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Sharing the Importance and Impact of Hierarchical Condition Categories on Compensation

02/24/2024

Today's Objectives and Goal

1. Examine how total healthcare reimbursement is evolving
2. Discuss what hierarchical condition categories are and why they are important
3. Review the impact that hierarchical conditions have on performance
4. Questions and answers

Today's Goal:

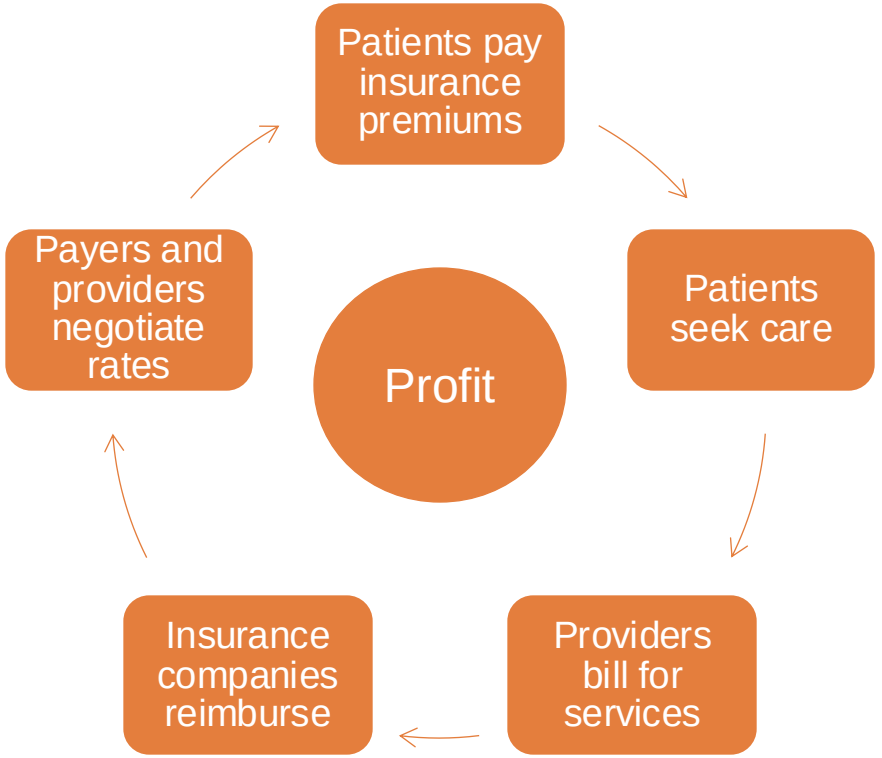
The goal at the end of our time together is that you will be more comfortable with healthcare's shift from volume-based payments to value-based payments and that you understand the implications that hierarchical conditions have on both payment and performance measurement.

Overview of Value Based Care

Recapping How Healthcare is Paid For

Economic profit is a driver of most, if not all, private businesses. To derive a profit, an organization must make more in revenue than it spends in expenses. If profits are low, the business needs to either increase revenue by charging more for each item it sells or sell more of those items. Alternatively, they can decrease costs by lowering how much each product costs.

Simplified Economic Model



Two Core Reimbursement Models in Healthcare

Fee for Service

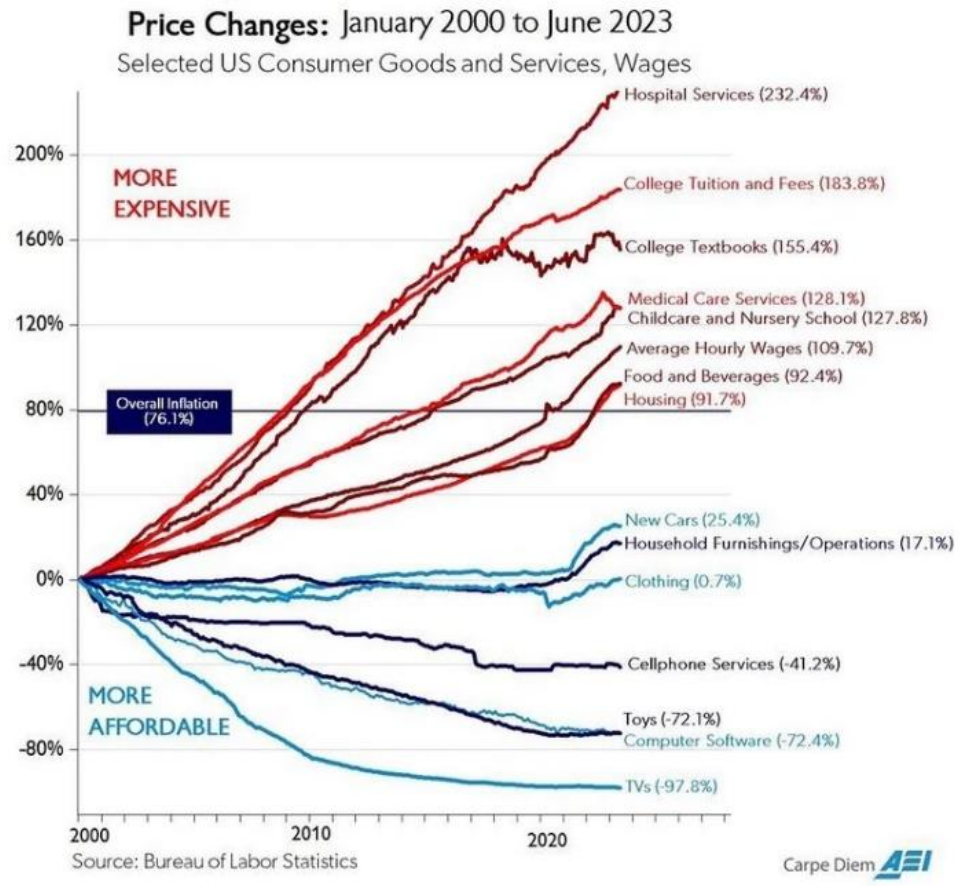
Fee for service contracts compensate healthcare organizations for each service rendered and there are generally no quality, cost, or outcome expectations. What this means is that organizations increase revenue by increasing the volume of care provided. There is little incentive to control healthcare utilization.

Value Based Care Contracts

Value based care contracts come in multiple forms but at their core they seek to share cost savings, incentivize high quality outcomes, and drive lower healthcare utilization. Providers are paid a certain amount for each patient encounter but can earn additional revenue through metrics defined in the contract. The goal is to create incentives across the healthcare continuum for high-quality, low-cost care.

Why the Shift From Volume to Value?

The Economics Aren't Sustainable



Items Getting More Expensive Since 2000

Selected Goods or Services	Price Increases
Hospital Services	232.4%
College Tuition and Fees	183.8%
College Textbooks	155.4%
Medical Care Services	128.1%
Childcare and Nursery School	127.8%
Average Hourly Wages	109.7%
Food and Beverages	92.4%
Housing	91.7%

Image Source: https://twitter.com/Mark_J_Perry/status/1616903822118649858/photo/1

The Medicare Risk Spectrum

Organizations will always exist somewhere on the risk spectrum. In every contract there is both explicit and implicit risk. Documentation always matters but its importance grows, sometimes exponentially, as the organization takes on more advanced payment models.

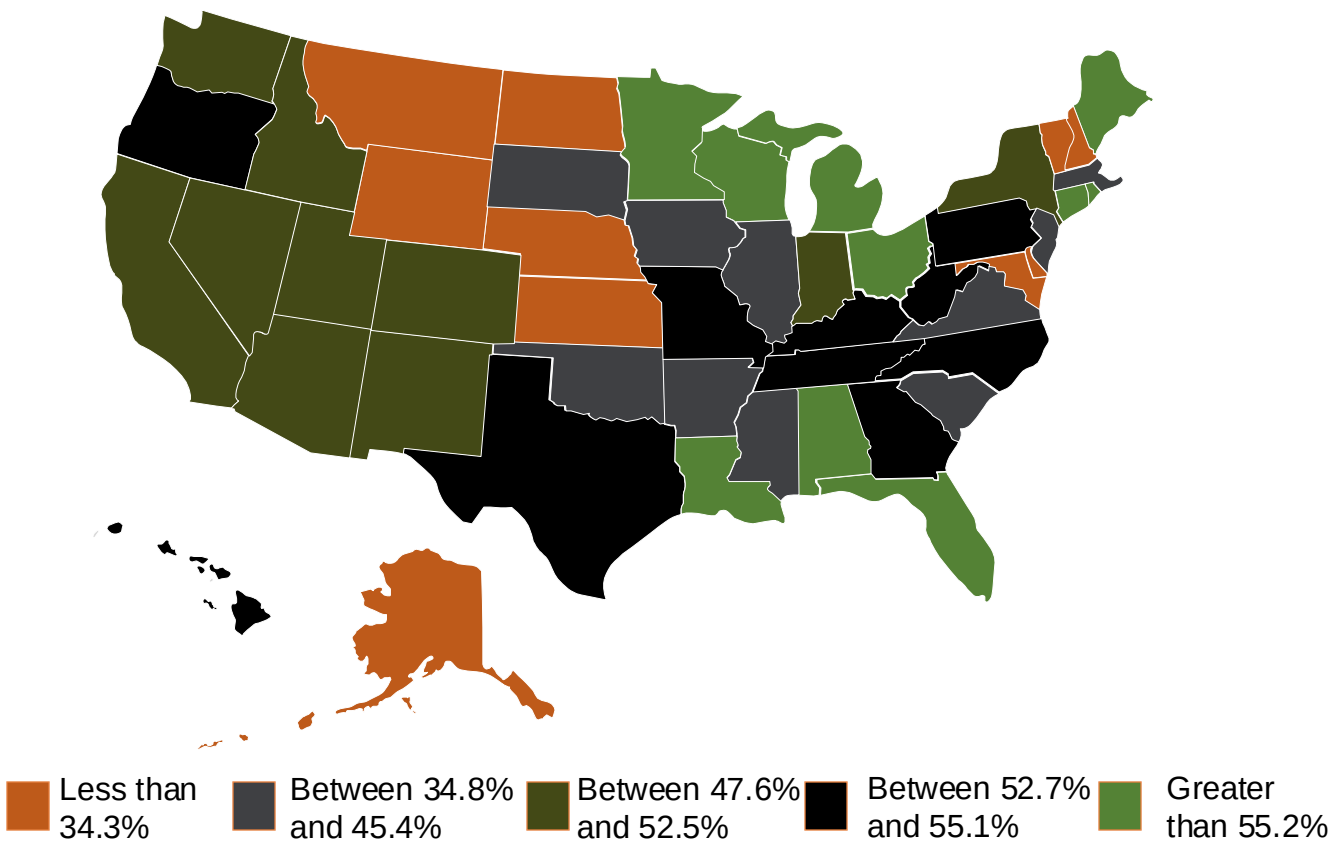
"No" Risk	Pay for Performance	Upside Only Shared Savings	Episodic Risk Programs	Upside and Downside Risk	Full Risk/ Capitation
• Performance incentives • Contractual negotiation leverage	• Medicare Value Based Purchasing • Hospital Readmission Reduction Program • HAC Reduction Program	• Medicare Advantage Shared Savings	• Bundled payment programs	• Medicare Advantage contracts • Medicare Shared Savings Program	• ACO REACH Program • Capitated arrangements with Medicare Advantage Plans • Plan ownership

A Look at the Medicare Advantage Landscape

- MA enrollment as of January 2024:
  - The overall enrollment is 33.5 million lives
  - The eligible population is 66.4 million lives
  - Approximately 51% of all Medicare beneficiaries have enrolled in MA plans
- Medicare population growth rates:
  - The eligible Medicare population has increased by 2.3 million lives, or 3.6% since last January
  - Overall MA enrollment has increased 3.4 million lives or 11.3%
  - Overall, the percent of patients in MA plans has increased from 35.4% to 51% in just 6 years

Medicare Advantage Penetration Rates

January 2024



Source: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MCRAdvPartDEnrolData/MA-State-County-Penetration

Medical Loss Ratio (MLR)

Health plans must annually calculate their medical loss ratio. This ratio reflects the percent of all premiums that are paid for claims. The lower the ratio, the more controlled costs are relative to the premium collected. This can be an indicator of overall performance but is by no means an absolute metric.

MLR Calculation

$$\text{MLR Ratio} = \frac{\text{Medical Claims Expense}}{\text{Total Premiums Received}}$$

To improve medical loss ratios, an organization must do at least one of the following two items:

1) Decrease medical claims: To do this, organizations must either decrease the volume of services being provided or decrease the cost per patient encounter.
2) Increase total premiums: To do this, organizations must capture all appropriate conditions. The capture of these conditions will impact risk scores and therefore increase risk adjusted premiums.

Outpatient Example of the Importance of Condition Capture

An 85-year-old Medicare Advantage patient comes in for a visit …

Symptoms

- Symptoms of urinary tract infection (UTI), reports mild claudication
- Tired, less energy, poor appetite, mild malnutrition
- Urinalysis performed shows white cells, leukocyte esterase and microalbuminuria

Medical history

- Stable diabetes mellitus (DM)
- Chronic kidney disease (CKD) stage 4 exacerbated by diabetes
- Stable left great toe amputation due to non-healing ulcer
- UTI with serum GFR 29
- Body mass index (BMI) of 42

Care plan set

- Glipizide 5 mg b.i.d. for DM
- Cipro for UTI
- Ensure supplements for malnutrition
- Return to clinic (RTC) in three months
- Referral to nephrologist for CKD stage 4
- Walking program for claudication

ONE PATIENT, THREE SCENARIOS

Date of service: June 29, 2022

1 Capture basic demographics and primary reason for visit

85-year-old female

✓*UTI*

Total RAF	0.664
PMPM care funding	$531
Annual care funding	**$6,374**

2 Capture additional condition

85-year-old female

✓*Diabetes mellitus*

✓*UTI*

Total RAF	0.770
PMPM care funding	$616
Annual care funding	**$7,392**

3 Capture complete clinical information

85-year-old female

✓*Diabetes mellitus*

✓*UTI*

✓*CKD stage 4 due to diabetes*

✓*Mild degree malnutrition*

✓*H/O toe amputation*

✓*Morbid obesity*

Total RAF	2.320
PMPM care funding	$1,856
Annual care funding	**$22,272**

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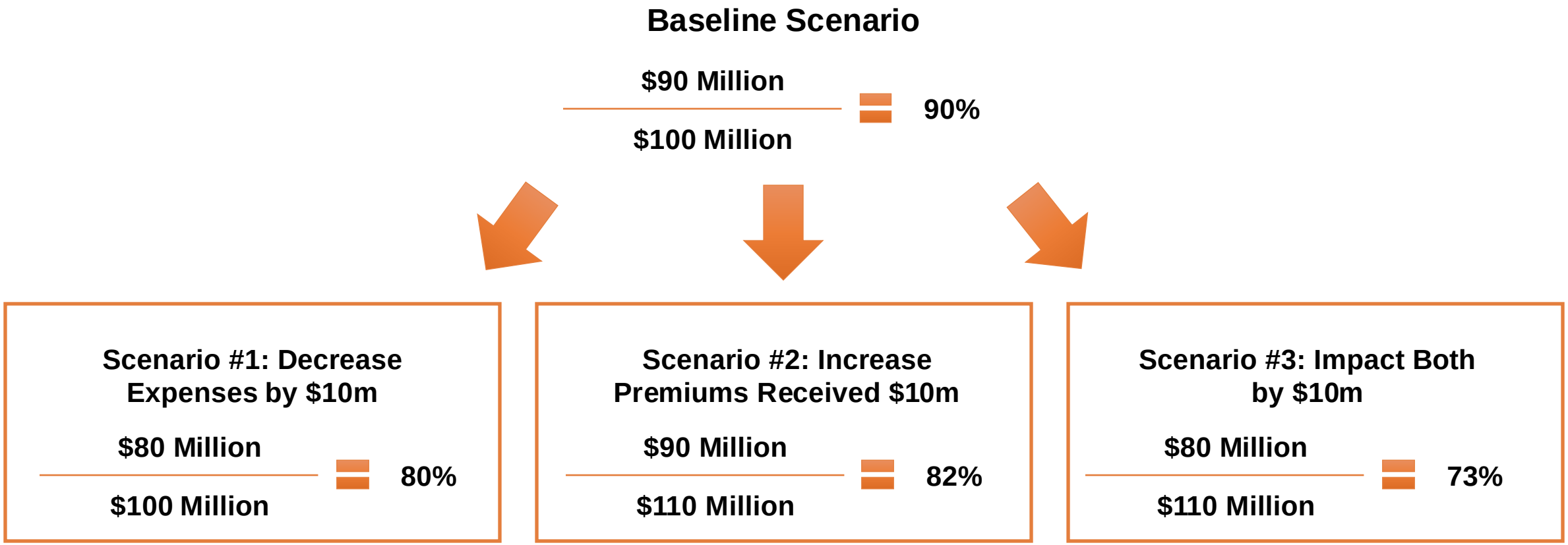
The Math Behind Improving Medical Loss Ratios

Remember, in its simplest form, to improve the medical loss ratio either the claims must decrease, the premiums must increase, or both can occur.



HCCs and Their Implications

What Are Hierarchical Condition Categories (HCCs)

Established in 2004, HCCs are a set of clinical condition categories used to estimate future expense in healthcare. The sum of the risk adjustment factor (RAF) value from these conditions, combined with a patient's age and sex, creates a total RAF score. That score is then used to drive how much a payer or provider entity is paid from CMS annually.

HCC Model Information

- Version 28 of the model was released in 2024
- There are 115 HCCs that have risk adjustment value
- 7,829 individual diagnosis codes map to HCCs
- The average Medicare patient has a RAF of 1.00
- Many of the HCCs are for chronic conditions that generally will remain in existence for the rest of a patient's life
- Beginning with January 1, 2023 dates of service this new version (V28) is being phased in over three years

HCC Capture Information

- Historically conditions had to be captured in face-to-face encounters. Conditions can be captured across all care settings
- For conditions to count, they must be captured at least once annually. This is CMS's way of ensuring they only pay for conditions being treated
- Primary care is often looked at as the gate keeper to capturing HCCs, but specialists like cardiology, pulmonology, and endocrinology play a critical role

HCC Risk Scores are Similar to DRG Relative Weights

Similar to relative weights, each HCC has a risk adjustment factor (RAF) value. That value represents the anticipated resource consumption expected for the following calendar year. Unlike relative weights which are there for a singular encounter, RAF scores can only be counted once per year and dictate the following year's premiums.

Care Funding Equation

Estimated Member Months × Per Member Per Month Payment × Total RAF Score = Annual Premiums

V28 HCC	Category Name	RAF Score
1	HIV/AIDS	0.301
2	Septicemia, Sepsis, Systemic Inflammatory Response Syndrome/Shock	0.500
6	Opportunistic Infections	0.381
19	Myelodysplastic Syndromes, Multiple Myeloma, and Other Cancers	1.798
20	Lung and Other Severe Cancers	1.136
21	Lymphoma and Other Cancers	0.671
22	Bladder, Colorectal, and Other Cancers	0.363
23	Prostate, Breast, and Other Cancers and Tumors	0.186
35	Pancreas Transplant Status	0.949
36	Diabetes with Severe Acute Complications	0.166
37	Diabetes with Chronic Complications	0.166
38	Diabetes with Glycemic, Unspecified, or No Complications	0.166
48	Morbid Obesity	0.186

$10,000

Generally speaking, each point of RAF is worth approximately $10,000 in care funding. However, the provider entity will likely only see a portion of this based on the payment arrangements it has with each payer.

Like DRG Triplets, a HCC Hierarchy Also Exists

Like DRGs, there is a classification system that exists within the HCC model. As certain conditions evolve through the disease process, estimated resources to care for those conditions change. As such several conditions have a hierarchy where if captured it supplants the previously captured condition. Only one instance per grouping is allowed.

Condition	Base HCC (V24)	Base HCC Name	HCC Weight	Categories Trumping Base HCC			
Cancers	8	Metastatic Cancer and Acute Leukemia	2.659				
	9	Lung and Other Severe Cancers	1.024	8			
	10	Lymphoma and Other Cancers	0.675	9	8		
	11	Colorectal, Bladder, and Other Cancers	0.307	10	9	8	
	12	Breast, Prostate, and Other Cancers and Tumors	0.150	11	10	9	8
Diabetes	17	Diabetes with Acute Complications	0.302				
	18	Diabetes with Chronic Complications	0.302	17			
	19	Diabetes without Complication	0.105	17	18		
Kidney Disease	134	Dialysis Status	0.435				
	135	Acute Renal Failure	0.366	134			
	136	Chronic Kidney Disease, Stage 5	0.289	135	134		
	137	Chronic Kidney Disease, Severe (Stage 4)	0.289	136	135	134	
	138	Chronic Kidney Disease, Moderate (Stage 3)	0.069	137	136	135	134

Many HCCs May Not Impact Inpatient DRGs Assignment

Many organizations focus their CDI efforts on CC/MCC capture. However, given the evolving nature of total payments it is wise to consider a more holistic view as appropriate capture of these conditions may help total reimbursement.

High Prevalence HCC Categories and The Impact on CCs/MCCs

V24 HCC Risk Model and FY 2024 Inpatient Rule

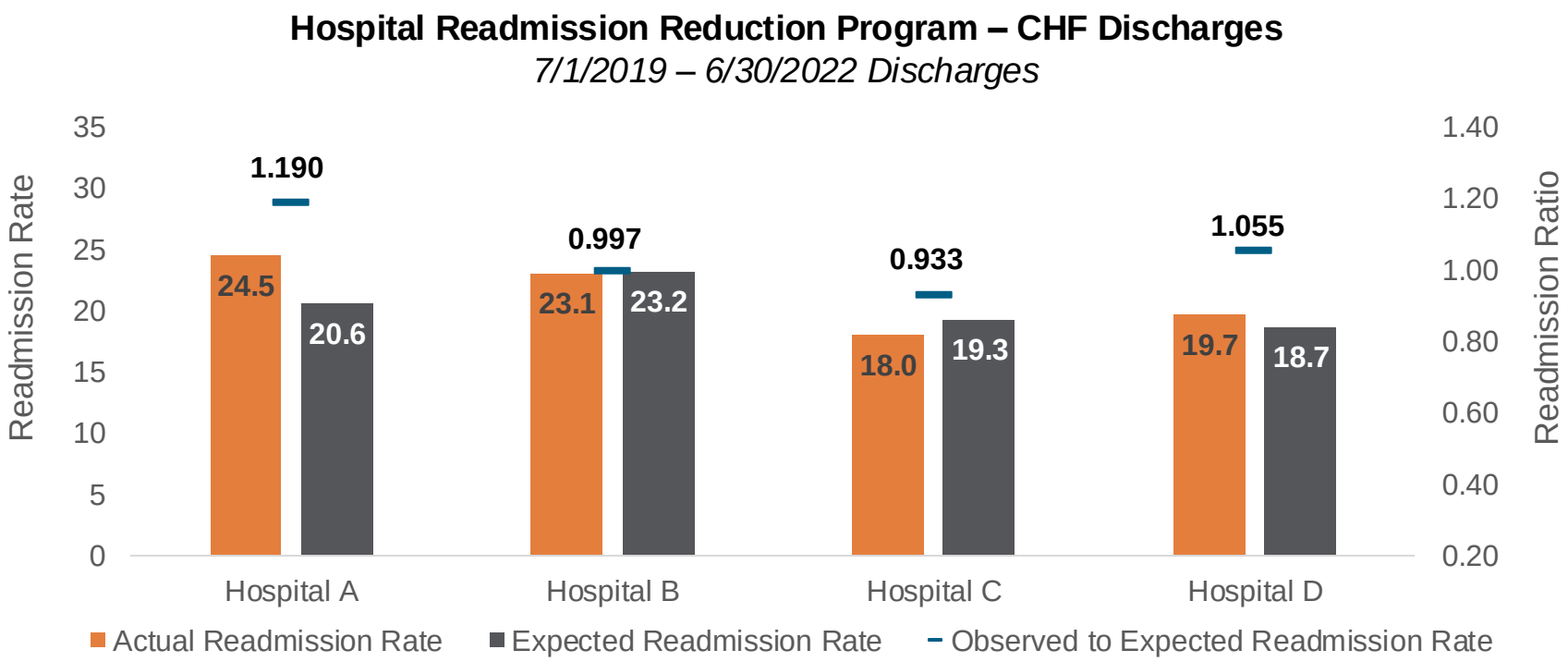
HCC Category	Prevalence Rate of Disease	Total Diagnoses that Risk Adjust (V24)	DX Counts as a CC	DX Counts as a MCC	DX Doesn't Count as a CC/MCC	Percentage of HCC DXs that Don't Risk Adjust
59- Major Depressive Disorder	16%	402	38	0	364	91%
18- Diabetes with Complications	21%	320	4	0	316	99%
108- Vascular Disease	20%	184	139	3	42	23%
85- Congestive Heart Failure	13%	60	24	9	27	45%
96- Specified Heart Arrythmias	13%	18	13	0	5	29%
111- COPD	15%	15	3	0	12	80%

77%

Across the six most prevalent HCC conditions, 77% of the diagnoses in those conditions do not count as a CC/MCC. As such many organizations often aren't focused on the importance of capturing these chronic conditions even though they have implications on care plans and acute condition resolution.

HCC Capture Can Influence Expected Readmission Rate

Each hospital readmission reduction category has unique conditions that influence the expected readmission ratio. Capture of these conditions, many of which are HCCs, can be done during the initial indexed admission or up to 12 months before (including in the ambulatory setting) to accurately set the expected rate.



How HCC Capture Can Improve Expected Readmit Rate

There are complex algorithms used to determine expected readmission rates in a population. These calculations include the patient's age, sex, and clinical history for the last 12 months. It is critical to note that some conditions, even if they don't influence CC/MCC capture do influence expected readmission rate. Capture of these can have a direct tie to future reimbursement.

Heart Failure Readmission Impact by HCC

July 2019 – June 2022 Discharge Model

HCC Category	Percentage of HCC DXs that Don't Risk Adjust	Impact to Expected CHF Readmission Rate
59- Major Depressive Disorder	91%	+2.3%
18- Diabetes with Complications	99%	+9.3%
108- Vascular Disease	23%	+7.5%
85- Congestive Heart Failure	45%	Not Applicable
96- Specified Heart Arrythmias	29%	+10.4%
111- COPD	80%	+15.6%

Comparison of Condition Prevalence- Inpatient Discharges

Included in the data set was a breakdown of several chronic conditions that contribute to the risk score calculation on the prior page. The table shows the percentage of discharged beneficiaries with each condition.

Clinical Condition Prevalence Rates

FY 2022 Discharges

Clinical Condition	Hospital A	Hospital B	Hospital C	Hospital D	Hospital E
A-Fib	17.4%	23.3%	34.0%	26.0%	23.5%
Alzheimers	37.4%	30.2%	28.7%	39.4%	33.1%
Asthma	10.8%	10.7%	11.4%	10.5%	11.3%
Cancer	11.1%	15.7%	17.1%	17.8%	19.0%
CHF	43.0%	44.1%	47.2%	43.8%	37.2%
CKD	72.2%	68.1%	58.6%	63.1%	62.5%
COPD	23.8%	22.2%	20.3%	21.8%	22.9%
Depression	35.9%	34.4%	33.9%	40.5%	37.3%
Diabetes	63.6%	53.8%	40.0%	44.8%	43.5%
Ischemic Heart Disease	55.0%	59.5%	61.0%	55.5%	54.5%
Osteoporosis	12.6%	11.0%	10.7%	10.8%	13.0%
Rheumatoid Arthritis / Osteoarthritis	46.0%	44.2%	50.2%	46.4%	48.7%
Schizophrenia / Other Psychotic Disorders	8.3%	5.1%	3.3%	5.3%	4.1%
Stroke	15.2%	15.3%	16.5%	14.4%	16.8%

CMS Data on Medicare Beneficiaries

On a monthly basis, CMS publishes a series of data points that can be leveraged to learn about market share, population growth, and payer performance. While it won't provide other system information, it can be used to understand the shifting landscape.

Florida Metropolitan Area Medicare Growth Rates

2019-2024

Metro Area	Jan 2019 MA Enrollees	Jan 2024 MA Enrollees	Jan 2024 MA Eligible Enrollees	Jan 2024 MA Penetration	5-Year Enrollee Growth Rate
Miami	629,027	779,397	1,212,455	64.3%	24%
Tampa	346,566	457,015	731,933	62.4%	32%
Orlando	362,334	507,996	826,767	61.4%	40%
Jacksonville	99,458	157,689	336,891	46.8%	59%
Florida Overall	**2,052,858**	**2,853,539**	**5,060,672**	**56.4%**	**39%**

Given the explosive growth in Medicare and Medicare Advantage patients across the state of Florida, risk adjustment will only continue to become more important.

Wrapping Up

Recapping Today's Objectives and Goal / Q&A

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