State of Rhode Island Executive Office of Health and Human Services
3 West Road, Virks Building, Cranston, RI 02920
phone: 401.462.5274 fax: 401.462.3677

State of Rhode Island Medicaid Program Managed Care Organization and Accountable Entity Risk Adjustment Policy Statement

Introduction

The State of Rhode Island Executive Office of Health and Human Services (EOHHS) is making available this policy statement addressing the application of risk adjustment for Managed Care Organizations (MCOs) and Accountable Entities (AEs) in support of the continued transformation of EOHHS into a value-based purchaser in its administration and oversight of the MCOs. As value-based payment methodologies become more prevalent in the Rhode Island health care market, including the Medicaid market, it is the obligation of EOHHS to ensure that these payment arrangements are structured in a way that incents all parties to contain costs while improving population health. EOHHS will further effectuate provisions of this policy statement through MCO contract amendments and Health System Transformation Project requirements documents as needed.

Policy Statement

In its work in this arena, EOHHS has prioritized a focus on improving health outcomes for Medicaid populations with behavioral health needs and health related social needs, including through the implementation of Accountable Entities. As one way to refine the advancements being made in this regard, applying a robust risk adjustment methodology to MCO capitation will enable EOHHS to ensure that limited state resources are distributed in a way that is more consistent with the needs of the underlying patient populations. EOHHS seeks to employ a risk adjustment formula to rebalance incentives for MCOs and providers to not only ensure high-risk, high-cost beneficiaries are enrolled in MCOs and attributed to AEs but to also ensure that MCOs and providers accelerate efforts to impact the factors that contribute to a beneficiary's risk, as feasible. Further, this approach is supportive of the strategic shift from volume-based to value-based payments; EOHHS envisions a broader progression toward risk—where MCOs will transition to full-risk and AEs will take on downside risk as well.

Currently, EOHHS adjusts MCO capitation rates by beneficiary age and sex. While this method has validity, it lacks precision and sophistication. Many other state Medicaid programs, as well as payers in the commercial market and Medicaid market, employ tools that primarily incorporate medical claims data to more accurately predict future costs. EOHHS must implement risk adjustment in order to enhance its ability to more effectively align financial incentives with programmatic priorities as described above.

For these reasons, EOHHS will take the following measures:

1. **MCO Capitation Risk Adjustment:** Starting May 1, 2019, EOHHS will, in dialogue with the MCOs, take steps to apply a risk adjustment methodology to MCO capitation payments in a phased approach. EOHHS will ensure this is done in compliance with all federal and state requirements and will leverage the technical expertise of the its actuarial services vendor to ensure the methodology is both actuarially sound and budget neutral.

EOHHS seeks to incorporate a diagnostic-based risk adjustment algorithm using a validated and industry-accepted tool, targeted for application in rates starting July 1, 2019. EOHHS will work closely with the MCOs throughout development, testing, and implementation in capitation rates. This will apply weights based on a beneficiary's health status, using diagnostic codes for acute conditions, behavioral health diagnoses, chronic illnesses, and prescriptions to more accurately capture risk and predict future costs. Risk adjustment, when applied to managed care capitation payments, can remove perverse incentives to favor enrollment of lower-risk beneficiaries and mitigate the impact of adverse-selection, paying plans more equitably to care for their unique populations and stabilizing the managed care market. EOHHS will work collaboratively with partners to adopt best practices in applying risk-adjustment to pediatric populations to identify an appropriate model that accounts for differences in drivers of health risk between children and adults.

EOHHS will develop and test a methodology, building on the diagnostic-based risk adjustment algorithm, that incorporates indicators of social determinants of health. Replicating a model that has been implemented in Massachusetts, EOHHS will explore the application of census data indicators of neighborhood stress, as well as other available patient-level data sources that capture elements such as homeless status or food insecurity. The adapted risk model will be tested and studied to assess predictivity and financial impact before being applied to managed care capitation rates.

2. **Total Cost of Care Standardized Risk Adjustment:** Starting September 1, 2019, EOHHS will, in dialogue with the MCOs and the AEs, develop an implementation plan for applying a standardized risk-adjustment methodology to total cost of care (TCOC) targets. This will foster alignment of incentives for MCOs and AEs to better care for high-risk, high-cost patients, and create a more equitable basis for assessing AE performance. These discussions will be held in the broader context of the AE TCOC model design for upcoming program years, inclusive of interrelated topics like movement to downside risk.
3. **Exploration of Other Appropriate Applications of Risk Adjustment:** Starting January 1, 2020, EOHHS will, in dialogue with appropriate stakeholders, explore whether risk adjustment should be applied to other areas within Medicaid that have financial implications, such as AE or MCO quality performance.

Conclusion

The policies outlined above further the strategic objectives of Medicaid, particularly supporting the further use and impact of value-based purchasing and are consistent with federal rules and best practices seen in other markets and other states. EOHHS will monitor the effects of these policies and apply guardrails as needed to ensure financial incentives are achieving their intended purposes.