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Beware of risk adjustment practices that could put your health plan at risk

By Rebecca Welling, RHIT, CCS-P

Rebecca Welling (rebecca.welling@providence.org), Senior Director Coding Compliance, Providence Health Plan, Portland, OR.

Welcome to the world of risk adjustment and Medicare Advantage!

The Centers for Medicare & Medicaid Services (CMS) developed risk adjustment as an alternative program to traditional Medicare to offer expanded benefits, such as dental, fitness, chiropractic, and eye exams, to encourage healthy patient behaviors and treat seniors at a lower cost than traditional Medicare. Risk adjustment uses private insurance companies to administer the Medicare benefit by allowing patients to select a Medicare Advantage plan offered through many large payers such as UnitedHealthcare, Aetna, Humana, Blue Cross Blue Shield, Providence Health Plan, and many others. In 2021, there are more than 3,550 Medicare Advantage plan choices available nationwide.[1]

Currently, 39% of all Medicare beneficiaries, or around 24 million people, receive their benefits through a Medicare Advantage plan, with that number expected to surpass 51% by 2030.[2] CMS uses severity-of-illness measures such as age, gender, Medicaid eligibility, and chronic conditions reported through International Classification of Diseases (ICD-10) codes on insurance claims to estimate the risk of the patient.[3] Risk is defined as the measurable or predictable chance of loss, injury, or death to which a patient is subject before receiving some healthcare intervention.

Risk adjustment allows CMS to compare patient's illness severity, quality of care received, and payer performance across organizations, practitioners, and even communities that have a high Medicare Advantage penetration rate. Every participating health plan receives funds annually that correspond directly to the disease burden of the patients they insure. Each patient is given a risk adjustment factor (RAF) score. This score is additive and takes each contributing condition into account.

Here is an example to illustrate the funding:

Ruby Mae lives in Sacramento, California, in her own home with a caregiver. She is 94 years old and is eligible for Medicaid. Ruby Mae has type 2 diabetes mellitus with peripheral neuropathy, angina, and dementia.

The CMS benchmark for Sacramento is approximately $901.77 per month. Ruby Mae's demographic RAF score is 0.689; in addition, CMS adds 0.287 for her diabetes, 0.37 for her angina, and 0.131 for her dementia. Thus, her total risk adjustment score is 1.477. The average RAF score for a Medicare patient is 1.0, thus Ruby Mae most likely will have higher medical costs than an average Medicare patient.*