Proposed MA Risk Adjustment Model - Good News for Some, Detrimental for Others

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Note that this white paper assumes the reader has a basic understanding of the Centers for Medicare and Medicaid Services Hierarchical Condition Category (CMS-HCC) risk score models used for payment in Medicare Advantage (MA) and other CMS Medicare programs.

Background on the 2024 Medicare Advantage Advance Notice

On February 1, 2023, CMS released the 2024 Advance Notice, which details planned changes to the Part C and Part D capitation and risk adjustment methodology for calendar year (CY) 2024. As part of the Advance Notice, CMS is proposing to implement a revised version of the CMS-HCC risk adjustment model for the aged/disabled population. In the Advance Notice, CMS estimated the new risk score model would drive an average impact of -3.12%[1] to MA plan revenue in 2024. The actual revenue impact is expected to vary considerably across MA plans and risk-bearing providers. Note, on the February 23, 2023 Office of the Actuary (OACT) user group call, OACT clarified that the impact reflects a combination of the change in risk model from 2020 CMS-HCC v24 to 2024 CMS-HCC v28 and the 2023 to 2024 change in FFS normalization factor based on 2021 beneficiaries and 2020 diagnosis data. Internal Wakely estimates show a risk score impact range of about -20% to +10% across MA plan sponsors, depending on a number of items, such as the sophistication of coding practices employed, and specifics of the population served by MA plan sponsors and risk-bearing providers. Wakely expects considerable oppositions to be voiced by the industry during the Advance Notice comment period, which ended on March 6, 2023. Final rating provisions will be announced by CMS no later than April 4, 2023.

For an explanation of the specific changes included in the 2024 Advance Notice, refer to Wakely's earlier whitepaper Wakely Summary of 2024 MA Advance Notice.

Revised CMS-HCC Risk Adjustment Model – What Changed?

First, it should be noted that CMS is only proposing to revise the Part C CMS-HCC risk adjustment model for the aged/disabled population—CMS is not proposing any model change for the ESRD population or PACE plans. At a high-level, the revised CMS-HCC model incorporates the following major updates:

- **Model Calibration Data** – the current CMS-HCC model (v24) was calibrated using diagnoses from 2014 to predict 2015 expenditures. The updated model (v28) was calibrated using 2018 diagnoses to predict 2019 expenditures. Additionally, the updated risk score model was calibrated using ICD-10 diagnosis codes, whereas the current model used the ICD-9 diagnoses available at the time. The denominator year for the proposed model will be updated to 2020 (2019 diagnoses for a 2020 cohort of beneficiaries).

[1] https://www.cms.gov/newsroom/fact-sheets/2024-medicare-advantage-and-part-d-advance-notice-fact-sheet

- **HCC Reclassification** – CMS made a number of alterations to the HCCs included in the updated risk score model. As part of this update, CMS modified the list of diagnosis codes that map to HCCs under the new model, including removal of a significant number of diagnosis codes that used to map to HCCs under the current model. The specific ICD-10 codes that were removed from being risk adjustable were, in part, based on CMS observing patterns of discretionary coding that resulted in differences between the MA and Medicare FFS population. Among other changes, CMS constrained certain HCCs to be equal to each other so that they carry the same weight in the new model. For example, all Diabetes HCCs now carry the same weight under the proposed model.

Table 1 compares the key differences between the current CMS-HCC model and the proposed model. Please reference pages 43-50 of the Advance Notice for a more comprehensive explanation of proposed model updates.[2]

Table 1: HCC Risk Model Differences

	Current (v24) Model	Proposed (v28) Model
Number of HCCs	86	115
ICD Model Version used in regression	ICD-9	ICD-10
Dx to HCC Mapping	v24	v28
Number of diagnosis codes that are eligible for risk adjustment	9,797	7,770
Data year for regression (diagnosis period/expenditure period)	2014/2015	2018/2019

HPMS Data Summary

Since the intent of the -3.12% impact in the Fact Sheet was to aid the industry in understanding the year over year impact of the Part C risk adjustment model, the v24 and v28 normalization factors used in this estimate were the published 2023 factor of 1.127 and proposed 2024 factor of 1.015, respectively.

To assist plan sponsors in independently assessing the impact of the new model, CMS released risk scores for PY2021 based on the current model (2020 CMS-HCC v24) and the new model (2024 CMS-HCC v28). Note, the data provided in HPMS reflects a July 2021 cohort of beneficiaries.

Based on an aggregation of the same data provided in these HPMS summaries across Wakely clients, we found that the average impact of the proposed risk score model was -3.7%. Please note the impact was calculated using the same methodology as CMS described in the fact sheet. Table 2 shows the impact of the proposed model overall and by risk model segment.

[2] Advance Notice of Methodological Changes for Calendar Year (CY) 2024 for Medicare Advantage (MA) Capitation Rates and Part C and Part D Payment Policies (cms.gov)

Table 2 – Wakely Client Average 2024 CMC-HCC Risk Model Impact

Model Segment	v28/v24
Full Dual Benefit Aged	-6.7%
Full Dual Benefit Disabled	-3.6%
Institutional	3.2%
C-SNP New Enrollee	4.3%
New Enrollee	16.0%
Non-Dual Benefit Aged	-4.0%
Non-Dual Benefit Disabled	-4.4%
Partial Dual Benefit Aged	-8.9%
Partial Dual Benefit Disabled	-5.8%
Overall Dual	-6.4%
Overall Non-Dual	-3.9%
Overall New Enrollee	15.9%
All	**-3.7%**

Given CMS estimates the nationwide impact to be -3.1%, the plans underlying our analysis are seeing a more negative impact.

In addition to the overall impact, other important results can be observed in Table 2.

- New enrollee scores are dramatically higher in the new model, which dampens the overall risk score change. The impact to the new enrollee model is attributable to the increases in the demographic coefficients. New enrollee models do not include diagnosis codes in the calculation of the risk score. Note, Wakely client data include less than 9% of beneficiaries scored on the new enrollee model.
- Full dual and partial dual aged segments show the biggest decrease in scores compared with the current model. About 26% of all beneficiaries for Wakely clients fall into these buckets. The overall impact to the dual model segments is -6.4%.
- The impact to beneficiaries on the community continuing enrollee model (i.e., excluding the impact on the new enrollee models) is -4.8%.

Wakely observed considerable variation across plans based on the organizations' geographic location, member mix, and coding practices. Tables 3 displays the percentiles of the overall risk score impact across the organizations. The percentiles were not weighted on enrollment.

Table 3 – Wakely Client Percentile 2024 CMC-HCC Risk Model Impact

Statistic	v28/v24
25th Percentile	-2.0%
50th Percentile	-0.3%
75th Percentile	2.1%
Average	-3.7%

- The distribution of the overall risk score impact is heavily weighted towards the left side of the curve. We observed a total risk score impact range of about -20% to +10% by plan sponsor.
- The wide range in results is driven by the dual model segments. The average impact of these model segments is -6.4%.
- The new enrollee model, which has the most positive impact, is consistent across plan sponsors. The impact on this model segment ranges from about +13% to +18% by plan sponsor.

Table 4 displays the average impact to overall risk scores by risk score level. In general, plans with higher risk scores will be more negatively impacted by the change in risk score model than plans with lower risk scores.

Table 4 – Wakely Client 2024 CMC-HCC Risk Model Impact by Risk Score Level

Risk Score Level	v28/v24
0.60 - 0.70	6.5%
0.70 - 0.80	3.4%
0.80 - 0.90	1.7%
0.90 – 1.00	0.4%
1.00 - 1.10	-2.0%
1.10 - 1.20	-4.1%
1.20 - 1.30	-9.4%
1.30 - 1.40	-6.8%
1.40 - 1.60	-13.0%
> 1.60	-9.9%

Table 5 displays the average impact to overall risk scores by region.

Table 5 – Wakely Client 2024 CMC-HCC Risk Model Impact by Geographic Region

Region	v28/v24
Midwest	-0.5%
Northeast	1.1%
South	-4.9%
West	-4.2%
Puerto Rico	-10.9%

PY2022 Impact Study

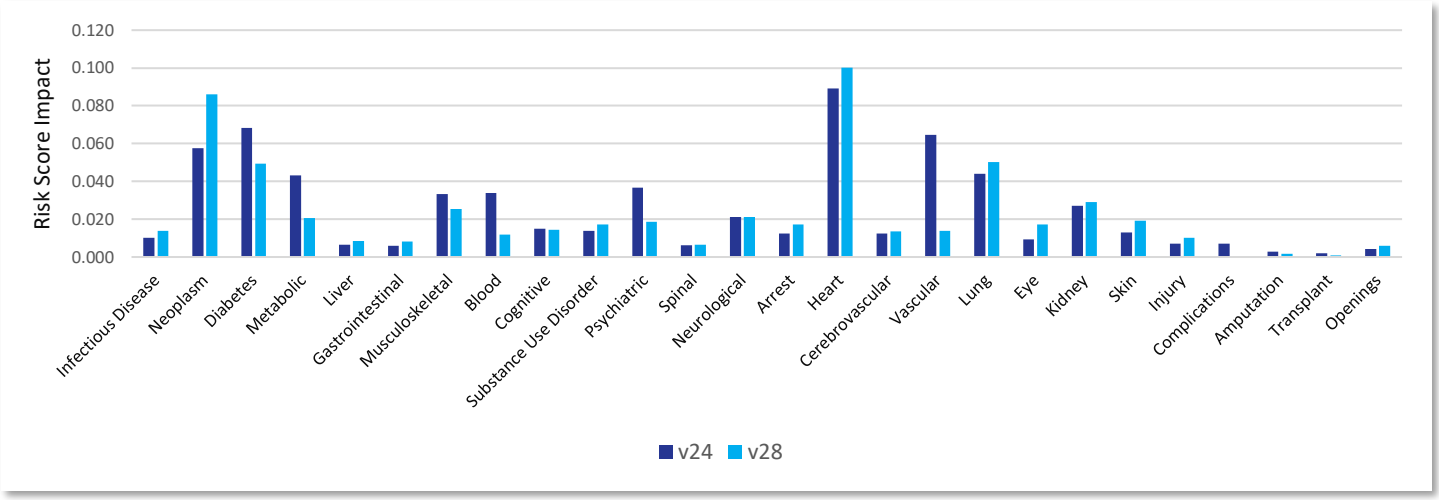
An important caveat of the CMS analysis and comparable Wakely analysis in Tables 2 through 5 is that they are all based on PY2021 risk scores based on the diagnoses submitted for 2020 dates of service. The COVID-19 pandemic had a dramatic impact on 2021 risk normalization factors, as evidenced by factors published in the Advance Notice.

To better understand the impact on more recent data, Wakely calculated PY2022 risk scores based on diagnoses submitted for 2021 dates of service. Although impacts varied by plan sponsor, the overall impact of updating to more recent diagnoses was relatively immaterial. That is, it appears the change in risk score model has a similar effect on the two different diagnosis periods.

Observations from Analysis by Disease Group

An important update to the proposed 2024 CMS-HCC v28 model was the reclassification of HCCs, and in particular, the diagnoses that were included (or excluded) from the new model. To understand drivers of the risk score impacts observed in Tables 2-5, Wakely grouped the HCCs under each model into one of 26 broader disease categories. Figure 1 displays the impact on total risk score by disease category using 2021 diagnoses across Wakely clients.

Figure 1: Risk Score Impact by Disease Group: Current (v24) vs Proposed (v28)



As an example, under the current v24 model, Vascular conditions contributed approximately 0.06 to the total normalized risk score of this population subset. Under the proposed v28 model, Vascular conditions would now contribute under 0.02 to the total normalized risk score. While the magnitude of the risk score impact by disease group will vary by each plan or risk-bearing provider's mix of members and coding practices, there are several common themes across all populations:

- Neoplasms (Cancers), Heart, Lung, and Kidney conditions often see a **positive impact** to total normalized risk score under the v28 model relative to the v24 model.

- Diabetes, Metabolic, Blood, Psychiatric, and Vascular conditions drive a **negative impact** to total risk score under the v28 model. Vascular and Blood groups are consistently the most unfavorable—this stems from many diagnosis codes in these groups no longer being included in the proposed model.

- The patterns noted above tend to be magnified for Duals, as well as plans and risk-bearing providers that are adept at capturing a high-degree of diagnoses for their population.

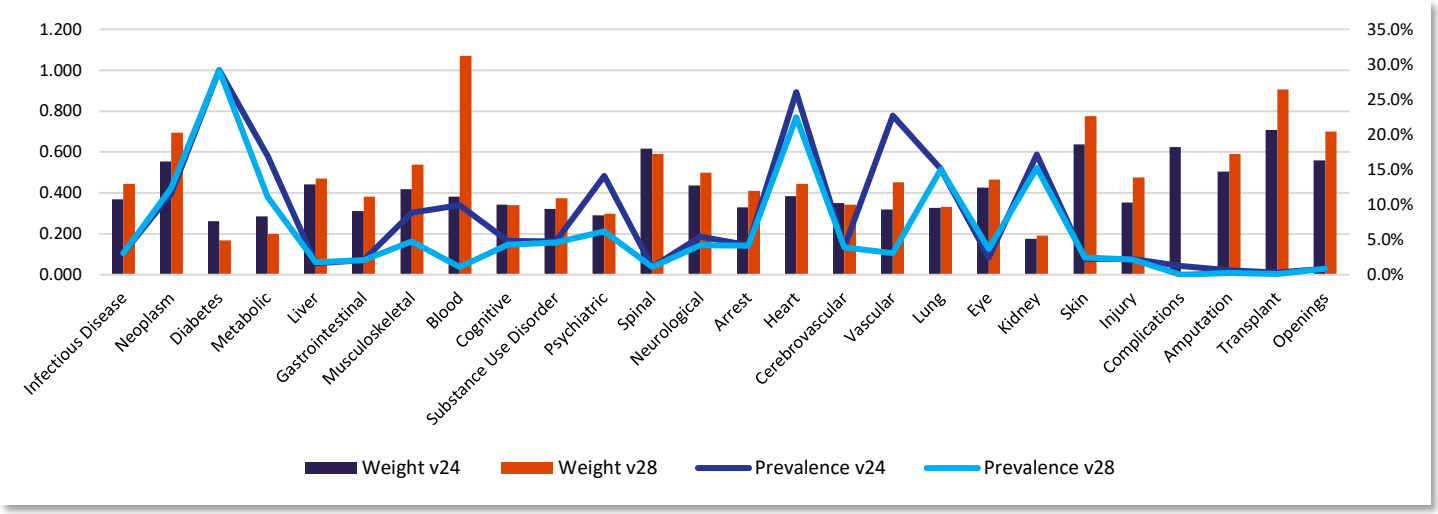
The total risk score impact in Figure 1 is a function of two main dynamics occurring under the proposed v28 model—HCC prevalence and HCC risk weights. Plans and risk-bearing providers will need to assess these two dimensions when evaluating the risk score impact of the proposed model on their population:

- **Prevalence:** What percent of members have diagnoses that map to various HCCs included under the new model? In other words, what is the impact of CMS removing a large number of diagnosis codes from the proposed model?

- **Condition Weight**: For diagnoses that do map to an HCC in the proposed model, do those HCCs contribute a higher or lower weight to the overall risk score compared to the current model?

Figure 2 breaks the total risk score impact from Figure 1 down into prevalence versus condition weights. The bars in Figure 2 correspond to the average risk score weight of HCCs under each disease grouping, and the lines represent the percentage of individuals who were mapped to a given disease under each model.

Figure 2: Break-Out of Risk Score Impact by HCC Prevalence and Weight



We note the following observations from Figure 2:

- Diabetes is driving a negative impact to total risk score not because of changes to the prevalence of Diabetes under the new model (e.g. CMS did not remove diabetes diagnoses from the v28 model), but rather because of downward adjustments to the ***average weight*** assigned to diabetes under v28.
- In contrast to Diabetes, Neoplasms (cancers) drive an increase to risk scores under the new model due to upward adjustments in the average risk weight assigned to cancer-related HCCs.
- The Blood, Psychiatric, and Vascular categories are driving a negative impact to total risk score because far fewer diagnoses in these categories map to HCCs under the new model. The average weight assigned to the HCCs associated with these disease categories actually increased under v28, but this is more than offset by the drop in prevalence. Some commonly coded diagnoses from these disease groups that no longer map to HCCs under the new model include diagnoses associated with:
    - Atherosclerosis
    - Peripheral Vascular Disease
    - Major Depressive Disorder

Impact on County-level Benchmarks

The proposed risk score model could also have a significant impact on the Part C benchmark rates. One of the main drivers of the county level benchmark calculation is the average geographic adjustment (AGA) factor. A county AGA factor is calculated by taking the five-year average of geographic indices divided by a five-year enrollment weighted average risk score. A decrease in the 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 depending on member mix and service area, the AGA factors have potential to change materially.

Stay tuned for an upcoming Wakely Brief which aims to summarize the potential impact to the Part C benchmarks.

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 or 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.

Additionally, Wakely did not assume any changes to medical coding and documentation practices when evaluating the impact of the v28 model.

Conclusion

By April 4, 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. In addition, plans and providers will have limited time to react as 2023 diagnoses, which drive 2024 risk scores, will already be partially complete. If you are a plan or provider engaging in risk under Medicare Advantage, Wakely experts can help you strategically think through the implications and financial impact to your population in light of these proposed updates.

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

OUR STORY

Five decades. Wakely began in 1969 and eventually evolved into several successful divisions. In 1999, the actuarial arm became the current-day Wakely Consulting Group, LLC, which specializes in providing actuarial expertise in the healthcare industry. Today, there are few healthcare topics our actuaries cannot tackle.

Wakely is now a subsidiary of Health Management Associates. HMA is an independent, national research and consulting firm specializing in publicly funded healthcare and human services policy, programs, financing, and evaluation. We serve government, public and private providers, health systems, health plans, community-based organizations, institutional investors, foundations, and associations. Every client matters. Every client gets our best. With more than 20 offices and over 400 multidisciplinary consultants coast to coast, our expertise, our services, and our team are always within client reach.

Broad healthcare knowledge. Wakely is experienced in all facets of the healthcare industry, from carriers to providers to governmental agencies. Our employees excel at providing solutions to parties across the spectrum.

Your advocate. Our actuarial experts and policy analysts continually monitor and analyze potential changes to inform our clients' strategies – and propel their success.

Our Vision: To partner with clients to drive business growth, accelerate success, and propel the health care industry forward.

Our Mission: We empower our unique team to serve as trusted advisors with a foundation of robust data, advanced analytics, and a comprehensive understanding of the health care industry.

Learn more about Wakely Consulting Group at www.wakely.com