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FINAL 2025 HHS HCC RISK ADJUSTMENT MODEL IMPACT ESTIMATES

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 2025 HHS HCC Risk Adjustment model based on benefit year 2023 data.

Through the WNRAR project, we collected¹ participants' 2023 data incurred and paid through December 31st, 2023, scored with the 2023, 2024, and 2025 Department of Health and Human Services (HHS) Hierarchical Condition Category (HCC) model.

We compared results between the final 2023 and final 2025 risk adjustment models and found the following:

- We estimate a decrease of 4.0% and 2.6% 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 estimated² to be payers in the 2023 model are estimated to pay less in the 2025 final model. Likewise, many issuers estimated to be receivers in the 2023 model are estimated to receive less in the 2025 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, 80.0% are estimated to pay less under the 2025 final model. On average, payers had a 0.6% increase in relative risk between the 2023 final and 2025 final model.
 - Of all issuers estimated to be receivers in the individual market in the 2023 final model, 67.0% are estimated to receive less under the 2025 final model. On average, receivers had a 1.3% decrease in relative risk between the 2023 final and 2025 final model.

We estimate a decrease of 4.0% and 2.6% in absolute risk transfer dollars for the individual and small group markets, respectively, when comparing final 2023 to final 2025 risk adjustment models

¹ We employ a distributed data approach to collect summarized information.

² As estimated through our WNRAR 202312 reporting run, with enrollment and claims data through December 31, 2023, paid through December 31, 2023.

- Small group market observations:
 - Of all issuers estimated to be payers in the small group market in the 2023 final model, 67.6% are estimated to pay less under the 2025 final model. On average, payers had a 0.3% increase in relative risk between the 2023 final and 2025 final model.
 - Of all issuers estimated to be receivers in the small group market in the 2023 final model, 61.8% are estimated to receive less under the 2025 final model. On average, receivers had a 0.4% decrease in relative risk between the 2023 final and 2025 final model.
- Based on our analysis of risk score components, we observed that in comparison to the 2023 final model, the 2025 final risk adjustment model moves risk coefficients towards demographic and medical condition categories (HCC) component of risk scores. Consequently, risk score components for prescription drug condition categories (RXC) decreased in both markets. Enrollment duration factors (EDF) increased slightly in both the individual market and small group markets.

While there are significant changes observed when comparing the 2023 final model to the 2025 final model, we observed that the movements were primarily due to the changes observed between the 2023 final and 2024 final models. This whitepaper focuses on risk score and transfer impacts from the 2023 model to the final 2025 model since issuer results for 2024 are likely not available at the time of our writing. Appendix B includes exhibits on the 2024 final to 2025 final HHS-HCC model impact. Wakely has previously released a paper³ on the impact estimates of the final 2024 HHS HCC Risk Adjustment Model, which was based on WNRAR 2022 benefit year data paid and incurred through December 31st, 2022. In general, observations of the final 2024 model impact were consistent between analyses performed with 2022 benefit year and 2023 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 2025 NBPP released on April 2nd, 2024, CMS finalized changes to the 2025 HHS HCC risk adjustment model relative to the 2023 model, including but not limited to:

- Recalibrating HCC risk coefficients based on 2019, 2020, and 2021 EDGE server data.
- Adjusting risk coefficient for Hepatitis C drugs' plan liability assuming the availability of generics.
- Introducing new definitions and mappings for HCC 70, HCC71, HCC 122, RXC03, and infant severity indicators.
- Recalibrating CSR adjustment factors for American Indian (AI) and Alaskan Native (AN) zero and limited cost-sharing plans.

³ White Paper, Final 2024 HHS HCC Risk Adjustment Model Impact Estimates: <https://www.wakely.com/sites/default/files/files/content/wakely-2024-final-hhs-hcc-model-impact.pdf>

Consistent with the 2024 HHS HCC risk adjustment model, the final 2025 model also includes the following changes that are updated from the 2023 model:

- Inclusion of an additional HCC (G24: Pancreas/Kidney Transplant Status)

More information on the final 2025 HHS HCC risk adjustment model can be found in the final 2025 NBPP.⁴

As a result of these changes, direct comparison of year-over-year total risk scores is not appropriate as risk coefficients and HCCs will be significantly different in 2025 compared to 2023. To estimate the impact of the 2025 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 2023. In addition, we did not adjust the data to reflect any potential differences due to the ending of the Public Health Emergency, any change in enrollment patterns due to Medicaid eligibility redetermination activities, or impact of EDGE server submission timing changes. The membership distribution and diagnosed conditions were held constant year-over-year in this analysis.

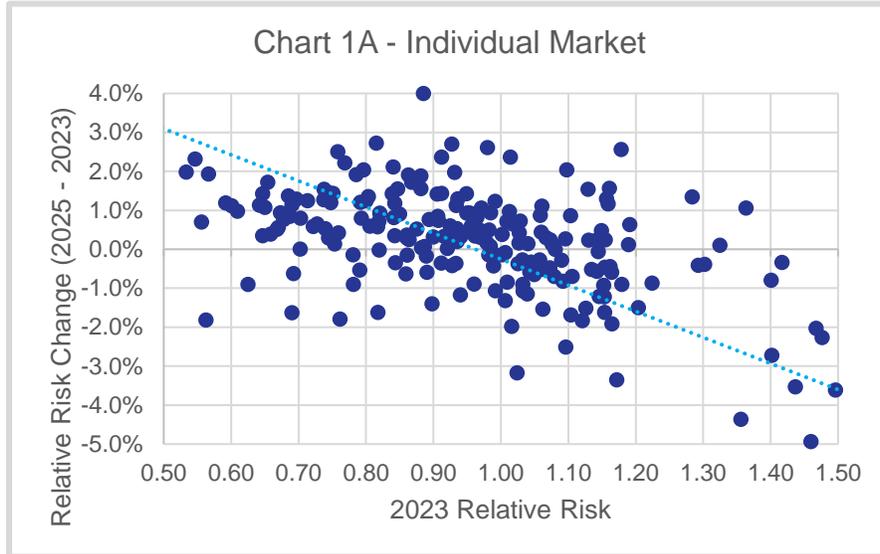
Observations

First, we examined the relative risk⁵ change for issuers nationally from the 2023 final model to the 2025 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.

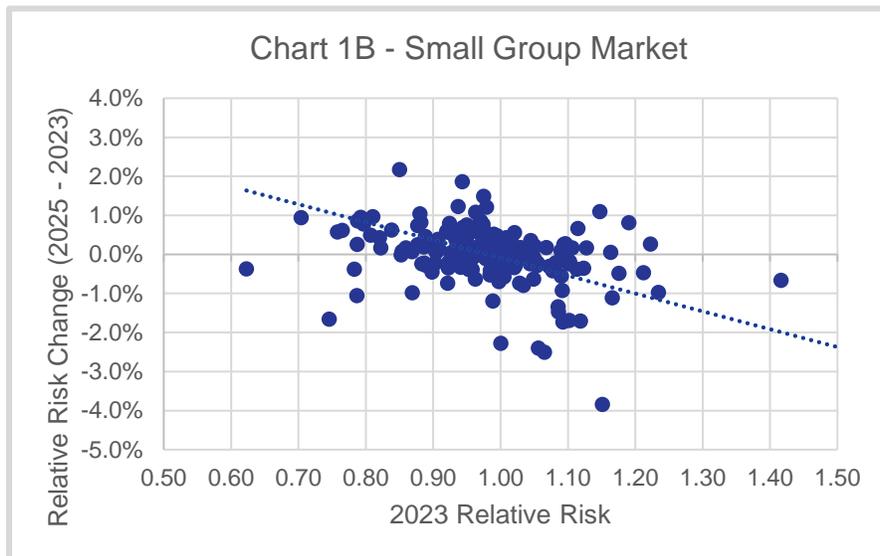
⁴ Department of Health and Human Services, "Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2025", <https://www.cms.gov/files/document/cms-9895-f-patient-protection-final.pdf>

⁵ 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.

Charts 1A and 1B: Issuer Relative Risk Change (2025 Final-2023) Based on 2023 Relative Risk



As shown in Chart 1A above, the relative risk of individual issuers in the 2023 final risk adjustment model moves closer to 1.0 when data is rescored on the 2025 final risk adjustment model. We also observed that issuers with higher than market average relative risk (i.e. risk transfer receivers based on the 2023 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 2025 final risk adjustment model. In other words, the 2025 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 2025 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
Payer	80.0%	20.0%	1.0%	-0.9%	0.6%
Receiver	33.0%	67.0%	0.8%	-2.4%	-1.3%

**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
Payer	67.6%	32.4%	0.6%	-0.4%	0.3%
Receiver	38.2%	61.8%	0.2%	-0.8%	-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 2023 final model (below 1.0 relative risk), 80.0% are estimated to pay less under the 2025 final model. On average, all payers had a 0.6% increase in relative risk between the 2023 final and 2025 final model. Of all issuers estimated to be receivers in the individual market in the 2023 final model (above 1.0 relative risk), 67.0% are estimated to receive less under the 2025 final model. On average, all payers had a 1.3% decrease in relative risk between the 2023 final and 2025 final model.
- 2) As shown in Table 1B above, of all issuers estimated to be payers in the small group market in the 2023 final model (below 1.0 relative risk), 67.6% are estimated to pay less under the 2025 final model. On average, all payers had a 0.3% increase in relative risk between the 2023 final and 2025 final model. Of all issuers estimated to be receivers in the small group market in the 2023 final model (above 1.0 relative risk), 61.8% are estimated to receive less under the 2025 final model. On average, all receivers had a 0.4% decrease in relative risk between the 2023 final and 2025 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 2023 final risk adjustment model to the 2025 final risk adjustment model. On average, the 2025 final risk adjustment

model would impact issuer risk transfers by 0.87% and 0.20% of market average premium for individual and small group markets, respectively.

Table 2: Issuer Absolute Transfer Change from 2023 Final to 2025 Final Model as a Percent of Statewide Market Average Premium

Metric	Absolute Transfer Change as % of Statewide Market Average Premium	
	Individual	Small Group
Average	0.87%	0.20%
10 th Percentile	0.18%	0.01%
25 th Percentile	0.34%	0.05%
50 th Percentile	0.70%	0.18%
75 th Percentile	0.95%	0.26%
90 th Percentile	1.39%	0.41%

To further understand the risk score changes due to the 2025 final risk adjustment model, we compared how the different components of risk scores as a percentage of total risk score changed between the 2023 final and the 2025 final models. Table 3 below show changes in the components of risk scores.

Table 3: Percentage of Total Risk Score by Component (2023 Final v 2025 Final Model)

	Individual			Small Group		
	2023 Final Risk Score ¹	2025 Final Risk Score ¹	Change in Percentage (2025-2023)	2023 Final Risk Score ¹	2025 Final Risk Score ¹	Change in Percentage (2025-2023)
Demo	16.8%	17.6%	0.8%	21.3%	22.7%	1.4%
HCC	64.7%	66.4%	1.7%	60.5%	61.8%	1.4%
RXC	16.7%	13.7%	-3.0%	17.1%	13.9%	-3.1%
EDF	1.7%	2.3%	0.5%	1.2%	1.5%	0.3%

¹Risk 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 17.6% and 22.7% of total risk scores, respectively, in the final 2025 model (as compared to 16.8% and 21.3% in 2023, 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, the aggregate percentage of HCC risk and RXC risk scores as a proportion of total risk scores decrease as a result of the model changes. Therefore, issuers with higher HCC and RXC 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. Note, HCC risk scores as a proportion of total risk scores increased for both markets from 2023 final to 2025 final, but the decrease in RXC risk scores as a proportion of total risk scores outweighed the difference.

Along with changes to the distribution of risk score by component, we observed that on average, the risk score decreased between the 2023 and final 2025 models. While market average risk scores decreased from 2023 to final 2025 by 6.5% 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 2023 to final 2025 between the 90th percentile value and the 10th percentile value are 3.2% and 1.5% 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 2023 to 2025 Final Risk Adjustment Model

Metric	Risk Score Change (2025 Final /2023)	
	Individual	Small Group
Average	-6.3%	-6.3%
10 th Percentile	-7.9%	-6.9%
25 th Percentile	-7.2%	-6.7%
50 th Percentile	-6.1%	-6.4%
75 th Percentile	-5.4%	-5.9%
90 th Percentile	-4.7%	-5.4%

Issuers who are current WNRAR participants have received their estimated 2023 final, 2024 final, and 2025 final risk transfer impact in the 202312 WNRAR deliverables⁶. If you are not a current participant and you are interested in participating in this important project, please contact us at WNRARSupport@Wakely.com.

Disclosures and Limitations

This analysis applied the final 2023, final 2024, and 2025 final risk adjustment model to WNRAR participants' 2023 data with claims incurred and paid through December 2023. 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 2025. 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 ending of the Public Health Emergency or EDGE server submission timing changes, or any change in enrollment due to Medicaid eligibility redetermination activities in periods not covered in our study (post December 2023).

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.

⁶ As there were no changes between the proposed and final 2025 HHS HCC Risk Adjustment model, proposed 2025 estimates in deliverables can be used to estimate the impact of the final 2025 model.

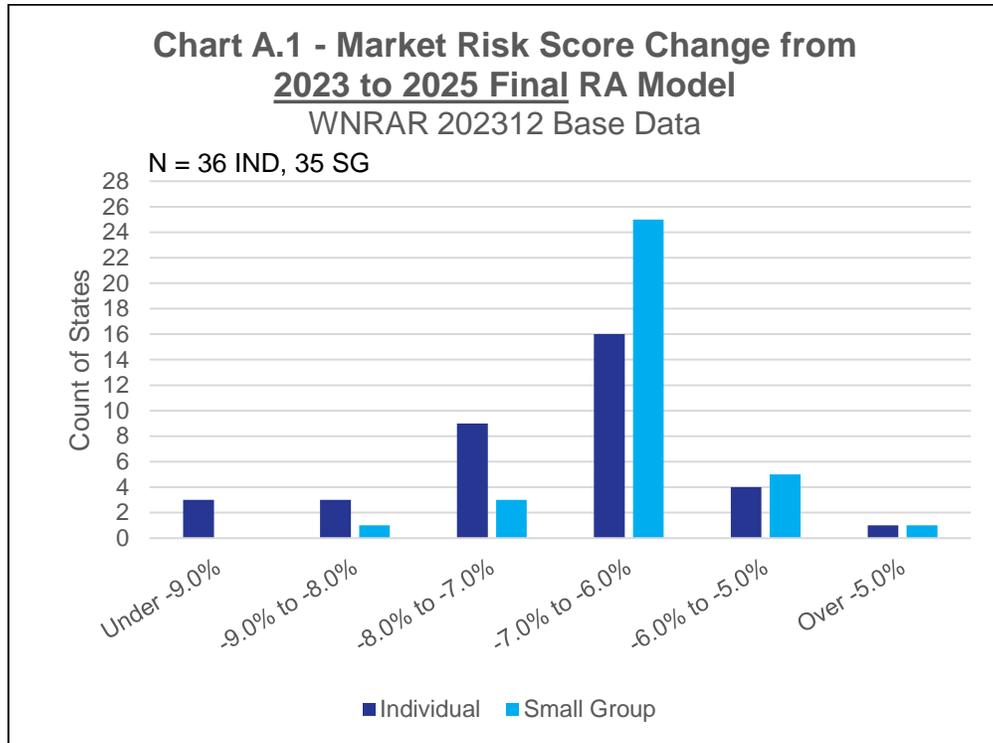
The PLRS changes provided above are inherently uncertain and rely upon data provided by WNRAR participants. We extensively review the data and work with issuers to correct any observed issues but cannot guarantee the accuracy of any single issuer's data submission. Results may vary significantly by issuer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

Please contact Chia Yi Chin at 720.226.9819 | chiac@wakely.com or Maris Hayes at 720.531.7030 | maris.hayes@wakely.com with any questions or to follow up on any of the concepts presented here. Special thanks to Matt McClintick and Paul Brochhausen for their contributions to this paper.

Appendix A: Market Risk Score Change

Chart A.1 below shows the distribution of average PLRS changes by market from the current 2023 risk adjustment model to the final 2025 risk adjustment model. All observed changes in risk scores between years below are due to change in HCC classification, risk score coefficients, and CSR adjustment factors. Given that we did not make any demographic or morbidity adjustments to the underlying 2023 data, these risk score changes do not indicate that there is a change in overall morbidity.



Appendix B: 2024 Final to 2025 Final HHS-HCC Model Impact Exhibits

Exhibits presented below are based on WNRAR participants' 2023 data incurred and paid through December 31st, 2023. The exhibits and observations below represent result changes from the 2024 final model to the 2025 final model.

We estimate a decrease of 1.4% and 1.7% 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 estimated⁷ to be payers in the 2024 model are estimated to pay less in the 2025 final model. Likewise, many issuers estimated to be receivers in the 2024 model are estimated to receive less in the 2025 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 2024 final model, 74.0% are estimated to pay less under the 2025 final model. On average, payers had a 0.1% increase in relative risk between the 2024 final and 2025 final model.
 - Of all issuers estimated to be receivers in the individual market in the 2024 final model, 75.0% are estimated to receive less under the 2025 final model. On average, receivers had a 0.3% decrease in relative risk between the 2024 final and 2025 final model.
 - Small group market observations:
 - Of all issuers estimated to be payers in the small group market in the 2024 final model, 70.3% are estimated to pay less under the 2025 final model. On average, payers had a 0.2% increase in relative risk between the 2024 final and 2025 final model.
 - Of all issuers estimated to be receivers in the small group market in the 2024 final model, 65.2% are estimated to receive less under the 2025 final model. On average, receivers had a 0.1% decrease in relative risk between the 2024 final and 2025 final model.

⁷ As estimated through our WNRAR 202312 reporting run, with enrollment and claims data through December 31, 2023, paid through December 31, 2023

Charts B.1A, B.1B: Issuer Relative Risk Change (2025 Final-2024 Final) Based on 2024 Relative Risk

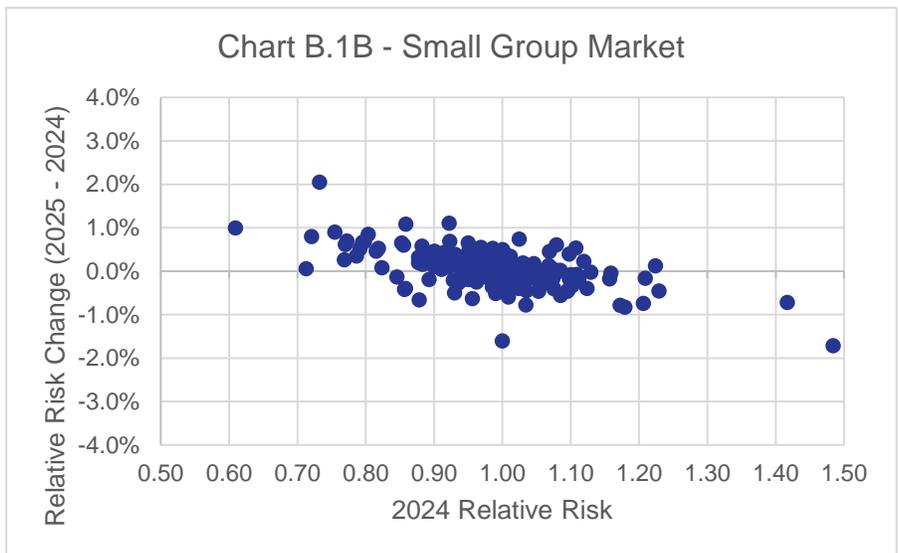
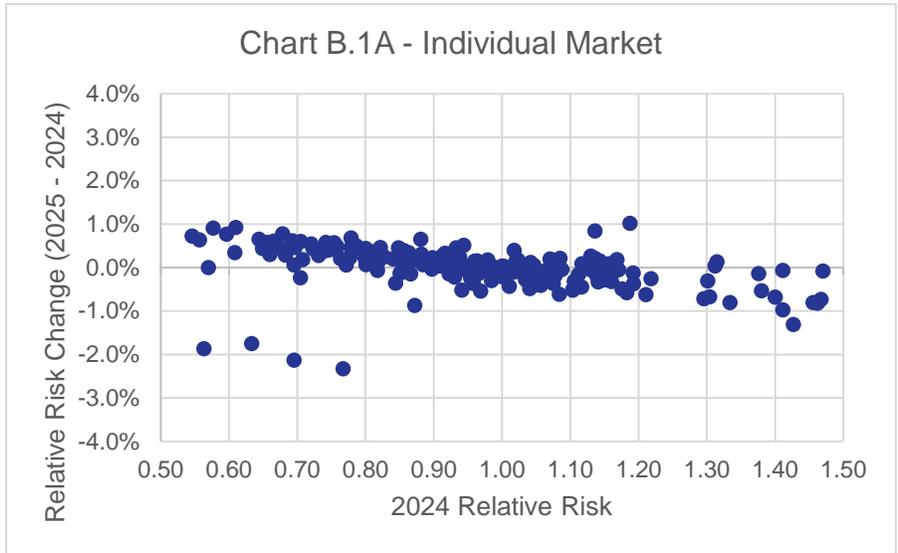


Table B.1A: Individual Market Payer and Receiver Improve/Deteriorate Transfer Status and Average Impact, 2024 to 2025 Final

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
Payer	74.0%	26.0%	0.3%	-0.4%	0.1%
Receiver	25.0%	75.0%	0.2%	-0.4%	-0.3%

Table B.1B: Small Group Market Payer and Receiver Improve/Deteriorate Transfer Status and Average Impact, 2024 to 2025 Final

Issuers	% of Issuers		Average Change in Relative Risk		
	Improve	Deteriorate	Improve	Deteriorate	Average
Payer	70.3%	29.7%	0.4%	-0.2%	0.2%
Receiver	34.8%	65.2%	0.2%	-0.3%	-0.1%

Table B.2: Issuer Absolute Transfer Change from 2024 Final to 2025 Final Model as a Percent of Statewide Market Average Premium

Metric	Absolute Transfer Change as % of Statewide Market Average Premium	
	Individual	Small Group
Average	0.27%	0.13%
10 th Percentile	0.04%	0.01%
25 th Percentile	0.09%	0.03%
50 th Percentile	0.22%	0.10%
75 th Percentile	0.39%	0.17%
90 th Percentile	0.56%	0.29%

Table B.3: Percentage of Total Risk Score by Component (2024 Final v 2025 Final Model)

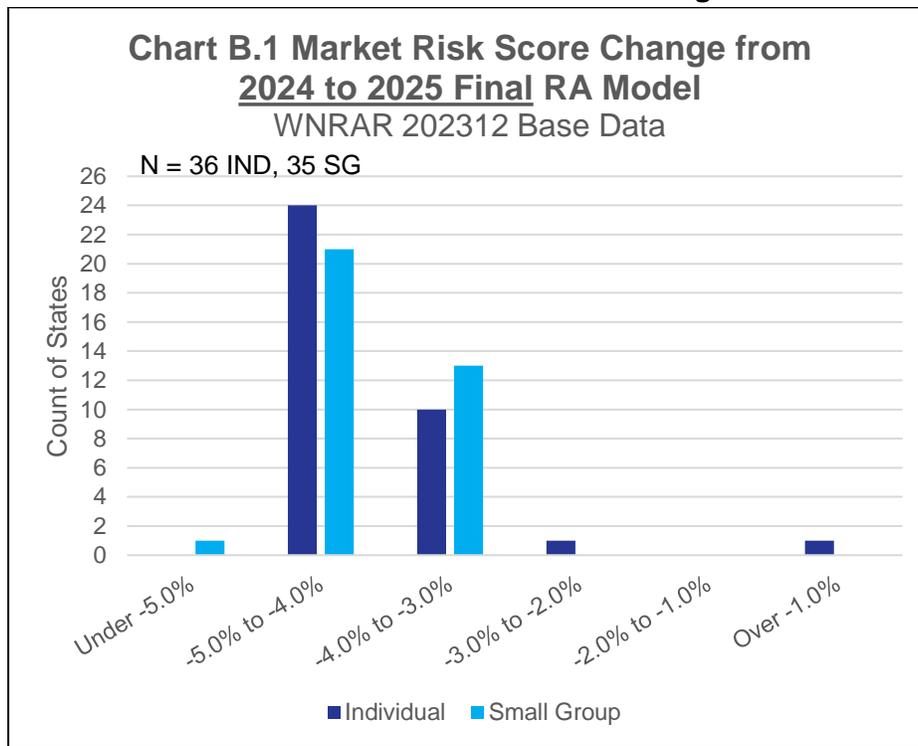
	Individual			Small Group		
	2024 Final Risk Score ¹	2025 Final Risk Score ¹	Change in Percentage (2025-2024)	2024 Final Risk Score ¹	2025 Final Risk Score ¹	Change in Percentage (2025-2024)
Demo	16.6%	17.6%	1.0%	21.6%	22.7%	1.1%
HCC	67.9%	66.4%	-1.4%	63.1%	61.8%	-1.2%
RXC	13.4%	13.7%	0.3%	13.9%	13.9%	0.0%
EDF	2.1%	2.3%	0.2%	1.5%	1.5%	0.1%

¹Risk values presented exclude CSR and billable member month adjustments.

Table B.4: Issuer Risk Score Change from 2024 to 2025 Final Risk Adjustment Model

Metric	Risk Score Change (2025 Final/2024)	
	Individual	Small Group
Average	-4.0%	-4.1%
10 th Percentile	-4.6%	-4.5%
25 th Percentile	-4.3%	-4.4%
50 th Percentile	-4.1%	-4.1%
75 th Percentile	-3.9%	-4.0%
90 th Percentile	-3.4%	-3.8%

Chart B.1: 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