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Medicare's low-hanging fruit

Improving risk adjustment formula a prescription for program's success

By Robb Cohen

Discussions around Medicare reform are not easy and can cause uproar among those who may object to drastic changes to the valued federal program. Yet, we all know that taking to the sidelines isn't going to solve what many say is the most significant impediment to a sound future for our health care system and our nation's economy.

I agree that our current system has significant challenges, and that proposals for sweeping changes are likely to cause turbulence. We've already seen the backlash that such proposals incite. But, while we work to develop a more efficient and effective long-term view of Medicare, we should take immediate action on issues that are tucked less discernibly within the Medicare maze—issues that can reduce spending and improve the quality of care provided to millions of beneficiaries.

An important example of such an opportunity is "risk adjustment." This is the payment methodology mandated by the

Medicare Modernization Act of 2003 and used by the Centers for Medicare and Medicaid Services (CMS) to improve payment accuracy. Not many outside of the insurance industry talk about risk adjustment or understand the impact it has on Medicare beneficiaries. Yet, considering the importance of reforming Medicare to ensure a sound future for our seniors, why not prioritize this low-hanging fruit?

The current risk adjustment formula hasn't been updated since it was created in 2002 and implemented in 2004, so it is based on research that is more

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than a decade old. Even worse, draft revisions to the formula recently released do not address some of the system's fundamental flaws. The formula neither accurately accounts for the health care costs of beneficiaries with multiple chronic conditions nor new Medicare enrollees with chronic conditions based on their health history.

The result is that most Medi-

care plans focus on attracting healthier beneficiaries, and on coding programs to ensure their members' health conditions are accurately documented. If we keep our heads down on this, or fail to address it accurately, it will cost us billions and prevent companies from placing the emphasis where it needs to be—on people with multiple chronic diseases.

Improving risk adjustment would be a relatively simple exercise—we're talking about math, not policy. In fact, I and colleagues of mine from Johns Hopkins University and George Washington University recently published the results of a study showing that modifying the current

risk adjustment formula to continue to include (rather than dispose of) additional beneficiary health history data would result in lower Medicare spending overall. Our model uses (as opposed to purging) existing CMS data capturing the health history of beneficiaries to get a better picture of their health status, and more accurately predict future expenditures.

This information is at our fingertips, and continuing to incorporate it into the risk adjustment formula could save our government billions, both by eliminating overpayments and encouraging plans to improve care for the chronically ill. In addition, it is important to ensure an accurate risk adjustment system to inform payment distribution for other emerging healthcare programs including health insurance exchanges and accountable care organizations, which similarly look to the predicted costs of all Medicare beneficiaries.

The unfortunate reality right now is that our system offers health plans the wrong incentives—namely, that choosing healthy members over sicker ones is more beneficial to their bottom lines. That means an increased burden for health plans to maintain rich coverage options for their sickest mem-

bers.

This is not a prescription for success.

In contrast to the majority, a small number of Medicare plans are targeting their benefits towards those with chronic illnesses who are Medicare's highest risk beneficiaries—my company among them. These chronic condition special needs plans are held to high standards by Medicare, including annual

evaluations of their impact on quality and care coordination services.

About 174,000 individuals participate in these plans, which offer features that are not otherwise available to most Medicare beneficiaries. This is a good start. Nevertheless, with more than 12 million in Medicare health plans, and a growing prevalence of chronic diseases such as diabetes and heart failure, more plans should be taking this approach.

Improving risk adjustment will help encourage this. And that, in turn, will go a very long way toward lowering health care costs and improving quality of care across the Medicare program.

Rob Cohen is Chief Government Affairs Officer for XLHealth Corporation, which owns and operates Care Improvement Plus.

About XLHealth Corporation: XLHealth Corporation (<http://www.xlhealth.com>) is the owner and operator of Care Improvement Plus, a Medicare Advantage health plan committed to delivering quality health care benefits and serving the underserved. Focused on improving patient outcomes and reducing health care spending, Care Improvement Plus provides comprehensive Medicare coverage and a Part D prescription drug benefit, plus additional services such as dental and vision coverage, and care management support.