



## FINAL 2024 HHS HCC RISK ADJUSTMENT MODEL IMPACT ESTIMATES

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### Executive Summary

Since 2014, Wakely provides participating issuers with risk adjustment (RA) estimates for the Affordable Care Act's (ACA) individual and small group markets under the Wakely National Risk Adjustment Reporting (WNRAR) project. In this white paper, we explore the impact of the final 2024 HHS HCC Risk Adjustment model based on benefit year 2022 data.

Through the WNRAR project, we collected<sup>1</sup> participants' 2022 data incurred and paid through December 31<sup>st</sup>, 2022, scored with the 2022, 2023, and final 2024 Department of Health and Human Services (HHS) Hierarchical Condition Category (HCC) model.

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***In this white paper, we explore the impact of the final 2024 HHS HCC Risk Adjustment model based on benefit year 2022 data.***

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We compared results between the final 2022 and final 2024 risk adjustment models and found the following:

- We estimate a decrease of 3.8% and 3.5% in absolute transfer dollars for the individual and small group markets, respectively. Issuer's relative risk generally moved towards 1.0 (or the market average). That is, many issuers estimated<sup>2</sup> to be payers in the 2022 model are estimated to pay less in the 2024 final model. Likewise, many issuers estimated to be receivers in the 2022 model are estimated to receive less in the 2024 final model.
- Results were different in the individual market compared to small group market.
  - Individual market observations:
    - Of all issuers estimated to be payers in the individual market in the 2022 final model, 78.4% are estimated to pay less under the 2024 final model. On average, payers had a 0.8% increase in relative risk between the 2022 final and 2024 final model.
    - Of all issuers estimated to be receivers in the individual market in the 2022 final model, 62.8% are estimated to receive less under the 2024 final model. On average, receivers had a 1.2% decrease in relative risk between the 2022 final and 2024 final model.
  - Small group market observations:

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<sup>1</sup> We employ a distributed data approach to collect summarized information.

<sup>2</sup> As estimated through our WNRAR 202212 reporting run, with enrollment and claims data through December 31, 2022, paid through December 31, 2022

- Of all issuers estimated to be payers in the small group market in the 2022 final model, 58.8% are estimated to pay less under the 2024 final model. On average, payers had a 0.2% increase in relative risk between the 2022 final and 2024 final model.
- Of all issuers estimated to be receivers in the small group market in the 2022 final model, 56.3% are estimated to receive less under the 2024 final model. On average, receivers had a 0.4% decrease in relative risk between the 2022 final and 2024 final model.
- Based on our analysis of risk score components, we observed that the 2024 final risk adjustment model moves significant risk coefficients towards demographic component of risk scores. Consequently, risk score components for medical condition categories (HCC) and prescription drug condition categories (RXC) decreased in both markets. Enrollment duration factors (EDF) increased slightly in the individual market but remained relatively similar to the 2022 model in the small group market.

This analysis primarily compares the 2022 model to the final 2024 model in order to allow users to interpret 2024 changes based on current market status. Appendix B includes exhibits on the 2023 Final to 2024 Final HHS-HCC model impact. Wakely has previously released a paper<sup>3</sup> on the impact estimates of the final 2023 HHS HCC Risk Adjustment Model, which was based on WNRAR 2021 benefit year data paid and incurred through December 31<sup>st</sup>, 2021. In general, observations of the final 2023 model impact were consistent between analyses performed with 2021 benefit year and 2022 benefit year data.

## Background and Methodology

Each year, changes to the HHS HCC risk adjustment model are summarized by Centers for Medicare and Medicaid Services (CMS) in its annual Notice of Benefit and Payment Parameters (NBPP). In the final 2024 NBPP released on April 17<sup>th</sup>, 2023, CMS finalized changes to the 2024 HHS HCC risk adjustment model relative to the 2022 model, including but not limited to:

- Recalibrating HCC risk coefficients based on 2018, 2019, and 2020 EDGE server data.
- Adjusting risk coefficient for Hepatitis C drugs' plan liability assuming the availability of generics.
- Inclusion of an additional HCC (G24: Pancreas/Kidney Transplant Status)

Consistent with the 2023 HHS HCC risk adjustment model, the final 2024 model also includes the following changes that are updated from the 2022 model:

- Use of HCC-contingent enrollment duration factor and limiting to only up to 6 months of total adjustment.

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<sup>3</sup> White Paper, Final 2023 HHS HCC Risk Adjustment Model Impact Estimates: [https://www.wakely.com/sites/default/files/files/content/wakely-2023-final-hhs-hcc-model-impact\\_0.pdf](https://www.wakely.com/sites/default/files/files/content/wakely-2023-final-hhs-hcc-model-impact_0.pdf)

- Addition of HCC-count variables based on HCC with severe illness indicator or organ transplant status.

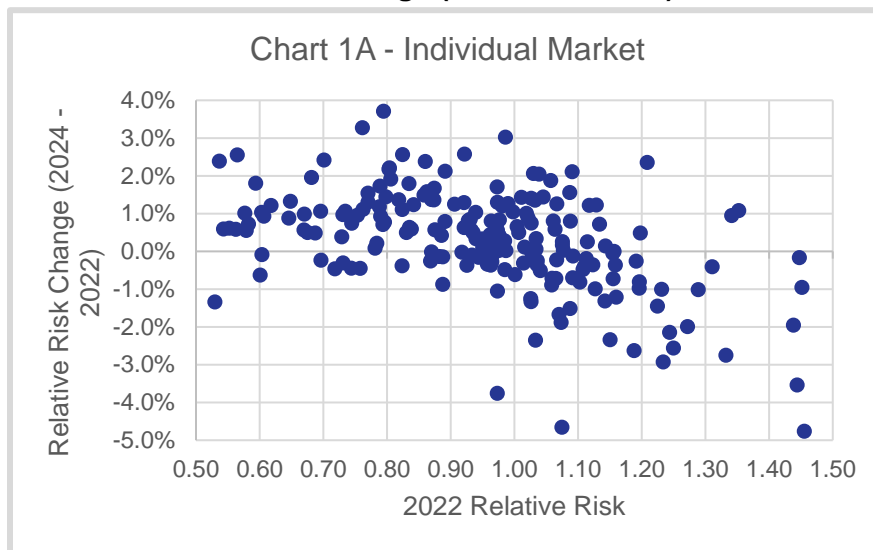
More information on the final 2024 HHS HCC risk adjustment model can be found in the final 2024 NBPP.<sup>4</sup>

As a result of these final changes, direct comparison of year-over-year total risk scores is not appropriate as risk coefficients and HCCs will be significantly different in 2024 compared to 2022. To estimate the impact of the 2024 final risk adjustment model, Wakely collected information in the distributed project codes based on the model changes and summarized results from WNRAR participants. It is important to note that Wakely did not apply any adjustments to the results collected, so the analysis and its accompanying estimates did not consider year-over-year changes in demographics, morbidity, coding improvement, or changes in laws and regulations after 2022. In addition, we did not adjust the data to reflect any potential differences due to the COVID-19 pandemic or any change in enrollment patterns. The membership distribution and diagnosis codes were held constant year-over-year in this analysis.

## Observations

First, we examined the relative risk<sup>5</sup> change for issuers nationally from the 2022 final model to the 2024 final model. Charts 1A and 1B below show the relative risk change for issuers in the individual and small group markets, respectively. Each observation (dot) in the charts below represents a unique HIOS ID in our WNRAR data.

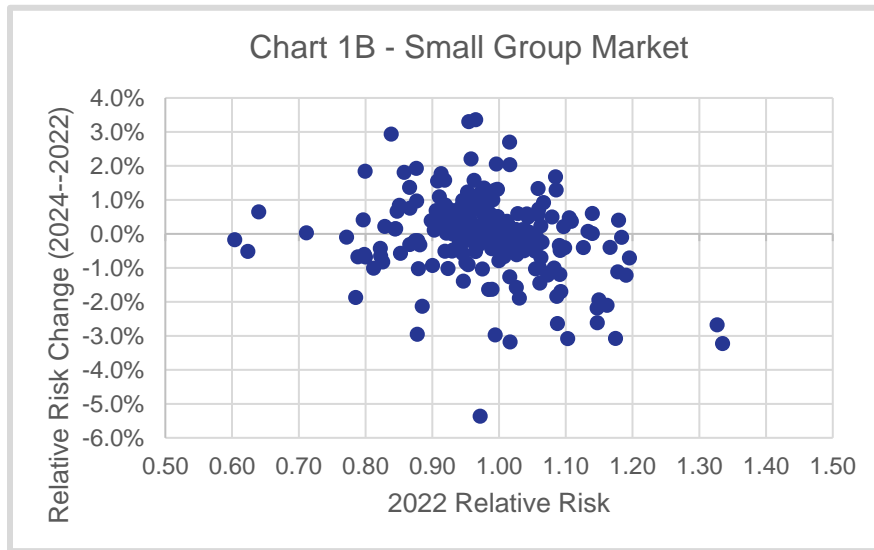
### Charts 1A and 1B: Issuer Relative Risk Change (2024 Final-2022) Based on 2022 Relative Risk



<sup>4</sup> Department of Health and Human Services, “Final Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2024”, <https://www.cms.gov/files/document/cms-9899-f-patient-protection-final.pdf>

<sup>5</sup> Since the risk adjustment program ultimately transfers premiums from issuers with higher risk to issuers with lower risk within a given market, we are using “relative risk” to determine the impact of these model changes. Market average relative risk is always 1.0 for each specific state-market combination. To elaborate, an issuer with a relative risk that is higher than 1.0 is considered riskier than market average, and will receive risk transfer payments, and vice versa. Relative risk includes other risk adjustment factors such as allowable rating factors, induced demand factors and geographic cost factors.

As shown in Chart 1A above, the relative risk of individual issuers in the 2022 final risk adjustment model moves closer to 1.0 when data is rescored on the 2024 final risk adjustment model. We also observed that issuers with higher than market average relative risk (i.e. risk transfer receivers based on the 2022 final risk adjustment model) tend to have a decrease in relative risk, while issuers with lower than market average relative risk (i.e. risk transfer payers) tend to have an increase in relative risk when we rescored issuers using the 2024 final risk adjustment model. In other words, the final model appears to move most individual issuers closer to the market average.



In Chart 1B, the results for small group market does not appear to follow the trend as strongly as the individual market in Chart 1A. A majority of the issuers captured in our small group market appear to be concentrated close to the market relative risk (high concentration of observations between 0.9 and 1.1 relative risk) with mixed results on the impact of the final model changes.

We further summarize the estimated impact of the 2024 final changes in Table 1A and Table 1B below.

**Table 1A: Individual Market Payer and Receiver  
Improve/Deteriorate Transfer Status and Average Impact**

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
<b>Payer</b>	78.4%	21.6%	1.2%	-0.5%	0.8%
<b>Receiver</b>	37.2%	62.8%	1.1%	-2.5%	-1.2%

**Table 1B: Small Group Market Payer and Receiver  
Improve/Deteriorate Transfer Status and Average Impact**

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
<b>Payer</b>	58.8%	41.2%	0.9%	-0.8%	0.2%
<b>Receiver</b>	43.8%	56.3%	0.4%	-1.0%	-0.4%

We observe the following changes in payer and receiver transfer status:

- 1) As shown in Table 1A above, of all issuers estimated to be payers in the individual market in the 2022 final model (below 1.0 relative risk), 78.4% are estimated to pay less under the 2024 final model. On average, all payers had a 0.8% increase in relative risk between the 2022 final and 2024 final model. Of all issuers estimated to be receivers in the individual market in the 2022 final model (above 1.0 relative risk), 62.8% are estimated to receive less under the 2024 final model. On average, all payers had a 1.2% decrease in relative risk between the 2022 final and 2024 final model.
- 2) As shown in Table 1B above, of all issuers estimated to be payers in the small group market in the 2022 final model (below 1.0 relative risk), 58.8% are estimated to pay less under the 2024 final model. On average, all payers had a 0.2% increase in relative risk between the 2022 final and 2024 final model. Of all issuers estimated to be receivers in the small group market in the 2022 final model (above 1.0 relative risk), 56.3% are estimated to receive less under the 2024 final model. On average, all receivers had a 0.4% decrease in relative risk between the 2022 final and 2024 final model. It appears that the small group market is impacted significantly differently than the individual market.

As shown in Charts 1 and Tables 1 above, while there are some key patterns in our results, relative risk changes may vary significantly from one issuer to another (regardless of relative risk status, payer/receiver status or market). Therefore, each issuer’s risk transfer changes due to model changes may vary significantly. In Table 2 below, we show issuer absolute risk transfer changes as a percent of statewide market average premium to illustrate the financial impact when comparing the 2022 final risk adjustment model to the 2024 final risk adjustment model. On average, the final risk adjustment model would impact risk transfers by 0.88% and 0.37% of market average premium for individual and small group markets, respectively.

**Table 2: Issuer Absolute Transfer Change from 2022 Final to 2024 Final Model as a Percent of Statewide Market Average Premium**

Metric	Absolute Transfer Change as % of Statewide Market Average Premium	
	Individual	Small Group
Average	0.88%	0.37%
10 <sup>th</sup> Percentile	0.16%	0.02%
25 <sup>th</sup> Percentile	0.34%	0.07%
50 <sup>th</sup> Percentile	0.69%	0.18%
75 <sup>th</sup> Percentile	1.11%	0.53%
90 <sup>th</sup> Percentile	1.49%	0.93%

To further understand the risk score changes due to the 2024 final risk adjustment model, we compared how the different components of risk scores as a percentage of total risk score changed between the 2022 final and the 2024 final models. Table 3 below show changes in the components of risk scores.

**Table 3: Percentage of Total Risk Score by Component (2022 Final v 2024 Final Model)**

	Individual			Small Group		
	2022 Final Risk Score <sup>1</sup>	2024 Final Risk Score <sup>1</sup>	Change in Percentage (2024-2022)	2022 Final Risk Score <sup>1</sup>	2024 Final Risk Score <sup>1</sup>	Change in Percentage (2024-2022)
<b>Demo</b>	12.5%	16.6%	4.0%	17.5%	22.2%	4.7%
<b>HCC</b>	69.7%	67.7%	-2.0%	64.8%	62.6%	-2.2%
<b>RXC</b>	16.5%	14.1%	-2.4%	16.2%	13.7%	-2.5%
<b>EDF</b>	1.3%	1.6%	0.4%	1.5%	1.5%	0.0%

<sup>1</sup>Risk values presented exclude CSR and billable member month adjustments.

As shown in Table 3, the change in model weights appear to increase the proportion of demographic risk scores. In the individual and small group markets, demographic risk scores represent 16.6% and 22.2% of total risk scores, respectively, in the final 2024 model (as compared to 12.5% and 17.5% in 2022, respectively). This observation is consistent with the increase in relative risk for a majority of payers as they may have a higher proportion of members with demographic risk scores only (i.e., a smaller number of members with at least one HCC coded). On the other hand, HCC risk scores as a proportion of total risk scores decrease as a result of the final model changes. Therefore, issuers with higher HCC prevalence rates (typically risk transfer receivers) will likely see their relative risks and consequently risk transfer receipts decrease, while the opposite scenario will hold true for payers.

Along with changes to the distribution of risk score by component, we observed that on average, the risk score decreased between the 2022 and 2024 models. While market average risk scores decreased from 2022 to 2024 by 7.6% and 6.4% for the individual and small group markets respectively, an issuer's risk score changes can vary widely. The spread in change of risk scores from issuer to issuer can be quite significant. As shown in Table 4, the spreads in risk score change from 2022 to 2024 between the 90th percentile value and the 10th percentile value are 3.3% and 2.8% for individual and small group markets respectively. Appendix A displays information on the distribution of average PLRS changes by market.

**Table 4: Issuer Risk Score Change from 2022 to 2024 Final Risk Adjustment Model**

Metric	Risk Score Change (2024 Final/2022)	
	Individual	Small Group
Average	-7.6%	-6.4%
10 <sup>th</sup> Percentile	-9.3%	-7.5%
25 <sup>th</sup> Percentile	-8.4%	-7.0%
50 <sup>th</sup> Percentile	-7.4%	-6.6%
75 <sup>th</sup> Percentile	-6.8%	-6.1%
90 <sup>th</sup> Percentile	-6.0%	-4.7%

Issuers who are current WNRAR participants have received their estimated 2022 final, 2023 final, and 2024 proposed risk transfer impact in the 202212 WNRAR deliverables. Wakely subsequently issued a conversion tool for issuers to estimate their 2024 risk transfer impact using their 202212 WNRAR

deliverables. If you are not a current participant and you are interested in participating in this important project, please contact us at [WNRARSupport@Wakely.com](mailto:WNRARSupport@Wakely.com).

## Disclosures and Limitations

This analysis applied the final 2022, final 2023, and 2024 final risk adjustment model to WNRAR participants' 2022 data with claims incurred and paid through December 2022. Wakely did not make any adjustments or changes to collected data. The underlying market population, data, coding, morbidity and renewal patterns (EDFs) may change, potentially materially, from the time of this analysis through 2023. Furthermore, no adjustments were made for improved risk score optimization efforts such as coding and supplemental claims efforts. We also did not make any adjustments to enrollment or utilization due to the COVID-19 pandemic.

This paper and the analysis contained herein are based on our interpretation and understanding of CMS's published guidance. Our interpretation of the model may not be perfect. Final implementation by CMS may be different than we have assumed.

The PLRS changes provided above are inherently uncertain and rely upon data provided by WNRAR participants. We extensively review the data and work with issuers to correct any observed issues but cannot completely guarantee the accuracy of any single issuer's data submission. Results may vary significantly by issuer and market.

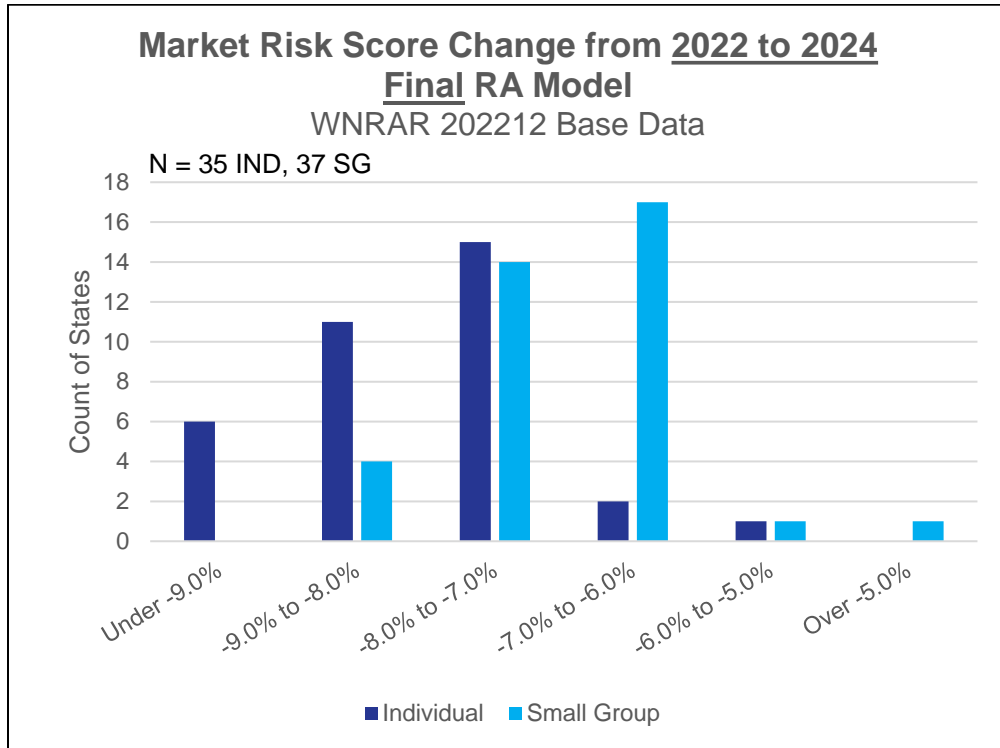
Users of this analysis should be qualified to use it and understand the results and its inherent uncertainty. We advise all WNRAR participants to discuss the analysis and appropriateness of application with Wakely before using these estimates.

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### Appendix A: Market Risk Score Change

Chart App A below shows the distribution of average PLRS changes by market from the current 2022 risk adjustment model to the final 2024 risk adjustment model. All observed changes in risk scores between years below are due to change in HCC classification and risk score coefficients. Given that we did not make any demographic or morbidity adjustments to the underlying 2022 data, these risk score changes do not indicate that there is a change in overall morbidity.





## Appendix B: 2023 Final to 2024 Final HHS-HCC Model Impact Exhibits

Exhibits presented below are based on WNRAR participants' 2022 data incurred and paid through December 31<sup>st</sup>, 2022. The exhibits and observations below represent result changes from the 2023 final model to the 2024 final model.

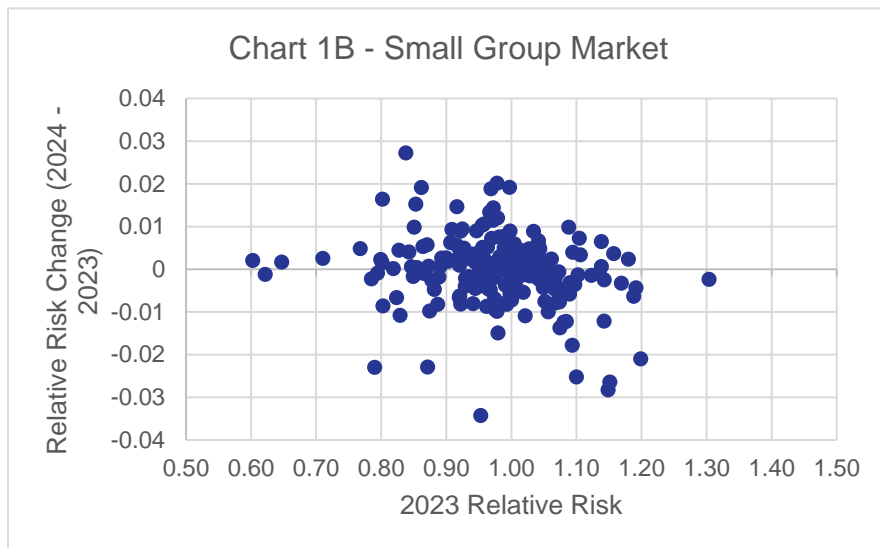
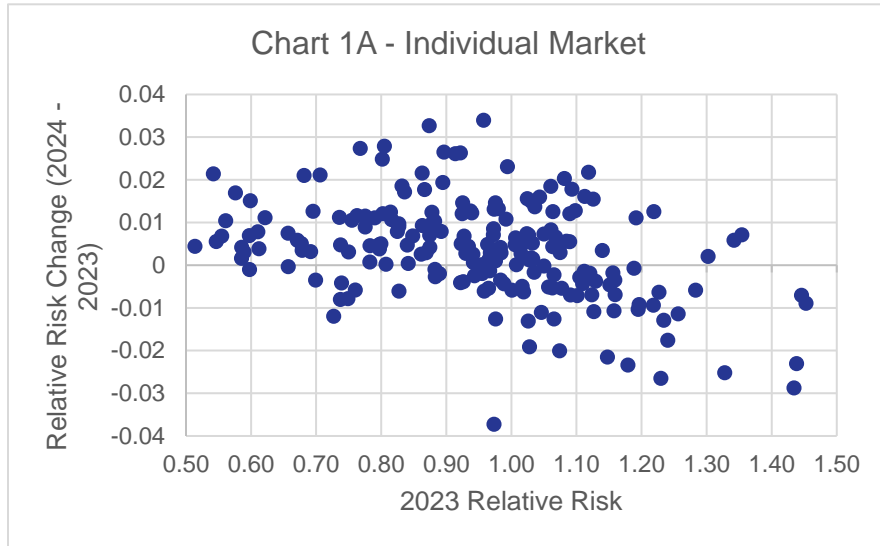
We estimate a decrease of 2.4% and 1.1% in absolute transfer dollars for the individual and small group markets, respectively. Issuer's relative risk generally moved towards 1.0 (or the market average). That is, many issuers estimated<sup>6</sup> to be payers in the 2023 model are estimated to pay less in the 2024 final model. Likewise, many issuers estimated to be receivers in the 2023 model are estimated to receive less in the 2024 final model.

- Results were different in the individual market compared to small group market.
  - Individual market observations:
    - Of all issuers estimated to be payers in the individual market in the 2023 final model, 77.4% are estimated to pay less under the 2024 final model. On average, payers had a 0.6% increase in relative risk between the 2023 final and 2024 final model.
    - Of all issuers estimated to be receivers in the individual market in the 2023 final model, 55.8% are estimated to receive less under the 2024 final model. On average, receivers had a 0.9% decrease in relative risk between the 2023 final and 2024 final model.
  - Small group market observations:
    - Of all issuers estimated to be payers in the small group market in the 2023 final model, 54.2% are estimated to pay less under the 2024 final model. On average, payers had a 0.1% increase in relative risk between the 2023 final and 2024 final model.
    - Of all issuers estimated to be receivers in the small group market in the 2023 final model, 56.8% are estimated to receive less under the 2024 final model. On average, receivers had a 0.3% decrease in relative risk between the 2023 final and 2024 final model.

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<sup>6</sup> As estimated through our WNRAR 202212 reporting run, with enrollment and claims data through December 31, 2022, paid through December 31, 2022

**Charts 1A-B: Issuer Relative Risk Change (2024 Final-2023 Final) Based on 2023 Relative Risk**



**Table 1A: Individual Market Payer and Receiver Improve/Deteriorate Transfer Status and Average Impact, 2023 to 2024 Final**

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
<b>Payer</b>	77.4%	22.6%	0.9%	-0.6%	0.6%
<b>Receiver</b>	44.2%	55.8%	0.9%	-2.4%	-0.9%

**Table 1B: Small Group Market Payer and Receiver Improve/Deteriorate Transfer Status and Average Impact, 2023 to 2024 Final**

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
<b>Payer</b>	54.2%	45.8%	0.6%	-0.6%	0.1%
<b>Receiver</b>	43.2%	56.8%	0.3%	-0.7%	-0.3%

**Table 2: Issuer Absolute Transfer Change from 2023 Final to 2024 Final Model as a Percent of Statewide Market Average Premium**

Metric	Absolute Transfer Change as % of Statewide Market Average Premium	
	Individual	Small Group
Average	0.71%	0.23%
10 <sup>th</sup> Percentile	0.07%	0.03%
25 <sup>th</sup> Percentile	0.23%	0.06%
50 <sup>th</sup> Percentile	0.45%	0.12%
75 <sup>th</sup> Percentile	0.78%	0.35%
90 <sup>th</sup> Percentile	1.39%	0.45%

**Table 3: Percentage of Total Risk Score by Component (2023 Final v 2024 Final Model)**

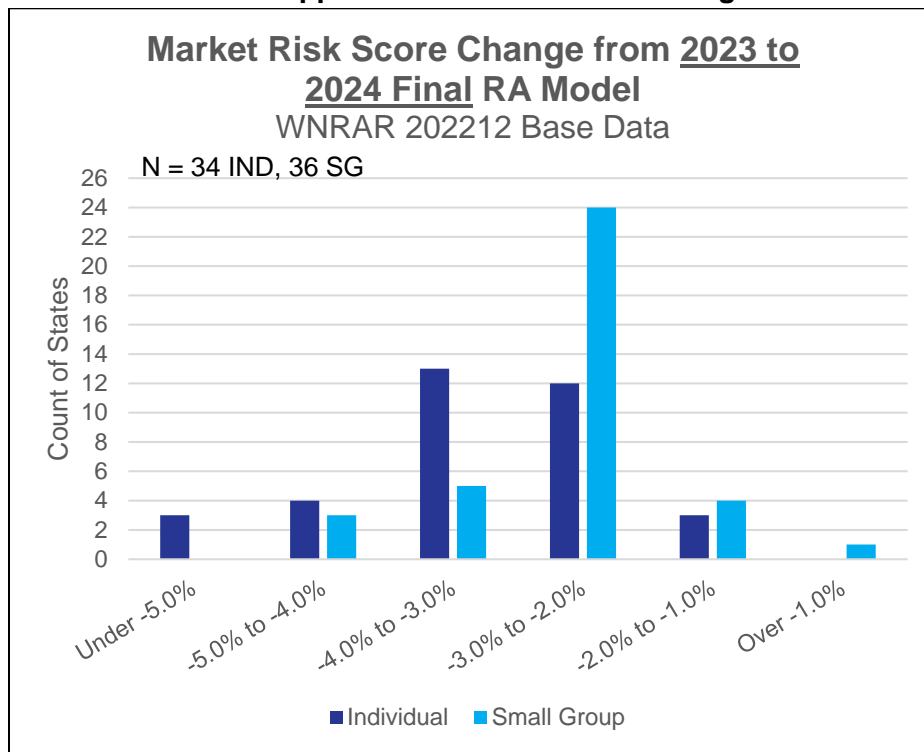
	Individual			Small Group		
	2023 Final Risk Score <sup>1</sup>	2024 Final Risk Score <sup>1</sup>	Change in Percentage (2024-2023)	2023 Final Risk Score <sup>1</sup>	2024 Final Risk Score <sup>1</sup>	Change in Percentage (2024-2023)
<b>Demo</b>	16.7%	16.6%	-0.2%	21.9%	22.2%	0.3%
<b>HCC</b>	64.4%	67.7%	3.3%	60.0%	62.6%	2.6%
<b>RXC</b>	17.5%	14.1%	-3.4%	16.9%	13.7%	-3.1%
<b>EDF</b>	1.3%	1.6%	0.3%	1.2%	1.5%	0.3%

<sup>1</sup>Risk values presented exclude CSR and billable member month adjustments.

**Table 4: Issuer Risk Score Change from 2023 to 2024 Final Risk Adjustment Model**

Metric	Risk Score Change (2024 Final/2023)	
	Individual	Small Group
Average	-2.7%	-2.2%
10 <sup>th</sup> Percentile	-4.1%	-3.1%
25 <sup>th</sup> Percentile	-3.5%	-2.7%
50 <sup>th</sup> Percentile	-2.6%	-2.3%
75 <sup>th</sup> Percentile	-1.7%	-1.9%
90 <sup>th</sup> Percentile	-1.2%	-1.4%

**Chart App B: Market Risk Score Change**



## 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](http://www.wakely.com)