

MODULE 1 – OVERVIEW

Purpose

This Overview Module defines risk adjustment and focuses on its purpose and basic terminology in order to set the stage for the rest of the Risk Adjustment 101 session.

Learning Objectives

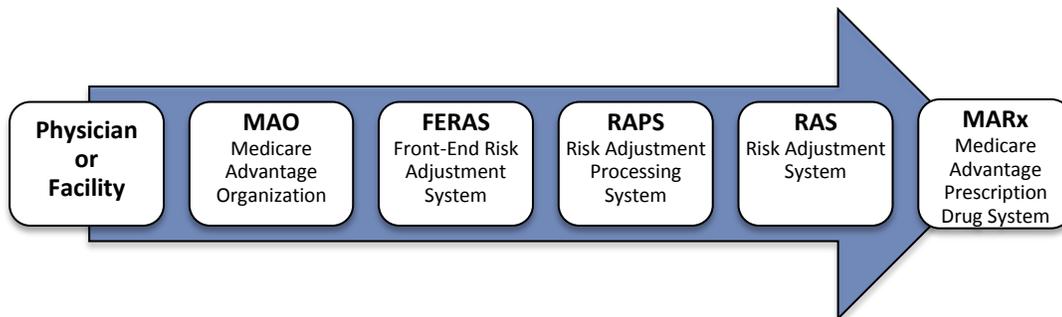
At the completion of this module, participants will be able to:

- Explain the history and purpose of risk adjustment.
- Define important risk adjustment terms and acronyms.
- Understand the practice of using models to calculate risk scores.

1.1 Risk Adjustment Definition

Risk adjustment is the method used to adjust bidding and payment to health plans based on demographics (i.e., age and sex) as well as actual health status of a plan’s enrollees. Medicare risk adjustment is prospective, meaning diagnoses from the previous year and demographic information are used to predict future costs, and adjust payment. Figure 2 provides a high-level flow of risk adjustment data from submission to payment. This process is explained in more detail throughout this document.

Figure 2 – High-Level Risk Adjustment Data Flow



1.2 The Purpose of Risk Adjustment

Risk adjustment allows CMS to pay plans for the risk of the beneficiaries they enroll. By risk adjusting plan payments, CMS is able to make appropriate and accurate payments for enrollees with differences in expected costs. Increased accuracy benefits patients, providers, health plans, and the nation as a whole.

1.3 The History of Risk Adjustment

Risk adjustment methodology for Medicare Advantage (formerly Medicare + Choice) was first required in 1997 by the Balanced Budget Act (BBA). When CMS first implemented risk adjustment, hospital inpatient diagnoses were collected to determine payment to Medicare Advantage organizations. In 2000, with the Benefits Improvement and Protection Act of 2000 (BIPA), Congress mandated that ambulatory data also be collected. This change occurred gradually, and was fully implemented in 2007 with completion of 100% risk adjusted payments for the majority of MA organizations. Some demonstration plans, however, were not fully phased in until 2008.

Encounter Data Flow Process Overview

The EDS is comprised of two (2) systems and three (3) sub-systems:

- Encounter Data Front-End System (EDFES)
- Encounter Data Processing System (EDPS)
 - Encounter Data Professional Processing and Pricing Sub-System
 - Encounter Data Institutional Processing and Pricing Sub-System
 - Encounter Data DME Processing and Pricing Sub-System

These systems and sub-systems are designed to perform editing, processing, pricing, and storage of encounter data. Figure A provides an overview of the flow of these systems and components of the EDS.



Each of these components are covered in more detail in Module 2, Submission Requirements.

Figure A – ENCOUNTER DATA PROCESS FLOW

