

## **Actuarial Bid Training**

### **Presentation: Risk Score Development**

#### **[Slide 1] Risk Score Development**

Welcome to the training session for the development of risk scores for the for the MA and Part D bids.

#### **[Slide 2] Session Outline**

This session will cover the information available from CMS, adjustments required to develop the projected risk score, an example following the preferred methodology, and additional considerations necessary when using an alternate method.

#### **[Slide 3] Risk Data Provided by CMS**

Plan level and beneficiary level data will be provided by CMS.

#### **[Slide 4] Risk Data Provided by CMS: Plan Level Data**

Plan level risk score data for MA and Part D will be posted to HPMS. The plan level data will reflect membership from the July cohort of the calendar year two years prior to the contract year and will include retroactive enrollment and status adjustments. The data will have current model risk scores. Please see the technical notes that will be released with the data for more details.

### **[Slide 5] Risk Data Provided by CMS: Beneficiary Level File**

There will also be a beneficiary level file for MA and Part D. This will have 12 months of retro adjusted enrollment for the calendar year two years prior to the contract year. It will also have 12 months of status information, and model risk scores. If the model has been recalibrated for the contract year, both new and old risk model scores will be provided.

### **[Slide 6] Risk Score Adjustments: Applied to CMS Provided Data**

As in the past, the risk scores provided by CMS will need further adjustment. They will require adjustment for plan specific coding trend, population changes, the MA coding pattern adjustment, normalization, missing diagnosis adjustment, and if applicable the addition of a frailty factor. Please note that the MA coding pattern adjustment and the frailty factor apply only to MA risk scores. They do not apply to Part D. Each of these adjustments is discussed in the following slides.

### **[Slide 7] Risk Score Adjustments: Missing Diagnosis Adjustment**

A missing diagnosis adjustment is needed if a risk model is recalibrated using diagnosis codes that have not been required from plan sponsors in the past, and the plan sponsor has submitted only the required codes rather than the entire set. An adjustment is not required if the plan sponsor has provided all of the codes. This factor does not apply to PDPs. CMS will provide an adjustment factor for plan sponsors to account for this missing data in the technical notes that accompany the beneficiary level files.

### **[Slide 8] Risk Score Adjustments: Plan Specific Coding Trend**

The plan specific coding trend represents the change in diagnosis coding patterns. MA and PD plans must base their risk score development on plan specific coding trends. Please note it is not appropriate to use FFS coding trend for managed care plans with credible experience. Plan specific coding trend is measured from the starting point of the base period to the contract year. This is a multiplicative adjustment.

### **[Slide 9] Risk Score Adjustments: Population Change**

The population change adjustment factor represents any measurable change between the base period and the projection period in the risk of the population enrolled in the plan. This is a multiplicative adjustment.

### **[Slide 10] Risk Score Adjustments: MA Coding Pattern Adjustment**

The MA coding pattern adjustment reflects the differential in diagnosis coding between MA and traditional FFS. The adjustment for the contract year is provided by CMS in either the Advance Notice or the Final Rate Announcement. The adjustment is applied by multiplying the risk score by one minus the factor. Please note that this factor applies to MA risk scores only. It does not apply to Part D.

### **[Slide 11] Risk Score Adjustments: Normalization Factor**

The purpose of the normalization factor is to bring the average risk score back to one point zero in years subsequent to the denominator year. There is a separate factor for the MA and Part D risk models and the factor is always relative to the denominator year of the risk model. The risk score is divided by the normalization factor. The

normalization factors for the contract year are provided by CMS in either the Advance Notice or the Final Rate Announcement.

**[Slide 12] Risk Score Adjustments: Frailty Factor**

The frailty factor affects PACE organizations and certain fully integrated dual eligible SNPs. This factor is added to the adjusted risk score as a last step in developing the final MA risk score. It is not applied to Part D. The adjustment for the contract year is provided by CMS in either the Advance Notice or the Final Rate Announcement.

**[Slide 13] Preferred Methodology: Medicare Advantage**

The CMS preferred methodology for developing the MA risk score is to begin with the CMS provided risk scores either from the plan summary or the beneficiary level file. This starting risk score should then be adjusted by the elements we have discussed, that is the missing diagnosis adjustment, if applicable, the plan specific coding trend, the population change, the MA coding pattern adjustment, the normalization factor, and if applicable the frailty factor.

**[Slide 14] Preferred Methodology: Part D**

The Part D preferred methodology is very similar to that for MA. The preference is to begin with the CMS provided risk scores either from the plan summary or the beneficiary level file. This starting risk score should then be adjusted by the missing diagnosis factor if applicable, the plan specific coding trend, the population change, and the normalization factor.

### **[Slide 15] Alternate Methodologies: Adjustment Considerations**

If a plan sponsor chooses to develop its risk score by using a methodology different from that preferred by CMS, then depending on the starting point, the following adjustments must be considered.

If the starting risk score is normalized, as it is when beginning with MMR data, then one may consider converting to a raw (un-normalized) risk score before making other adjustments.

If the starting risk score is based on lagged diagnosis data, as it is when the starting point is the March MMR data which has risk scores based on the previous July to June diagnosis data, then an adjustment is required to transition the scores from lagged to non-lagged.

If the starting risk score is based on incomplete diagnosis data, as it may be when the starting point is MMR data, diagnosis data, or the 5% sample, then an adjustment factor is required to transition the scores from incomplete to complete diagnosis data.

If the starting risk score is based on membership that is other than the July cohort or a full calendar year cohort, then an adjustment for enrollment seasonality must be made.

If the starting risk score is calculated using a risk model other than the updated risk model to be used for contract year payments, then an adjustment for the risk model change must be made.

### **[Slide 16] Example: Assumptions**

The next slide provides an example of the preferred methodology. For this example we have made the assumptions shown on this slide. Note that these adjustment factors are for illustrative purposes only. Please refer to the Advance Notice or Final Rate

Announcement for the appropriate factors. When required, CMS will provide missing diagnosis adjustment factors based on FFS data with the release of the plan level and beneficiary level data. Population change and coding trend should be based on plan specific circumstances.

### **[Slide 17] Example: Template**

This slide shows a side by side comparison of the MA and PD risk score development for the preferred methodology. The shaded blank boxes are the considerations that are not required when using the preferred methodology. Please note the number of blank boxes when the preferred approach is followed.

### **[Slide 18] Documentation**

The documentation for the risk score development must be uploaded with the initial June bid submission. It must indicate the method used to develop the risk score and the reason that method was chosen. The documentation must also support each adjustment factor and must clearly show that the development approach used results in a projected risk score that is consistent with the preferred methodology. Please note that the terminology used in the documentation is important. For example, do not roll multiple adjustment factors together in the documentation and rename them “trend” or “normalization”.

### **[Slide 19] Reference**

More details on the development of these models can be found in the Advance Notice and Final Rate Announcement.

This concludes the session on Risk Score Development.