2019 Medicare Advantage Advance Notice Part 1

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How will the Proposed CMS Changes Impact Your Plan's Financial Performance?

Traditionally, Medicare Advantage (MA) Plans scramble resources in early February to understand CMS' Advance Notice of Methodological Changes for the upcoming plan year and translate the changes into financial and operational impacts. CMS changed things up a bit this year by releasing Part I of the 2019 MA Advance Notice in late December. The focus of Part I is a proposed change to the MA CMS-HCC Risk Adjustment Model (Risk Model) (affects Part C payment only). This brief provides an overview of the changes proposed.

Background

Early release of the proposed changes to the Risk Model was required to provide sufficient comment time on the proposed changes while continuing to meet the other MA Plan notice requirements – the balance of the 2019 Advance Notice on or before January 31, 2018 and the MA capitation rates and final payment policies no later than April 2, 2018. MA Plans have until March 2, 2018 to submit comments on the proposed Risk Model changes. The proposed Risk Model changes are what CMS believes is appropriate to comply with risk adjustment requirements of the 21st Century Cure Act.

Proposed Changes in Brief

CMS intends to integrate an updated HCC model, i.e., the 2019 CMS-HCC Risk Adjustment Model, which reflects:

- More recent cost experience (moving from 2013/2014 data to 2014/2015 data)
- Expand the use of HCCs for mental health and substance abuse and
- Add new factors to "community" and "long term institutional" factors that reflect the beneficiary's number of conditions.

The 2019 Risk Model risk score will be phased-in over three years:

- Plan year 2019 – 25% weight on 2019 Risk Model risk score/ 75% weight on 2017 Risk Model risk score
- Plan year 2020 – 50% weight on 2019 Risk Model risk score/ 50% weight on 2017 Risk Model risk score
- Plan year 2021 – 75% weight on 2019 Risk Model risk score/ 25% weight on 2017 Risk Model risk score
- Plan year 2022 – 100% weight on 2019 Risk Model risk score

MA payment will continue to reflect a blend of Risk Adjustment Processing System (RAPS) and encounter data increasing the weight on encounter-based risk scores from 15% in 2018 payment to 25% for 2019 payment. (Note: encounter diagnosis data will be amended with RAPS inpatient diagnoses.)

The Impact on MA Plan Revenue

The proposal seems simple enough but, as with most things, "the devil is in the details".
More refined reflection of behavioral diagnoses and more direct consideration of or the number of a beneficiary's conditions (comorbidities) seems like good ideas. The range of cost to properly treat behavior problems (including alcohol and substance abuse) is wide so reflection of most diagnosis-specific payment should be good for MA plans with a material concentration of beneficiaries with these conditions. Multiple conditions complicate patient care management so including additional payment for more complex patients is sound. However, the CMS Part C payment mechanics force payment changes to be budget neutral. So, if your MA plan has a beneficiary population that is biased towards behavioral health diagnoses and multiple conditions, you should see a small increase in revenue; if your beneficiary population is biased towards a single or few multiple conditions without a material behavioral health burden, your revenue will likely be reduced by the new Risk Model.

Number of Conditions Model(s)

The CMS proposal includes three alternatives:

1. An HCC model that includes a "number of conditions" adjustment based on only HCCs that are used in Part C payment (Payment HCCs Count),
2. An HCC model that includes a "number of conditions" adjustment based on all HCCs (All HCC Count),
3. An HCC model that excludes the consideration of the "number of conditions" (without Count).

The Payment HCC Count model includes consideration of 1 – 9 payment HCCs plus 10 or more payment HCCs with the adjustment ranges as follows:

Community Beneficiaries	
Non-Duals	
Aged	No adjustment for 1 - 3 Payment HCCs/+0.012 for 4 Payment HCCs to +0.567 for 10+ Payment HCCs (that is up to $397 per month on a $700 base rate)
Disabled	No adjustment for 1 - 4 Payment HCCs/+0.040 for 5 Payment HCCs to +0.942 for 10+ Payment HCCs (that is up to $659 per month on a $700 base rate)
Full Benefit Duals	
Aged	No adjustment for 1 - 5 Payment HCCs/+0.061 for 6 Payment HCCs to +0.473 for 10+ Payment HCCs (that is up to $331 per month on a $700 base rate)
Disabled	No adjustment for 1 - 3 Payment HCCs/+0.035 for 4 Payment HCCs to +1.150 for 10+ Payment HCCs (that is up to $805 per month on a $700 base rate)
Partial Benefit Duals	
Aged	No adjustment for 1 - 4 Payment HCCs/+0.038 for 5 Payment HCCs to +0.599 for 10+ Payment HCCs (that is up to $419 per month on a $700 base rate)
Disabled	No adjustment for 1 - 4 Payment HCCs/+0.093 for 5 Payment HCCs to +0.921 for 10+ Payment HCCs (that is up to $645 per month on a $700 base rate)
Institutionalized	No adjustment for 1 - 5 Payment HCCs/+.0060 for 6 Payment HCCs to +0.245 for 10+ Payment HCCs (that is up to $172 per month on a $700 base rate)

The All HCC Count model includes consideration of 1 – 14 HCCs plus 15 or more HCCs with adjustment ranges as follows:

Community Beneficiaries	
Non-Duals	
Aged	+0.064 for 1 HCCs to +0.718 for 15+ HCCs (that is up to $503 per month on a $700 base rate)
Disabled	No adjustment for 1 HCC/+0.049 for 2 HCCs to +0.821 for 15+ HCCs (that is up to $575 per month on a $700 base rate)
Full Benefit Duals	
Aged	No adjustment for 1 - 7 HCCs/+0.032 for 8 HCCs to +0.481 for 15+ HCCs (that is up to $337 per month on a $700 base rate)
Disabled	No adjustment for 1 - 3 HCCs/+0.034 for 4 HCCs to +0.742 for 15+ HCCs (that is up to $519 per month on a $700 base rate)
Partial Benefit Duals	
Aged	No adjustment for 1 - 2 HCCs/+0.035 for 3 HCCs to +0.627 for 15+ HCCs (that is up to $439 per month on a $700 base rate)
Disabled	No adjustment for 1 - 2 HCCs/+0.036 for 3 HCCs to +0.782 for 15+ HCCs (that is up to $547 per month on a $700 base rate)
Institutionalized	No adjustment for 1 - 9 HCCs/+0.040 for 10 HCCs to +0.540 for 15+ HCCs (that is up to $378 per month on a $700 base rate)

Adoption of either “number of conditions” models will likely result in material shifts in revenue by MA plan.

Next Steps

Comments and concerns regarding the CMS proposed risk model changes must be received by CMS no later than 6 PM Eastern Time on March 2, 2018.

A general opinion can be formed based on the theoretical considerations presented by CMS in creating the three proposed risk models. However, financial analysis will be required to determine which of the two “number of conditions” models is most financially beneficial for your plan and to determine whether you should reluctantly go along or enthusiastically endorse the proposed change.

We recommend MA plans estimate the impact on future MA revenue using each of the three alternative CMS-HCC models and a recent extract of your plan’s beneficiary disease distribution. Presumably, MA plans will “win” financially if revenue shows an increase when the estimate for the “number of conditions” model is compared to the estimate for the “without count” model. This should be true even with the budget neutrality adjustment. However, if revenue estimates show your MA plan will “lose” financially should CMS proceed with the proposed change, then the discussion of strategic alternatives can begin now rather than in April or May.

Please contact Dennis J. Hulet, FSA, MAAA, Consulting Actuary with Axene Health Partners, LLC at (206) 849-8752 or by email at dennis.hulet@axenehp.com for more information about the proposed HCC model changes or for assistance with our recommended financial analysis.

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