The SNP Alliance

A National Health Policy Group Initiative Working to Change Policy and Practice for High-Risk Beneficiaries

September 17, 2014

Sean Cavanaugh
Deputy Administrator & Director of the Center for Medicare
Centers for Medicare and Medicaid
200 Independence Avenue, S.W.
Washington, DC 20201

Dear Deputy Administrator Cavanaugh:

I'm writing on behalf of members of the SNP Alliance to share with you important findings from a recent study of the 2014 Medicare Advantage (MA) risk adjustment model completed by Milliman. The SNP Alliance contracted with Milliman to objectively analyze outcomes of the 2014 CMS-HCC model on risk-adjusted MA benchmarks for populations served by SNPs. A copy of Milliman's final report is attached.

The Milliman analysis finds that in 2014 the CMS-HCC risk model results in total payment to MA plans (as measured by risk-adjusted benchmarks) that are significantly less for duals than for non-duals compared to actual Medicare fee-for-service (FFS) spending. Specifically, the risk-adjusted benchmark payment for duals is only 100.9 percent of 2014 FFS costs, while it is 108.6 percent of 2014 FFS costs for non-duals. These ratios will decline over time as MA benchmarks are reduced per the Affordable Care Act. Milliman also finds similar payment disparities for other high-risk groups served by SNPs, including some subgroups of dual eligibles that are already paid significantly less than 100 percent of Medicare FFS. We believe these results provide strong evidence that the current MA risk model systematically underpays for dual eligibles as a population served by MA plans. This anomaly of risk adjustment creates an incentive for general MA plans to avoid serving duals and creates a financial penalty for MA-SNPs and MMPs who are required to specialize in caring for duals and other high-risk populations.

As you know, in 2003, Congress established Special Needs Plans (SNPs) to improve quality and cost performance in serving special needs beneficiaries, including people who are dually eligible for Medicare and Medicaid. Today, SNPs serve over 2 million Medicare beneficiaries, with approximately 85% of all SNP enrollees being dually eligible. A growing number of SNPs are participating in the Financial Alignment Demonstration (FAD) as Medicare-Medicaid Plans (MMPs) and are quickly expanding their enrollment of dual eligibles in those states.

The State Medicaid Directors Association recommends that CMS build on the D-SNP platform to advance integration of care for dually-eligible beneficiaries. MedPAC also recommends permanent authorization of fully integrated D-SNPs. Committees of jurisdiction in the House and Senate both proposed long-term extension of SNPs, with particular regard for advancing fully integrated D-SNPs.

We firmly believe the time has come to expand integration and specialized managed care for dual eligibles. We are concerned, however, that several impediments remain for SNPs and MMPs, including disparities in payment created by the current CMS-HCC risk model.

To address the issue highlighted in the Milliman analysis, the SNP Alliance recommends that CMS develop predictive bias adjustment factors (PBAFs) for the CMS-HCC risk model for the mutually exclusive subsets of duals and non-duals such that FFS costs are predicted accurately for these two subsets in aggregate. To implement adjusters within the MA program, CMS can simply apply them as an additional factor (either the dual factor or the non-dual factor, depending on the individual's dual status) to the raw risk scores from the CMS-HCC risk model, along with the FFS normalization factors and the MA coding intensity factor. Overall, the impact of implementing the predictive bias adjusters would be budget neutral, assuming there is no difference in the percentage of the total population represented by duals in MA versus FFS. To account for any difference, an adjustment could be made to the predictive bias adjustments to ensure implementation is budget neutral for MA.

For any given plan or company, the impact of implementing the new bias adjusters would vary. Assuming the CMS-calculated bias adjuster would be greater than 1.00, the impact of implementing them would increase (decrease) risk scores if the percentage of duals served in a given plan or company are greater (less) than the percentage of duals in the FFS population on which the CMS-HCC model is calibrated. Using the 1.060 and 0.985 adjusters for duals and non-duals developed using the results from the Milliman analysis, the percentage risk score impact for a given plan would be:

$$[(\%\ \text{duals} \times 1.060) + (\%\ \text{non-duals} \times 0.985)] - 1$$

The impact on SNPs and MMPs that exclusively or disproportionally serve dually eligible beneficiaries would be to ensure payment equity with FFS and to enhance their capacity to address beneficiaries' special needs.

We shared some preliminary findings with your predecessor, Jonathan Blum, just prior to him leaving CMS. Subsequent to our meeting, Milliman made several refinements to their report and the SNP Alliance has made several refinements to our recommendations, as per suggestions provided by Mr. Blum and his staff. We would greatly appreciate an opportunity to present these updated findings and recommendations to you this fall as you prepare for the 2016 MA and Part D rate notice. If you or your staff would like to talk about any aspect of this report and findings prior to meeting, I would be glad to do so at 202-641-3886 or via email at Rich@nhpg.org.

Sincerely,

Rich Bringewatt
President, National Health Policy Group
Chair, SNP Alliance