



AMERICAN ACADEMY *of* ACTUARIES

January 30, 2002

Ms. Bobbie Knickman
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, Maryland 21244

Dear Ms. Knickman:

On behalf of the Medicare Steering Committee of the American Academy of Actuaries (the Academy)¹, I appreciate this opportunity to comment on proposed changes in the Medicare+Choice risk adjustment methodology and reporting requirements for diagnostic information for use beginning in 2004.

The possibility that high-cost and low-cost enrollees will gravitate to different plans, and the resulting financial consequences, must be considered in any program that offers individuals a choice of different coverage options. Risk adjustment is a vital tool for dealing with this problem in the Medicare+Choice program. The Academy has a long history of contributing to a discussion of this issue.

At the request of the Health Care Financing Administration, the Academy formed a Risk Adjustor Work Group in 1998 to complete an actuarial review of the health status risk adjustment methodology used by the agency in paying M+C health plans. The work group's analysis was incorporated in a paper titled *Actuarial Review of the Health Status Risk Adjustor Methodology* (January 14, 1999).

The paper is available through the Academy's web site (<http://www.actuary.org/pdf/medicare/hcfariskadj.pdf>), and a copy is attached for your information.

Accuracy, and the avoidance of statistical bias, are critical goals in any Medicare risk adjustment system. However, as the Academy's work group noted in 1999, practicality and reasonable cost are also important, as are the timeliness and predictability of risk adjustment transfers. At that time, the work group suggested that a cost-benefit analysis would be an appropriate step in evaluating any new risk adjustment methodology.

¹ The American Academy of Actuaries is the public policy organization for actuaries practicing in all specialties within the United States. A major purpose of the Academy is to act as the public information organization for the profession. The Academy is non-partisan and assists the public policy process through the presentation of clear and objective actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal elected officials, comments on proposed federal regulations, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualification and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

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We commend CMS for giving serious consideration to the difficult trade-offs that must be made between accuracy and practicality, costs and benefits. Given the number of Medicare+Choice plans that are leaving the market, it is more important than ever that an appropriate balance be struck.

Thank you for your consideration of our views. If you have any questions or would like more information, please contact Holly Kwiatkowski, Federal Health Policy Analyst, by phone (202-223-8196) or e-mail (kwiatkowski@actuary.org).

Sincerely,

Thomas F. Wildsmith, F.S.A., M.A.A.A.
Chairperson
Medicare Steering Committee