

Proposed 2021 HHS HCC Risk Adjustment Model Impact Estimates

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Executive Summary

Wakely provides participating issuers with risk adjustment estimates for the Affordable Care Act's (ACA) individual and small group markets under the Wakely National Risk Adjustment Reporting (WNRAR) project. We collected¹ WNRAR participants' data scored with the 2019 Department of Health and Human Services (HHS) Hierarchical Condition Category (HCC) model as well as the proposed 2021 HHS HCC model.² We compared results from both models and noted the following:

- The 2019 nationwide, market average risk scores in the individual and small group markets decreased by 5.2% and 3.9% respectively when rescored using the proposed 2021 risk adjustment model, holding the membership constant.
- Each issuer's plan liability risk score (PLRS) change due to the proposed model varied, often significantly.
- On average, issuers' absolute risk transfer changed by 1.1% and 0.6% of market average premiums in individual and small group markets respectively. For more details, please see Table 2 under the Observations section of this paper.

As a result of the interaction between issuer PLRS changes and the overall market changes above, **we observed that issuers' relative risks generally moved away from 1.0**. That is, if we estimated that an issuer was a payer in 2019,³ we estimate that they will be likely to pay more under the proposed 2021 risk adjustment model. And likewise, if we estimated that an issuer was a recipient under the 2019 model, we estimate that they will be likely to receive more under the proposed 2021 risk adjustment model.

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

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

² Proposed 2021 risk adjustment model based on 2021 proposed Notice of Benefit and Payment Parameters (NBPP) <https://s3.amazonaws.com/public-inspection.federalregister.gov/2020-02021.pdf>

³ As estimated through our WNRAR 201912S reporting run, with enrollment and claims data through December 31, 2019, paid through December 31, 2019.

proposed 2021 NBPP, CMS proposed significant changes to the 2021 HHS HCC risk adjustment model, including but not limited to:

- 1) Reclassifying hierarchical condition categories (HCCs) to reflect the coding changes due to the transition to ICD-10.
- 2) Recalibrating HCC risk coefficients based on 2016 and 2017 EDGE server data.⁴
- 3) Adjusting risk coefficient for Hepatitis C drugs' plan liability assuming the availability of generics.
- 4) Including pre-exposure prophylaxis (PrEP) plan liability in preventative services.

More information on the proposed 2021 HHS HCC risk adjustment model can be found in CMS White Paper⁵ and the proposed 2021 NBPP.⁶ A brief reading is also available through Wakely's summary of the proposed 2021 NBPP.⁷

As a result of these proposed changes, direct comparison of year-over-year total risk scores is not appropriate as risk coefficients and HCCs will be significantly different in 2021. In order to estimate the impact of the 2021 proposed risk adjustment model, Wakely distributed revised project codes based on the proposed changes and collected summarized results from WNRAR participants. It is important to note that Wakely does not make adjustments to the results collected, so the analysis and its accompanying estimates do not consider year-over-year changes in demographics, morbidity, coding improvement, or changes in laws and regulations.

Observations

Chart 1 below shows the distribution of average PLRS changes by market from the current 2019 risk adjustment model to the proposed 2021 risk adjustment model. As shown, average risk scores based on the proposed 2021 risk adjustment model decreased by roughly between 2.5% to 6.0% when compared to 2019.⁸ This is due to a general decrease in risk score coefficients. Given that we did not make any demographic or morbidity adjustments to the underlying 2019 data, these risk score changes do not indicate that there is a change in overall morbidity.

⁴ 2018 EDGE data was not available when 2021 proposed NBPP was released. It will be used in the final NBPP.

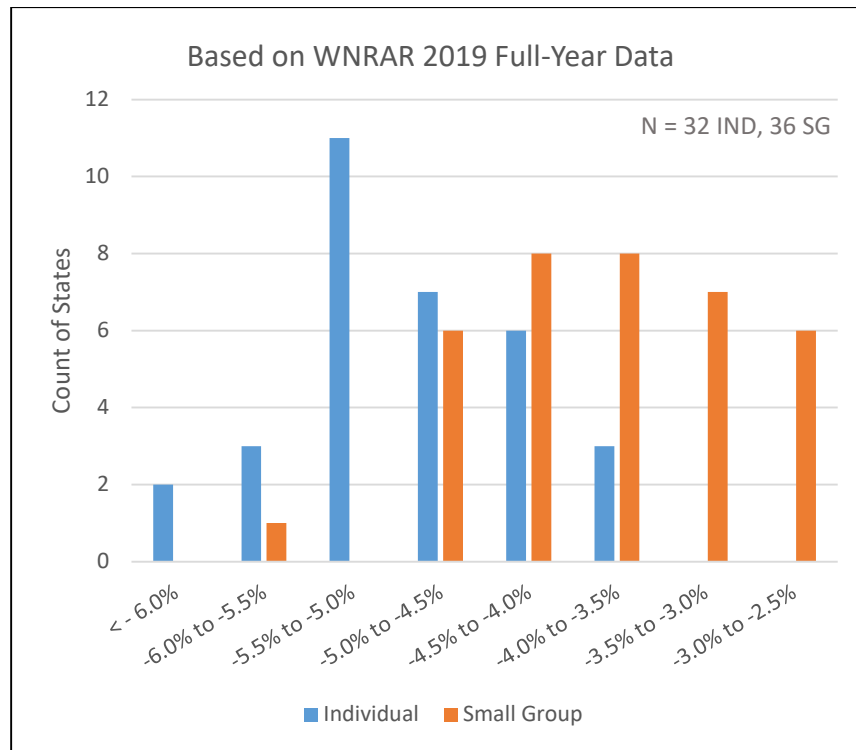
⁵ <https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/Potential-Updates-to-HHS-HCCs-HHS-operated-Risk-Adjustment-Program.pdf>

⁶ <https://s3.amazonaws.com/public-inspection.federalregister.gov/2020-02021.pdf>

⁷ <https://www.wakely.com/sites/default/files/files/content/wakely-summary-2021-proposed-nbpp-21420.pdf>

⁸ As shown by the range in Chart 1.

Chart 1: Market Risk Score Change from 2019 to 2021 RA Model



In addition, we also observed that the risk score changes for issuers can be significantly different than market averages. In Table 1 below, we show issuer average risk score changes, as well as key metrics by market.⁹ While market average risk score decreased by 5.2% and 3.9% for the individual and small group markets respectively, issuer risk score changes can vary widely. As shown in Table 1, the spreads in risk score changes between the 90th percentile and the 10th percentile are 4.2% and 3.1% for individual and small group markets respectively.

⁹ Additional illustration of issuer risk score changes by market share can be found in Appendix A.

Table 1: Issuer Risk Score Change from 2019 to 2021 RA Model

Metric	Risk Score Change (2021/2019)	
	Individual	Small Group
Average	-5.21%	-3.93%
10 th Percentile	-3.13%	-2.92%
25 th Percentile	-4.14%	-3.15%
50 th Percentile	-5.09%	-3.61%
75 th Percentile	-6.15%	-4.41%
90 th Percentile	-7.31%	-6.04%

As shown in Chart 1 and Table 1, risk score changes varied significantly from one issuer to another. As a result of this variation by market, issuers' risk transfers will be affected, often materially. In Table 2, we show absolute risk transfer changes as a percent of statewide market average premium to illustrate the impact of the proposed 2021 risk adjustment model.

Table 2: Issuer Absolute Transfer Change from 2019 to 2021 RA Model as a Percent of Statewide Market Average Premium

Metric	Absolute Transfer Change as % of Statewide Market Average Premium	
	Individual	Small Group
Average	1.09%	0.60%
10 th Percentile	0.05%	0.07%
25 th Percentile	0.25%	0.11%
50 th Percentile	0.86%	0.42%
75 th Percentile	1.76%	0.87%
90 th Percentile	2.15%	1.39%

To further understand the risk score changes due to the proposed 2021 risk adjustment model, we compared how the different components of risk scores as a percentage of total risk score changed between the 2019 and 2021 models. Table 3 below shows changes in the components of risk scores.

Table 3: Percentage of Total Risk Score by Component (2019 v 2021 HHS Model)

	Individual			Small Group		
	2019 Risk ¹	2021 Risk ¹	Change in Percentage (2021-2019)	2019 Risk ¹	2021 Risk ¹	Change in Percentage (2021-2019)
Demo	17.2%	13.6%	-3.7%	22.5%	18.4%	-4.1%
HCC	64.1%	70.1%	6.1%	60.0%	65.4%	5.4%
RXC	17.0%	15.2%	-1.8%	15.2%	14.7%	-0.4%
EDF	1.7%	1.1%	-0.6%	2.3%	1.5%	-0.8%

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

As shown in Table 3, HCCs are a larger component of total risk in the proposed 2021 model. For example, medical conditions or hierarchical condition categories (HCCs) increased from 64.1% of total risk score in 2019 to 70.1% of total risk score in 2021 for the individual market. This is consistent with the observation that the 2021 proposed model is generally moving relative risks further from 1.0. This also suggests that accurate coding will be even more important in 2021. Therefore, issuers with higher HCC prevalence rates (typically risk transfer receivers) will likely see their relative risks and consequently risk transfer receipts increase, while the opposite scenario will hold true for issuers with lower HCC prevalence rates.

Table 4 below shows the proportion of risk transfer payers and receivers based on their estimated 2019 risk adjustment results and whether their risk adjustment transfers improve or deteriorate when risk scores are calculated under the proposed 2021 payment model. For example, in the individual market, we estimated 76.8% of payers would have their risk transfers deteriorate (have to pay more) due to the proposed risk adjustment model.

Table 4: Payer and Receiver Improve/Deteriorate Transfer Status

Issuers	Individual		Small Group	
	Improve	Deteriorate	Improve	Deteriorate
Payer	23.2%	76.8%	21.1%	78.9%
Receiver	79.2%	20.8%	65.3%	34.7%

Issuers who are current WNRAR participants should have received their estimated 2021 risk transfer impact in the 201912S WNRAR deliverables. If you need a copy of your results, please contact us at WNRARSupport@Wakely.com.

[Disclosures and Limitations](#)

This analysis applied the proposed 2021 risk adjustment model to WNRAR participants' 2019 data with claims incurred and paid through December 2019. 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 2021. Furthermore, no adjustments were made for improved risk score optimization efforts such as up-coding and supplemental claims efforts. We also did not make any adjustments for the COVID-19 crisis.

This paper and the analysis contained herein are based on our interpretation and understanding of CMS guidance. Results may vary significantly, and CMS may not finalize the model as proposed.

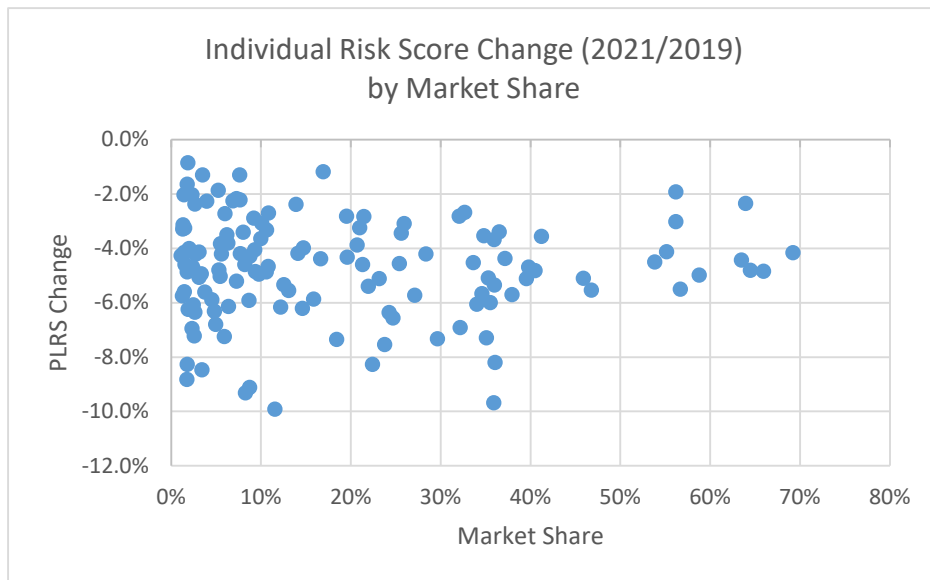
The PLRS changes provided above are inherently uncertain and rely upon data provided by WNRAR participants. We extensively review the data and work with issuers to correct any observed issues but cannot completely guarantee the accuracy of any single issuer's data submission.

Users of this analysis should be qualified to use it and understand the results and its inherent uncertainty. We advise all 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 with any questions or to follow up on any of the concepts presented here.

Appendix A – Risk Score Changes for Issuers by Market Share

Appendix A-1: Individual Risk Score Change from 2019 to 2021 RA Model by Market Share



Appendix A-2: Small Group Risk Score Change from 2019 to 2021 RA Model by Market Share

