

What is Risk Adjustment?

Risk adjustment is a statistical method that seeks to **predict a person’s likely use and costs of health care services**. Through the use of claims and encounter data, it is used in Medicaid to adjust the capitated payments, a set amount per member per month, to cover expected medical costs of individuals. Risk adjustment modifies payments to all health plans based on an expectation of what the individual’s care will cost. In other words, it provides financial assistance to health plans that provide coverage to individuals enrolled with higher health care costs by spreading financial risk amongst all health plans. Risk adjustment is a method used by all state Medicaid programs with managed care.

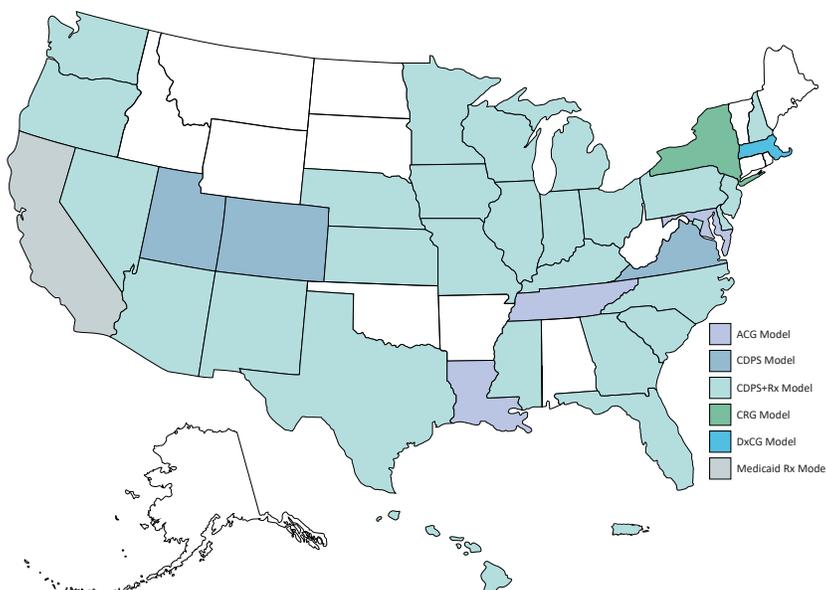
Why is Risk Adjustment Important?

Risk adjustment is designed to ensure that health plans receive appropriate premium revenue or compensation to cover medical costs for the people they insure. Risk adjustment supports **efficiency in care delivery, ensures adequate financing of health care, and encourages innovation**.

Furthermore, **risk adjustment in Medicaid has three primary goals:**

- 1** Provide a budget-neutral (zero-sum) mechanism to allocate capitated payments among contracted managed care organizations, while considering health status of individuals enrolled.
- 2** Minimize the incentives for health plans and providers from selectively covering healthier members.
- 3** Provide adequate financing for managed care organizations that treat individuals with higher-than-average health needs.

Figure 1. States Utilizing CDPS Risk Adjustment Model



What is the Chronic Illness and Disability Payment System?

Developed by Dr. Rick Kronick at the University of California San Diego, the Chronic Illness and Disability Payment System (CDPS) is a diagnostic-based risk adjustment model used to adjust capitated payments for Medicaid health plans. CDPS+Rx is a combined diagnosis and pharmacy-based model that employs both ICD and NDC codes. Currently, **32 state Medicaid agencies, including D.C. and Puerto Rico, utilize the CDPS risk adjustment model** to inform actuarially sound payments to health plans.

What is the Next Generation of the CDPS Risk Adjustment Model?

The Institute for Medicaid Innovation (IMI) launched a collaborative project in 2020 with the University of California San Diego to update the Chronic Illness and Disability Payment (CDPS) risk adjustment weights, with the final **updated model referred to as CDPS+Rx version 7.0**. The project utilized ICD-10 native data from national Medicaid managed care organizations from 2017-2019. Efforts to embed social determinants of health into the model are ongoing.

The update was a critical step forward as the originally developed CDPS model used only fee-for-service data from calendar years 2010 and 2011. This means neither the experience of managed care over the past 10 years nor the changes in the Medicaid program broadly (e.g., Medicaid Expansion in some states, expansion of managed care statewide, introduction of more complex populations into managed care, etc.) have been accounted for in the model. An update to the model will assist states in more accurately developing their risk adjustment methodologies.

How has the CDPS Model Improved with the Update?

As there continue to be exploratory efforts to the CDPS model to increase precision, there are two main improvements that are expected:

1

To the extent that new treatments and technology have changed how patients are treated, the relative weights estimated with 2011 data may not accurately reflect relative cost in 2019.

2

To the extent that patients are treated differently in fee-for-service (FFS) vs. managed care, the regression weights estimated with FFS data may not reflect patterns of care in managed care organizations.

There were significant updates to six diagnostic categories:

Psychiatric

Pulmonary

Renal

Cancer

Infectious Disease

Hematologic

What are the Policy Implications for the Updated CDPS Risk Adjustment Model?

As the Medicaid population grows and becomes more complex, risk adjustment is a vital tool to ensure the overall financial stability of the Medicaid program.

The specific updates made to the CDPS risk adjustment model allow states to revisit the utilization of risk adjustment in their Medicaid program to identify opportunities to create greater efficiencies. With record numbers of individuals enrolled in the Medicaid program and the potential for a shift in the Medicaid population profile as the COVID-19 continuous enrollment provision expired on April 1, 2023, risk adjustment models that accurately reflect an individual's health and projected costs of care may help promote more effective and affordable care delivery.