrollment weighted average risk score to remove the effects of the health status and demographics of the beneficiaries in the county. The bottom line is that if risk scores change materially, the AGA factor and county benchmark will be impacted.

On February 1, 2023, CMS released the 2024 Advance Notice, which proposed a revised version of the CMS-HCC risk adjustment model. In a recent publication titled, Proposed MA Risk Adjustment Model – Good News for Some, Detrimental for Others,[1] Wakely discussed the significant impact the proposed CMS-HCC risk adjustment model could have on MA plan sponsor risk scores. The proposed risk adjustment model will also impact risk scores for FFS beneficiaries which are used in the AGA calculations. A decrease to a county's average risk score would increase the AGA factor (and corresponding benchmark), and an increase in the average risk score would decrease the AGA factor (and corresponding benchmark). Given there is extreme variability in the proposed risk adjustment model impacts depending on member mix and service area, the AGA factors have the potential to change materially. Note, there are several other factors to the benchmark calculation, but the main component is the rebasing/repricing impact from the AGA factors.

Potential Directional Impact to Part C Benchmark Rates

CMS uses the following methodology for calculating the risk scores in the AGA factors:

- Risk scores are calculated using the model to be used in the payment year. (i.e. for PY2024 they would use the proposed v28 model)

[1] https://www.wakely.com/blog/proposed-ma-risk-adjustment-model-good-news-some-detrimental-others

- For each year, CMS includes risk scores for FFS beneficiaries enrolled in Part A, Part B, or both Part A and Part B, and who do not have ESRD and who were not in Hospice.
- For each year, the county level raw risk scores are divided by the average national risk score for that year. That is, the average risk score across all counties is 1.0 for each year.

Wakely developed county level FFS risk scores using 2020 diagnoses for 2021 cohort of beneficiaries from the 5% Limited Data Set (LDS) on the current v24 model and the proposed v28 model. To estimate the impact to the county level AGA factors, we divided each county risk score by the FFS enrollment weighted average risk score, consistent with the CMS methodology. The change in the normalized county level risk scores range from -9.9% to +14.5% (this implies a change in benchmarks of -14.5% to + 9.9%). As we saw with the MA data, the impact of the proposed risk adjustment model is extremely variable depending on the underlying population. Table 1 displays the top ten states based on January 2023 MA enrollment and the estimated impact to 2021 FFS risk scores and benchmarks.

Table 1 – Estimated Impact to FFS Risk Scores and Part C Benchmarks

State	Jan 2023 MA Enrollment	Risk Adj Impact v28/v24-1	Directional Impact to Part C Benchmarks
CA	3,188,806	0.8%	Negative
FL	2,576,293	-2.8%	Positive
TX	2,198,495	0.0%	Immaterial
NY	1,744,224	1.1%	Negative
PA	1,425,526	-1.2%	Positive
OH	1,278,553	-0.4%	Positive
MI	1,240,424	-0.4%	Positive
NC	1,020,695	-0.4%	Positive
GA	891,115	-0.5%	Positive
IL	773,702	0.3%	Negative

Please consider the following limitations:

- The PY2024 AGA factor will use data from 2017 through 2021. The impact we calculated above was only on one calendar year. Therefore, to the extent the impact varies by calendar year, the overall impact to the AGA factor will also vary.
- FFS risk scores were calculated using the Medicare 5% sample and were not based on the 100% data. If the underlying mix in the 5% sample varies significantly from the total population the impact will change. As we observed above, the impact is dependent on the underlying population.
- FFS risk scores were calculated using FFS beneficiaries enrolled in Part A and Part B. Part C benchmarks are calculated using beneficiaries enrolled in Part A and/or Part B. A prior Wakely

analysis, sponsored by AHIP, shows a significant difference in costs for Part A only beneficiaries vs. beneficiaries enrolled in both Part A and B. To the extent the impact of the v24 to v28 model for Part A only beneficiaries varies from the impact for Part A and Part B beneficiaries, the overall impact could change.

Other Considerations and Caveats

At the time of writing, it is not known whether the new v28 model will be implemented for PY2024. It is possible that CMS will decide to amend the model, delay implementation to a future year, implement a phase-in approach over multiple years, or fully implement the new model as proposed in the Advance Notice.

Conclusion

By April 4, 2023, CMS will release the MA Final Rate Announcement which will include final guidance on whether the new CMS-HCC v28 risk adjustment will be fully implemented, phased-in, or delayed for PY2024. If implemented, the financial impact to MA plans and risk-bearing providers will vary widely.

When estimating the potential impact to plan revenue, MA plan sponsors should consider the impact to the risk scores for their specific population, as well as the impact to the Part C benchmark rates in their service area. An increase to county FFS risk score due to the proposed risk adjustment model would decrease the county benchmark rate, and a decrease to county FFS risk score would increase the county benchmark rate.

Please contact Rachel Stewart at rachel.stewart@wakely.com with any questions or to follow up on any of the concepts presented here.

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