



**CONSORTIUM FOR CITIZENS  
WITH DISABILITIES**

**INADEQUATE RISK ADJUSTMENT COULD RESULT IN UNNECESSARY DIMINISHED HEALTH OF  
MEDICARE RECIPIENTS IN A PREMIUM SUPPORT SYSTEM**

A briefing was held at the Brookings Institution on Medicare Premium Supports. Presenters at the forum were scholars on health care policy and federal budgets.

**Summary** The Medicare “premium support” system is a market based health care system with choice among private health care plans subsidized by the federal government and fee for service Medicare. The Medicare Insurance-pool is older, sicker and on fixed incomes, when compared to younger populations. However, there is an uneven distribution of population based health status and health care spending among the Medicare population. This complicates premium supports with some people incurring more cost than others. In 2006, for example, 5% of Medicare beneficiaries accounted for 39% of total spending while the least expensive half of the Medicare population 4% of spending. The premium support system could result in more expensive enrollees in traditional Medicare with the more healthy population in the private pool. To account for difference in health status, risk adjustment is applied to ensure that the highly skewed distribution of medical payments across the population does not destabilize health insurance markets by favoring some insurers over others.

Current practices of risk adjustment under predict those of poor health in applied settings. Private health plans may have access to information about the health of beneficiaries that exploit the process of risk adjustment to attract healthy beneficiaries, and discourages sicker ones. Benefit packages and marketing strategies are then designed to attract healthier recipients. In addition; private plans have been known to “up-code” - assign diagnostic codes that make their enrollees look sicker than they actually are that further undercuts risk adjustment. These practices of the risk adjustment process result in overpayment to private plans that enroll healthier beneficiaries. Inadequate risk adjustment may increase payments to private plans, but not in traditional Medicare.

**Disability Prevention Issues** Faulty risk adjustment practices raise Medicare overall costs, increase premiums, and concentrate unhealthy beneficiaries in traditional Medicare. Under these conditions, traditional Medicare may not be adequately paid for high cost enrollees which would increase premiums further. This would result in discouraging enrollment of healthy beneficiaries, which would in turn raise premiums in traditional Medicare. Without accurate risk adjustment, plans that attract vulnerable Medicare recipients would be at a disadvantage. Overtime, traditional Medicare could become unstable and the most vulnerable people would have difficulty with access to needed health care. These conditions could lead to unnecessary diminished health and disability of a most vulnerable group.

**Activity** There is ongoing study of adverse impact of risk adjustment problems in premium support programs that relate to diminished health that can contribute to disability.

**Principle** There should be adequate risk adjustment in private premium support systems that prevent skewed pools of poor health populations in Medicare