Population Healthcare and Medicare Advantage revenue –

how doing the right thing can make you more money

Medicare Advantage executives are tasked with the management of their members' costs of care accompanied at the same time they are capped on gross margins at 15% by PPACA. The first response by leadership is, "where do I cut costs?" While controlling costs is important, there is likely a larger opportunity enhancing gross margin with Population Healthcare versus cutting costs.

To level set, Population Healthcare is the holistic management of individual's wellness status predominantly by the primary care physician (PCP). In addition, Population Healthcare is not an event, rather an ongoing activity performed predominantly by PCPs working in conjunction with their patients at the point of care. Finally, revenue for each Medicare Advantage Member is heavily weighted by the Hierarchical Category of Condi tons (HCC's) identified and managed by the PCP.

PCPs are trained to evaluate and treat all the present condition in their patients (MA Plan Members). The challenge is that the reimbursement system is incongruent with PCP's documenting of all the conditions present in each patient. CPT codes describe what work the physician does, ICD codes are why the patient is seeking the physician's services. Most Medicare Advantage patients have multiple chronic conditions, but rarely are all the present conditions captured on a claim or in an EMR. The under-coding of these conditions costs MA plans millions of dollars in appropriate payments from CMS.

Capturing the chronic conditions present in the patient population is also critical to the health plan's gross margin. The example below highlights the gross margin opportunities for health plans

Example 1: .7 RAF * $750 County Base Rate * 12 months * 1,000 members = $6.3 million revenue

$6.3 million * .15 maximum margin post PPACA = $945,000 gross margin (GM)

Example 2: .9 RAF * $750 County Base Rate * 12 months * 1,000 members = $ 8.1 million revenue

$8.1 million * .15 maximum margin post PPACA = $1.2 million gross margin

Net: $1.2 million (GM example 2) - $945,000 (GM example 1) = $270,000 GM increase

Note: RAF – Risk Adjustment Factor

By improving the RAF score from .7 to .9 on 1,000 members, the health plan's gross margin will enhance the topline by $1.8 million and increase the health plan's gross profit by $270,000.

The ability to impact at the point of care and helping the PCP's diagnose and chart their patient's chronic conditions is the key for MA plans long-term. With CMS continually pressuring payments to MA plans through reduced HCC weightings, county base rates, and shifting which HCC codes offer value, it is imperative for the health plans to engage the PCPs in a meaningful way. The challenge will be creating the tools and incentives to encourage the PCPs to be more thorough in the documenting and coding of their patient's conditions.

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