The Basics of
Medical Risk Adjustment

NEBRASKA HEALTH NETWORK | METHODIST | Nebraska Medicine

Health care providers are undergoing a massive shift in how health care is delivered—and how it's paid for. It's a move from fee-for-service, or **volume care**—where the more you do, the more you get paid—to **value-based care**—where physicians are rewarded for providing high-quality, efficient care.

Many factors drive success in value-based care, but one of the most crucial is **Medical Risk Adjustment.**

WHAT IS MEDICAL RISK ADJUSTMENT?

Medical Risk Adjustment (MRA) is an actuarial tool used to predict health care costs of a population. Patient demographics and disease burden, as indicated by ICD-10 diagnosis codes, are utilized to calculate a patient risk score.

WHY IS MRA IMPORTANT?

MRA helps health insurance payers – including Medicare – understand how sick your patients really are, as indicated by their risk scores. MRA is used in value-based models to ensure that cost targets are adjusted to align with the illness burden of the population. This means providers are not penalized for taking care of sicker patients.
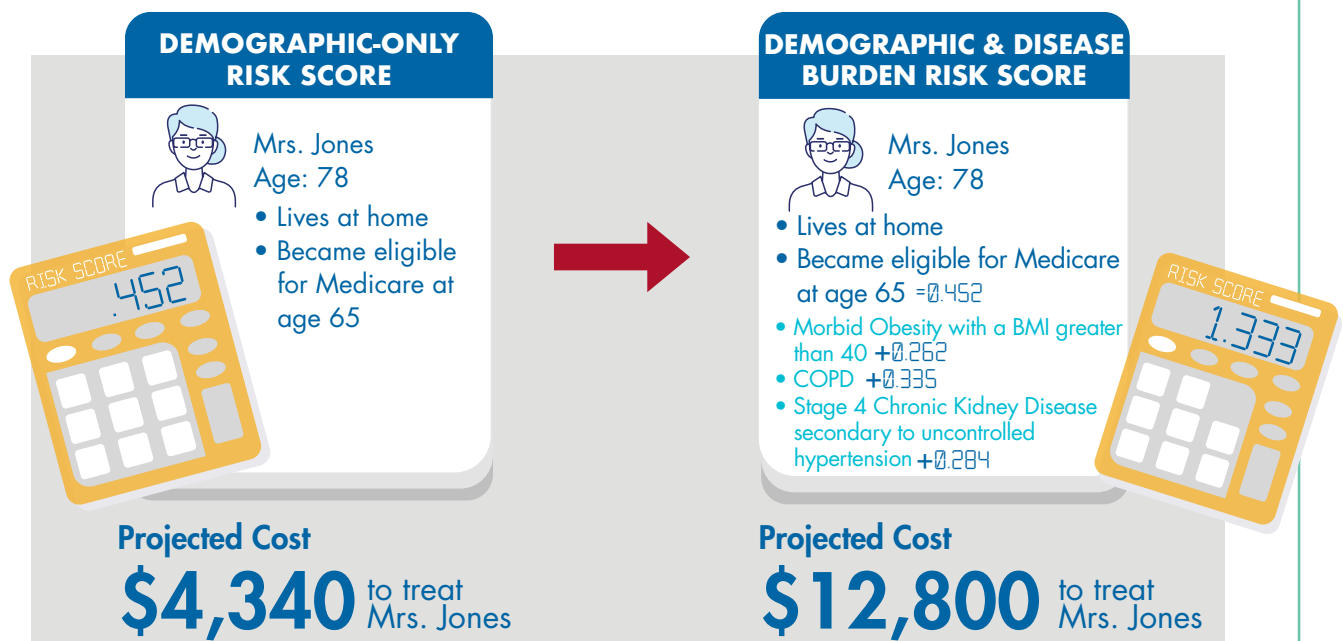
HOW DO I OPTIMIZE RISK CAPTURE?

Document and code for all diagnoses for each patient, every year. Keep in mind that a patient with diabetes this year is considered to no longer have diabetes in subsequent years if it is not documented and coded **every calendar year.**

HOW DOES MRA WORK?

The combination of demographic characteristics plus disease burden determines a patient's "risk score." The sicker the patient, the higher the risk score—and the higher the projected cost to treat that patient.

Here's an example of how MRA works:

DEMOGRAPHIC-ONLY RISK SCORE

Mrs. Jones
Age: 78
- Lives at home
- Became eligible for Medicare at age 65

RISK SCORE .452

DEMOGRAPHIC & DISEASE BURDEN RISK SCORE

Mrs. Jones
Age: 78
- Lives at home
- Became eligible for Medicare at age 65 =0.452
- Morbid Obesity with a BMI greater than 40 +0.262
- COPD +0.335
- Stage 4 Chronic Kidney Disease secondary to uncontrolled hypertension +0.284

RISK SCORE 1.333

Projected Cost
$4,340 to treat Mrs. Jones

Projected Cost
$12,800 to treat Mrs. Jones

In value-based care, not having the cost targets accurately reflect the risk of your patients:
- Decreases the ability to fund programs and resources to support population health initiatives
- Impacts your ability to meet cost targets, and
- Reduces the likelihood of earning payment incentives