

Plan Management Navigator

Analytics for Health Plan Administration



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Please see page 4 for our invitation to participate or license in the Sherlock Benchmarks.

RETURNS ON MEDICARE RISK ADJUSTMENT

Conclusion and Background

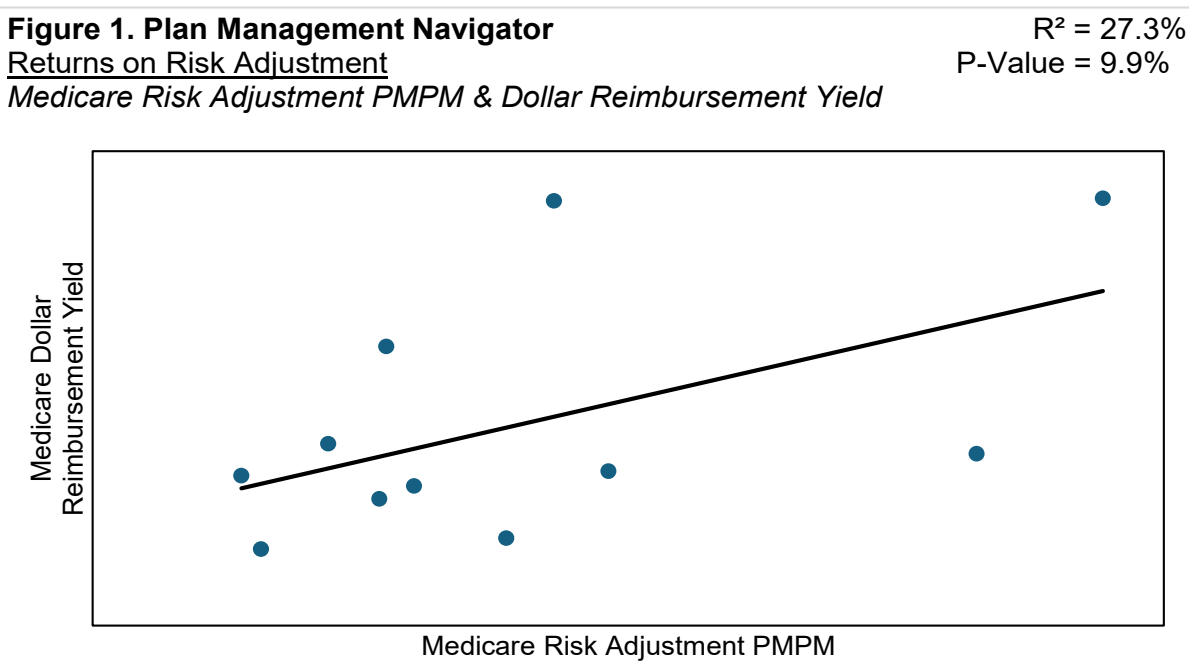
In this *Plan Management Navigator*, we endeavored to quantify possible returns on Risk Adjustment activities by Medicare Advantage plans. The dependent variable was “the difference in reimbursement levels after chart review compared to the same chart before review.” We refer to this as the Dollar Reimbursement Yield.

The independent variables were per member month risk adjustment expenses and number of chart reviews per 1,000 Medicare Advantage members. Both displayed statistically significant positive relationships.

According to CMS,

“Risk adjustment is a way to help make sure doctors and other health providers are paid fairly for the people they treat – providers get paid more for patients who have more health problems than for healthy patients who may not need as many services. It evens the playing field, recognizing that not all patients are the same, so that providers are able to treat patients with different health care needs and not just healthier, less costly patients.”

We aimed to find links between spending on Risk Adjustment and possible return measures for Medicare Advantage reimbursements. We explore potential correlations between Risk Adjustment and Dollar Reimbursement Yield, Number of Chart Reviews and Costs per Chart Review.



The source of the data for this analysis is the 2023 edition of the *Sherlock Benchmarks*, which reflects data from the year ended 2022. The *Sherlock Benchmarks* segments administrative costs into nearly 70 functional or sub-functional areas, along with up to 12 products. This enables the identification and measurement of costs for **Risk Adjustment for Medicare Advantage**. For this analysis, we consider relationships to be significant with P-values of 10% or less. The R^2 describes the degree to which all the data points are found on the slope.

Twenty-eight plans provided cost information on Medicare Advantage Risk Adjustment costs. Thirteen of those plans supplied the volumes of chart reviews. A subset of 11 plans provided Medicare dollar reimbursement yield, which became the limiting factor in quantifying the relationship between the variables.

Results of the Risk Adjustment Analysis

Figure 1, on the previous page, illustrates a positive correlation between Medicare Risk Adjustment expenses PMPM and the Medicare Dollar Reimbursement Yield. The analysis yielded a statistically significant P-value of 9.9% and an R^2 of 27.3%. This positive correlation indicates that, as resources spent on Risk Adjustment increase, so does the dollar reimbursement yield.

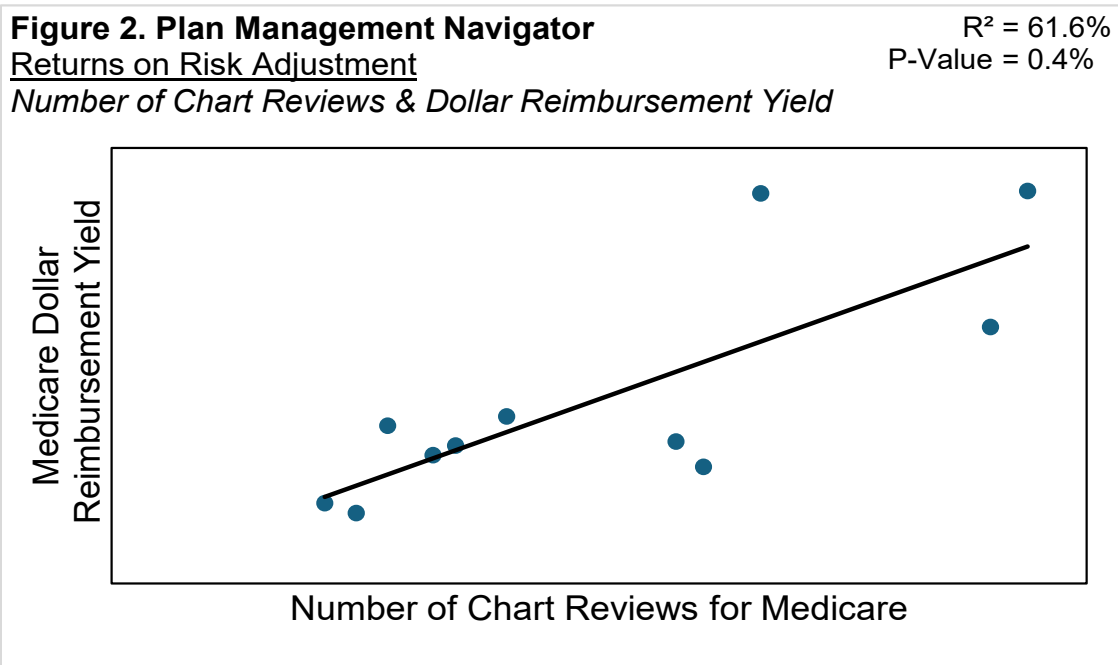
We then tried to isolate whether the increase in dollar reimbursement levels were driven by the *volume* of chart reviews or the *costs* per chart review since either of those factors would contribute to high per-member risk adjustment costs. Our analyses did not show a significant correlation between the increase in costs per chart review and dollar reimbursement yield, with an R^2 of 4.6% and P-value of 52.9%. Additionally, the slope was negative so, if the relationship was significant, it would imply that the higher the costs per chart review, the lower the Dollar Reimbursement Yield.

On the other hand, the volume of chart reviews appeared to have contributed to the increase in dollar reimbursement levels. As shown in Figure 2 on the next page, our analysis shows a correlation between the Medicare Dollar Reimbursement Yield and the Number of Chart Reviews per 1,000 Medicare Members. The findings suggest that as the per member Number of Chart Reviews for Medicare increases, so does the per member Dollar Reimbursement Yield. The R^2 for this relationship was 61.6%, with a P-value of 0.4%.

In the *Sherlock Benchmarks*, chart review terms are based on CMS definitions as reflected in our health plan panel practices. Chart reviews are defined as auditing provider documentation and notes within medical charts to verify the accuracy of coding. A “chart” is defined as a medical record pertaining to one member for one provider / location per year. “Location”, as used here, entails a common EMR, or Electronic Medical Record, system.

Besides the analyses noted above, we performed additional analyses of the effect of risk adjustment expenses on Medicare Advantage plan performance. For instance, risk-adjustment activities could carry the risk of exaggerating the healthcare needs of membership served by the plan. This could lead to higher than warranted earnings with no benefit to the member or to the Medicare program.

To gain insight on this, we tested the relationship between Medicare Risk Adjustment costs and the plans' Medicare Health Benefit Ratio and plans' Medicare Gross Margins PMPM. Neither of these analyses displayed a significant relationship. In other words, increased risk adjustment expenses did not translate to higher returns in gross margins or lower health benefit ratio. Rather, the higher costs of risk adjustment and the higher volume of chart reviews provides only higher Medicare dollar yield reimbursement.



Invitation to Participate in the 2024 Sherlock Benchmarking Study

The highly valid, well-populated *Sherlock Benchmarks* provide participating health plans with an unbiased ranking and, within those plans, helps prioritize cost management activities to have the greatest impact on improving each health plan's overall operating performance.

The surveys for the Blue Cross Blue Shield ("Blue") and Independent / Provider - Sponsored ("IPS") universes were launched in recent weeks and the surveys are due back in late April and mid-May. The Blue and IPS universes are comprised of 14 Plans and 12 plans, respectively. If your plan has an interest in participating in either of these universes, please reach out immediately so we can execute a mutual confidentiality agreement.

The **Medicare** and **Medicaid** universes will be launched on June 4th, immediately after the Medicare bids are due. Please reach out to us if your health plan has an interest in participating in these universes.

The 2024 study will be the 27th consecutive year, reflecting a cumulative experience of 1,000 health plan years. Health plans serving more than 200 million Americans are either licensees or participants in the *Sherlock Benchmarks* from June 2021. Plans using the Benchmarks include most Blue Cross Blue Shield plans, large public companies, Independent / Provider-Sponsored health plans, Medicare plans and Medicaid plans, as well as their consultants.

For those unable to participate, licensing is available. Please see the following link www.sherlockco.com/sherlock-benchmarks for additional information on the *Sherlock Benchmarks*. The Report Tables of Contents shown on that page mirror the Reports received by participants. The difference is that each participant edition is tailored to that participating health plan.

The *Sherlock Benchmarks* have been called the “Gold Standard” by leading health care consultants. Report publication begins in late June but varies by universe. Participation entails efforts on the part of the plans since actionable outputs require relatively granular inputs. However, the cost is relatively modest.

Please reach out to Douglas Sherlock at sherlock@sherlockco.com or 215-628-2289 if you are interested in either participation or licensing.

You will be among good company.