Department of Health and Human Services
Health Care Financing Administration
Operational Policy Letter #96
OPL99.096

DATE: **June 21, 1999**

TO: All Medicare Managed Care Organizations

SUBJECT: Changes to the HCFA Managed Care Systems to Reflect the Risk Adjustment Payment Methodology

PURPOSE

The purpose of this OPL is to provide information regarding the changes that will be implemented in HCFA's managed care system to reflect the risk adjustment payment methodology mandated by the Balanced Budget Act of 1997 (BBA). Please note that the information regarding report and screen changes described in this document apply to all Managed Care Organizations (MCOs). Risk adjustment **payment** changes, however, apply **only** to members of Medicare+Choice (M+C) organizations. (See the section on Exclusions in this document for more specific information.)

Many of the changes described in the OPL have been shared with MCO representatives and the industry associations. As expected, the majority of the systems changes for CY2000 involve the Monthly Membership Report. There will also be minor revisions to the Plan Payment Report and to several online MCCOY rate and factor screens.

BACKGROUND

MCOs were notified regarding payment methodology changes resulting from the implementation of risk adjustment in the January 15, 1999 Advance Notice of Methodological Changes for the CY2000 M+C Payment Rates and in the March 1, 1999 Final Announcement of CY2000 M+C Payment Rates. The risk adjustment methodology described in these prior documents has not changed. This OPL focuses on how M+C payment information will appear beginning in CY2000 and presents the new version of the Monthly Membership Report.

For CY2000, risk adjustment is based on diagnostic data related to the inpatient hospital stays of M+C organization members. Additional data related to other medical services, e.g., outpatient, physician, etc., will be included as soon as collection methods are finalized and implemented. MCOs were required to submit inpatient hospital data (i.e., encounter data) beginning with July 1, 1997 discharges.

Risk adjustment factors will be calculated for each Medicare managed care and fee-for-service beneficiary. They will be used, along with the risk adjustment rate book and modified by

applicable health statuses, to determine the risk adjustment capitated amount. A transition strategy will be utilized that involves blending the risk adjusted payment amounts with the risk demographic payment amounts. Based on the current schedule, this transition is expected to cover a 4-year period, after which full implementation of comprehensive risk adjustment will occur in CY2004.

SYSTEMS CHANGES

Overview

HCFA's managed care systems will be revised to compute monthly risk adjustment payments beginning with CY2000. These revisions are consistent with the method outlined in the January 15, 1999 Advance and in the March 1, 1999 Final Notices and include:

- use of risk adjustment factor information for each beneficiary with at least 12 months of Medicare entitlement (during the encounter data collection period),
- use of the risk adjustment rate book,
- use of risk adjustment default factors for members (1) with less than 12 months of Medicare entitlement or (2) for whom a risk adjustment factor cannot be found,
- computation of risk adjusted payment rates,
- computation of demographic/risk adjusted blended payment amounts,
- computation of risk adjusted "adjustments" processed both during the payment year and as a result of the reconciliation process,
- monthly reporting to M+C organizations of the demographic and risk adjusted rates and the actual, blended payment amounts related to each member (via the monthly membership report) and
- monthly reporting to Cost and HCPP organizations of the "risk equivalent" risk adjusted information related to each member (via the monthly membership report).

Exclusions

As stated previously, risk adjustment applies only to M+C organizations. For CY2000, some MCOs with Demonstration contracts are excluded from payment under risk adjustment. HCFA, however, may include some of these entities as soon as CY2001. MCOs with Cost or HCPP contracts will also be excluded from payment under risk adjustment, but risk adjustment rates will be reported to these organizations as "risk equivalent" rates. This will replace the current reporting of the "risk equivalent" demographic rates to the Cost and HCPP MCOs.

At the beneficiary-level, M+C organization members who are capitated at the Hospice or at the

ESRD rate will be excluded from payment under risk adjustment. M+C organizations will receive the demographic payment applicable to these types of members.

Monthly Capitation Payments
CY2000 monthly payments to M+C organizations will consist of a blend of 90% demographic rate and 10% risk adjustment rate. The full demographic and risk adjusted rates will be computed at 100% for each member and then the appropriate blend percentage will be applied based on the transition schedule (see the Timeframes section for the 5-year schedule). It should be noted that monthly payments to M+C organizations will reflect ongoing, current-month and prospective-month membership. For example, the January 1, 2000 payment will reflect ongoing members and enrollments effective December 1, 1999 and January 1, 2000. Members enrolling December 1 will be capitated at 100% demographic rate for the month of December. Members enrolling January 1 and ongoing membership will be capitated at the blend of 90% demographic/10% risk adjustment beginning with the month of January.

Unlike the demographic rates, risk adjustment rates utilize a beneficiary-specific factor which is effective for a calendar year. The risk adjustment factor includes age group, gender, PIPDCG category and, if applicable, Medicaid and Previously Disabled statuses. This factor will not apply to members with ESRD and Hospice health statuses; i.e, payment will not reflect risk adjustment. In addition, institutional corrections will not be applied to the risk adjustment portion of the blended payment amount (they will continue to be applied to the demographic portion). Working Aged, if applicable, will impact both the demographic and the risk adjustment portions of the payment amount at the appropriate percentages.

Adjustments
Demographic payment adjustments (i.e., those applicable to the demographic portion of the blended payment amount) will be processed as they occur, to reflect changes in:

- enrollment/disenrollment dates,
- Part A/B entitlement,
- state and county codes,
- health status (Hospice, ESRD, Working Aged, Institutional and Medicaid),
- date of birth and
- gender information.

Risk adjusted adjustments (i.e., those applicable to the risk adjustment portion of the blended payment amount) will be processed as they occur, to reflect changes in:

- enrollment/disenrollment dates,

- Part A/B entitlement,
- state and county codes and
- health status (Hospice, ESRD and Working Aged).

NOTE: Institutional status is not applicable to the risk adjustment rates.

Some adjustments to the risk adjustment portion of the blended payment amount will **not** occur during the payment year (as the demographic adjustments do). Changes that impact the computation of the risk adjustment factor will be resolved through a reconciliation process which will occur after the end of the payment year. This means that for changes in the date of birth, gender, Medicaid status, Previously Disabled status and/or late submittal of encounter data, a new risk adjustment factor will be computed.

Reconciliation Process
The reconciliation process will be utilized until HCFA systems are able to process changes that impact the factors as they occur during the payment year. In the interim, the process will work as follows. Information that could result in risk adjustment factor changes will be collected during the payment year. This includes updates to:

- date of birth,
- gender,
- Medicaid status,
- Previously Disabled status and
- diagnostic information (resulting from receipt of additional encounter data from the data collection year).

NOTE: Medicaid status is applied prospectively to the risk adjustment rates; i.e., if the beneficiary is in this status for only one month during the encounter data collection period, it is applied during the entire payment year. In contrast, Medicaid status is applied concurrently to the demographic rates; i.e., if the beneficiary is in this status for only one month during the payment year, it is applied for only that one month during the payment year.

During the second quarter of the calendar year following the payment year, the factors for members impacted by such changes will be recalculated. This revised factor will be utilized in adjusting the previous calendar year's payments; i.e, the risk adjustment portion of the blended payment. Adjustment processing would be completed during the third quarter of the calendar year following the payment year.

REPORT CHANGES

For CY2000, the following reports will be revised to reflect pertinent risk adjustment information (see attached examples). Please note that, for the reports described below, these will be the only versions created. HCFA systems will not maintain M+C and non M+C reports. **MCOs with Demonstration, Cost or HCPP contracts (i.e., non M+C organizations) will receive the revised monthly membership report and must utilize it to access their payment information.**

1. Transaction Reply/Monthly Activity Report
There will be no changes to this report for CY2000. Note that the "AAPCC Rates" column will continue to contain demographic rate data, as it does today.

2. HCFA Plan Payment Report
The only change to this report is the deletion of the word "Demo" from "Demo Factor" (line F in section 3 - Health Status Adjustments to Prior Months). The information on this line of the report will now reflect both Demonstration and Risk Adjustment Factor changes.

3. Monthly Membership Report- Summary
The only change to this report is the deletion of the word "Demo" from adjustment reason code #23. This code will now reflect adjustments relating to both Demonstration factors and Risk Adjustment factors.

4. Monthly Membership Report- Detail
The Monthly Membership Report- Detail (MMR) will be revised and it will continue to be generated as a data file and as a formatted report.

4a. MMR - Data File
The data file will contain all of the current information relating to the demographic portion of the payment as well as that associated with the risk adjustment portion of the payment. There will be a Risk Adjustment Components section with indicators for Previous Disabled and Medicaid along with the PIPDCG Category. There will also be a Default Factor Indicator which will be set to "Y" for members for which a default factor was utilized. Risk Adjustment Factors for Part A and B will also be included, although both factors will be the same.

NOTE: Although the Part A and B **factors** are identical, the risk adjustment **rates** will differ. A Part B risk adjustment rate is computed to allow capitation of Part B-only members. HCFA's Office of the Actuary computes combined A/B/Aged/Disabled rates for each county. For CY2000, these rates are split by .4367 to derive the Part B rate and by .5633 to derive the Part A rate.

The MMR data file will contain the following payment information:

- 100% Part A and Part B Demographic Rates,

- 100% Part A and Part B Risk Adjustment Rates and

- Part A, Part B and Total Blended Payment Amounts (for CY2000, the blend is 90% demographic/10% risk adjustment).

The MMR data file will **only** be provided in this format, even for non M+C organizations. For MCOs with Cost and HCPP contracts, all of the information presented above will be included in the file as "risk-equivalent" data. For MCOs with Demonstration contracts, no risk adjustment information will be provided. The applicable Demonstration payment rate data will be populated in the Blended Payment Rate fields.

4b. MMR - Formatted Report
The formatted report will include all of the information contained on the MMR- Data File. Due to space considerations, however, each member's prospective payment information will be displayed on three detail lines. **Line one** will include the member's identifying information along with the risk adjustment indicator and the 100% Part A and Part B demographic payment rates. **Line two** will contain the PIPDCG category, Part A and B risk adjustment factors and the 100% Part A and Part B risk adjustment rates. **Line three** will contain the Part A, Part B and Total blended payment amounts. Each member's adjustment payment information will be netted out and will be displayed on one line as blended payment amounts with the applicable reason code.

The MMR formatted report will **only** be provided in this version, even for non M+C organizations. For MCOs with Cost and HCPP contracts, the information will be presented as described above and will be "risk-equivalent" data. For MCOs with Demonstration contracts, no risk adjustment information will be included. The applicable Demonstration payment rate data will be populated in Line three.

5. Demographic Report
This report will continue to be produced in it's current format. The dollar amounts, however, will reflect the risk adjustment/demographic payment amounts.

SCREEN CHANGES

The following MCCOY online screens will be revised to reflect risk adjustment information (see attached examples).

1. View Rates by State and County Code (SCC)
This screen will be expanded to display risk adjustment rates for Part A and Part B by specified date, state and county code. Note that these rates will only be available for dates beginning 1/1/2000.

2.View Age-Sex Underwriting Factors
The contents of this screen will not change; only the title. It was formerly identified as "View AAPCC Demographic Cost Factors", which is incorrect.

3. View Risk Adjustment Default Factors

A new screen will be added to display the information from the Factors for New Enrollees table that was presented in the March 1, 1999 Final Announcement of CY2000 M+C Payment Rates. These are the rates that will be utilized when no risk adjustment factor information is available for a member. The screen will display the Base and Medicaid Add-on rates by gender, age group and date. Note that this screen will be unavailable for dates prior to 1/1/2000.

4. View Payment Calculation
This screen, which displays rates calculated based on input criteria, will be expanded. It will include risk adjustment "Part A factor" and "Part B factor" as input parameters and the Medicaid Flag item will be renamed "Demographic Medicaid Flag". Based on the items selected, the screen will display:

- 100% Part A/B Demographic rates,
- 100% Part A/B Risk Adjustment Rates,
- Part A and Part B Demographic/Risk Adjustment Blend Percentages and
- Part A/B Blended Payment Rates.

Note that for specified process months prior to 1/2000, the calculation will not include risk adjustment information.

5. View Factors
This screen will be revised to display factor information based on the user. The plan-level demonstration factor will be displayed if the member is enrolled in an associated demonstration organization. The beneficiary-level risk adjustment factor will be displayed if the member is enrolled in an M+C MCO. Security will prevent viewing of factor data other then that for a particular MCO's membership.

TIMEFRAMES

The following are important dates relating to the systems implementation of risk adjustment.

- Risk Adjustment will be applied beginning with **January 1, 2000** payments to M+C organizations.
- The reports and screens described in this OPL will begin to reflect risk adjustment information based on data from the **December 1999 processing month for January 1, 2000 payments**; e.g., the MMR-Detail available in mid-December will contain member-level risk adjustment information.
- **CY2000 payments** will reflect the transition blend of **90% demographic/10% risk adjustment**. For subsequent years, it is expected that the blend percentages may

resemble the following progression:

- CY2001 blend is 70%/30%,

- CY2002 blend is 45%/55%,

- CY2003 blend is 20%/80% and

- CY2004 is 100% comprehensive risk adjustment.

- **During the second quarter of CY2001**, risk adjustment factors will be recomputed for CY2000 enrollees based on changes in date of birth, gender, Medicaid status, Previous Disabled status and/or late submittal of encounter data.

- **During the third quarter of CY2001**, adjustments to the risk adjustment portions of the **CY2000 blended payments** will be processed.

This OPL describes systems changes to be made in 1999 to implement risk adjustment for CY2000 payments. HCFA expects to refine this process during the transition period as the managed care systems are redesigned and the risk adjustment factor computation interface is solidified. Most of the current reports and screens will need to be updated to reflect comprehensive risk adjustment and to provide additional information as needs are identified.

CONTACT:

If you have questions regarding this OPL, please contact Kim Miegel (410-786-3311, KMIEGEL@HCFA.GOV) or Bob Fortenbaugh (410-786-6359, RFORTENBAUGH@HCFA.GOV).

This OPL was prepared by the Center for Health Plans and Providers.

Most of the attachments to this OPL are not yet available in softcopy. The item most critical to the MCOs is the data file format and the formatted report format of the Monthly Membership Report. These items are included as attachments with this OPL.

Attachments

Monthly Membership Report Format (19990329)

Field Name	Length	Location	Description
LINE #1 Prospective Payments			
Filler	3	1-3	Spaces
HIC	12	4-15	Beneficiary's Health Insurance Claim Number
Surname	7	16-22	Beneficiary's Surname
First Initial	1	23	Beneficiary's First Initial
Filler	1	24	Space
Sex	1	25	M = Male F = Female
Filler	1	26	Space
Date of Birth	8	27-34	Format of YYYYMMDD
Filler	1	35	Space
Age Group	4	36-39	Demographic Age Grouping
Filler	1	40	Space
State & County Code	5	41-45	Beneficiary's State & County Code
Filler	2	46-47	Spaces
Out of Area Indicator	1	48	Y = Out of Service Area
Filler	2	49-50	Spaces
Part A Entitlement	1	51	Y = Entitled to Part A
Filler	1	52	Space
Part B Entitlement	1	53	Y = Entitled to Part B
Filler	1	54	Space

Health Status Indicators

Hospice	1	55	Y = Hospice
Filler	1	56	Space
ESRD	1	57	Y = ESRD
Filler	1	58	Space
Working Aged	1	59	Y = Working Aged
Filler	1	60	Space
Institutional	1	61	Y = Institutional
Filler	1	62	Space
Nursing Home Certifiable	1	63	Y = Nursing Home Certifiable
Filler	1	64	Space
Medicaid	1	65	Y = Medicaid
Filler	3	66-68	Spaces

Risk Adjusters Components

Previous Disabled	1	69	Y = Previous Disabled
Filler	1	70	Space
Medicaid Add-on	1	71	Y = Medicaid Status during last Risk Adjuster encounter period
Filler	1	72	Space
Default Factor Indicator	1	73	Y = Default Factor Used
Number of Part A Payment Months	2	74-75	Number of Payment Months Used in Calculation (Part A)
Number of Part BPayment Months	2	76-77	Number of Payment Months Used in Calculation (Part B)

Filler	5	78-82	Spaces
Payment Start Date	6	83-88	YYYYMM of Payment Start Date
Filler	1	89	Space
Payment End Date	6	90-95	YYYYMM of Payment End Date
Filler	2	96-97	Spaces
Demographic Part A Dollars At 100 Percent	10	98-107	Value up to $99,999.99 of Part A Payment
Filler	2	108-109	Spaces
Demographic Part B Dollars At 100 Percent	10	110-119	Value up to $99,999.99 of Part B Payment
Filler	13	120-132	Spaces

Monthly Membership Report Format (19990329)

Field Name	Length	Location	Description
LINE #2 Prospective Payments			
Filler	75	1-75	Spaces
PIP-DCG Category	2	76-77	Value of PID-DCG Category
Filler	4	78-81	Spaces
Part A Risk Adjustment Factor	7	82-88	Value of Part A Risk Adjuster Factor used in Payment calculation
Filler	1	89	Space
Part B Risk Adjustment Factor	7	90-96	Value of Part B Risk Adjuster Factor used in Payment calculation
Filler	1	97	Space
Risk Adjuster Part A Dollars At 100 Percent	10	98-107	Value up to $99,999.99 of Part A Payment

Filler	1	108	Space
Risk Adjuster Part B Dollars At 100 Percent	10	109-118	Value up to $99,999.99 of Part B Payment
Filler	14	119-132	Spaces

Monthly Membership Report Format (19990329)

Field Name	Length	Location	Description
LINE #3 Prospective Payments			
Filler	97	1-97	Spaces
Part A Blended Amount	10	98-107	Value up to $99,999.99 of Part A Payment
Filler	2	109	Space
Part B Blended Amount	10	110-119	Value up to $99,999.99 of Part B Payment
Filler	2	120-121	Spaces
Blended TOTAL Payment	10	122-131	Value up to $99,999.99
Filler	1	132	Space

Monthly Membership Data File

#	Field Name	Len	Pos	Description
1	Plan Number	5	1-5	Plan Number
2	Run Date	8	6-13	YYYYMMDD
3	Payment Date	6	14-19	YYYYMM
1	HIC	12	20-31	
2	Surname	7	32-38	
3	First Initial	1	39-39	
4	Sex	1	40-40	M = Male, F = Female
5	Date of Birth	8	41-48	YYYYMMDD
6	Age Group	4	49-52	
7	State & County Code	5	53-57	
8	Out of Area Indicator	1	58-58	Y = Out of Area Always Spaces on Adjustment
9	Part A Entitlement	1	59-59	Y = Entitled to Part A
10	Part B Entitlement	1	60-60	Y = Entitled to Part B
	Health Status Indicators:			
11	Hospice	1	61-61	Y = Hospice Always Spaces on Adjustment
12	ESRD	1	62-62	Y = ESRD Always Spaces on Adjustment
13	Working Aged	1	63-63	Y = Working Aged Always Spaces on Adjustment
14	Institutional	1	64-64	Y = Institutional Always Spaces on Adjustment

15	NHC	1	65-65	Y = Nursing Home Certifiable Always Spaces on Adjustment
16	Medicaid	1	66-66	Y = Medicaid Status Always Spaces on Adjustment
	Risk Adjuster Components:			
17	Previous Disable	1	67-67	Y = Original Reason of Entitlement Always Spaces on Adjustment
18	Medicaid Add-on	1	68-68	Y = Entitled to Medicaid Add-on Always Spaces on Adjustment
19	PIP-DCG Category	2	69-70	PIP-DCG Category Always Spaces on Adjustment
20	Default Factor Indicator	1	71-71	Y = Default Factor Used Always Spaces on Adjustment
21	Risk Adjuster Factor A	7	72-78	NN.DDDD
22	Risk Adjuster Factor B	7	79-85	NN.DDDD
23	Number of Paymt/Adjustmt Months Part A	2	86-87	99
24	Number of Paymt/Adjustmt Months Part B	2	88-89	99
25	Adjustment Reason Code	2	90-91	99 Always Spaces on Payment
26	Paymt/Adjustmt Start Date	8	92-99	YYYYMMDD
27	Paymt/Adjustmt End Date	8	100-107	YYYYMMDD

28	Demographic Paymt/Adjustmt Rate A	9	108-116	-$$$$$.¢¢
29	Demographic Paymt/Adjustmt Rate B	9	117-125	-$$$$$.¢¢
30	Risk Adjuster Paymt/Adjustmt Rate A	9	126-134	-$$$$$.¢¢
31	Risk Adjuster Paymt/Adjustmt Rate B	9	135-143	-$$$$$.¢¢
32	Blended Paymt/Adjustmt Rate A	9	144-152	-$$$$$.¢¢
33	Blended Paymt/Adjustmt Rate B	9	153-161	-$$$$$.¢¢
34	Total Paymt/Adjustmt	9	162-170	-$$$$$.¢¢