



# Plan Management Navigator

## Analytics for Health Plan Administration

Healthcare Analysts

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*Please see page 4 for our invitation to participate in the 2025 or license the 2024 Sherlock Benchmarks.*

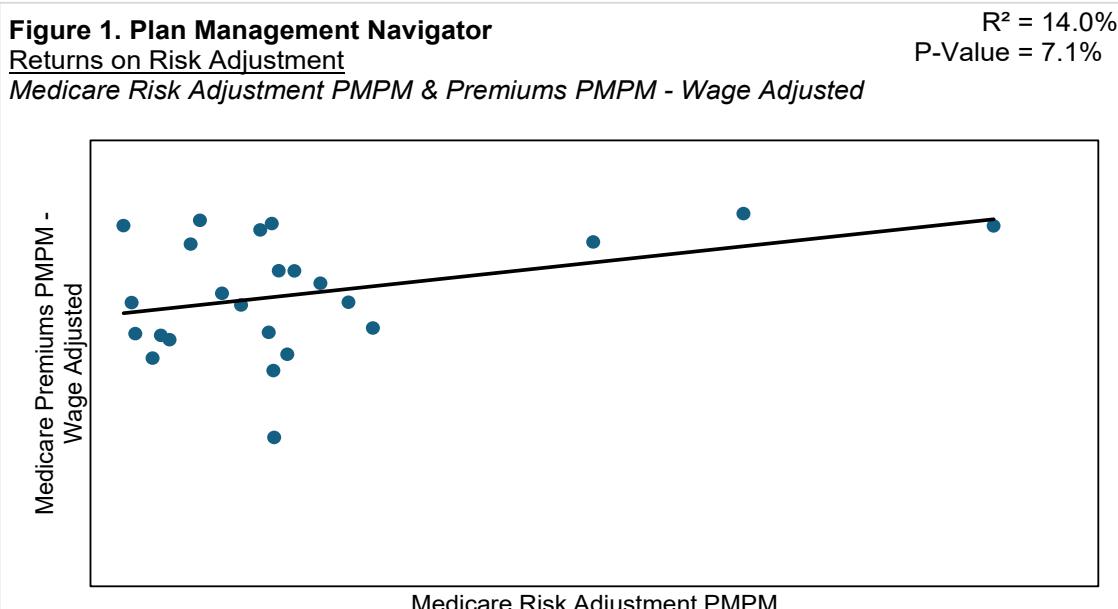
## RETURNS ON MEDICARE RISK ADJUSTMENT

### Conclusion and Background

In this *Plan Management Navigator*, we examine the potential for returns associated with Risk Adjustment for Medicare Advantage. Our analyses revealed several statistically significant relationships. Notably, higher Risk Adjustment expenses were correlated with higher Medicare Premiums (on a wage adjusted basis), higher Medicare health benefit costs (on a wage adjusted basis) and a greater Number of Chart Reviews. We also observed a significant link between the Number of Chart Reviews and Medicare Dollar Reimbursement Yield (defined as the difference in reimbursement levels after chart reviews compared to the same chart before review).

The *Sherlock Benchmarks* define risk adjustment expenses as those stemming from the analysis of clinical data in order to match government compensation with the risk factors of members. This includes adjustment for the “three Rs”: permanent risk adjustment, transitional reinsurance and transitional risk corridors. Among the activities are chart reviews for risk adjustment, assignment of Hierarchical Condition Categories (HCC) to Medicare Advantage (MA) members and Risk Adjustment Audit expenses to verify that the diagnosis codes submitted to support payment by an MA organization are supported by medical record documentation for enrollees.

The data used for this analysis is the 2024 edition of the *Sherlock Benchmarks*, which reflects health plan results from the year ended 2023. The *Sherlock Benchmarks* segments administrative costs into nearly 70 functional or sub-functional areas, along with up to 12 products. This enables the identification and measurement of costs for Risk Adjustment exclusively for Medicare Advantage.



Twenty-four plans provided cost information on Medicare Advantage Risk Adjustment costs. (This excludes one outlier plan). Fourteen of these plans supplied volumes of chart reviews, and thirteen provided Medicare dollar reimbursement yield metrics.

For this analysis, we consider relationships to be significant with P-Values of 10% or less. P-Value measures the chance that the regression line could be the result of unrepresentative data. This is a generous threshold. The  $R^2$ , or coefficient of determination, describes the degree to which all the data points are found on the slope. It measures the degree to which the regression line explains differences between the various values.

### *Results of the Risk Adjustment Analysis*

Figure 1, on the previous page, illustrates a positive relationship between Medicare Risk Adjustment expenses PMPM and Medicare Premiums PMPM on a Wage Adjusted Basis. (The wage adjustment endeavors to reduce the cost of living effect of geographic differences by dividing each plan's premium PMPM by its relative hospital wage index. The relative hospital wage index is the CMS hospital wage index for each plan's headquarters city divided by that of the set of plans.) The analysis yielded a statistically significant relationship with a P-Value of 7.1% and  $R^2$  of 14.0%. This positive slope indicates that the higher the Risk Adjustment expenses, the higher the wage-adjusted Premiums PMPM.

**Figure 2. Plan Management Navigator**

Returns on Risk Adjustment

*Medicare Risk Adjustment PMPM & Healthcare Costs PMPM - Wage Adjusted*

$R^2 = 12.6\%$   
P-Value = 8.8%

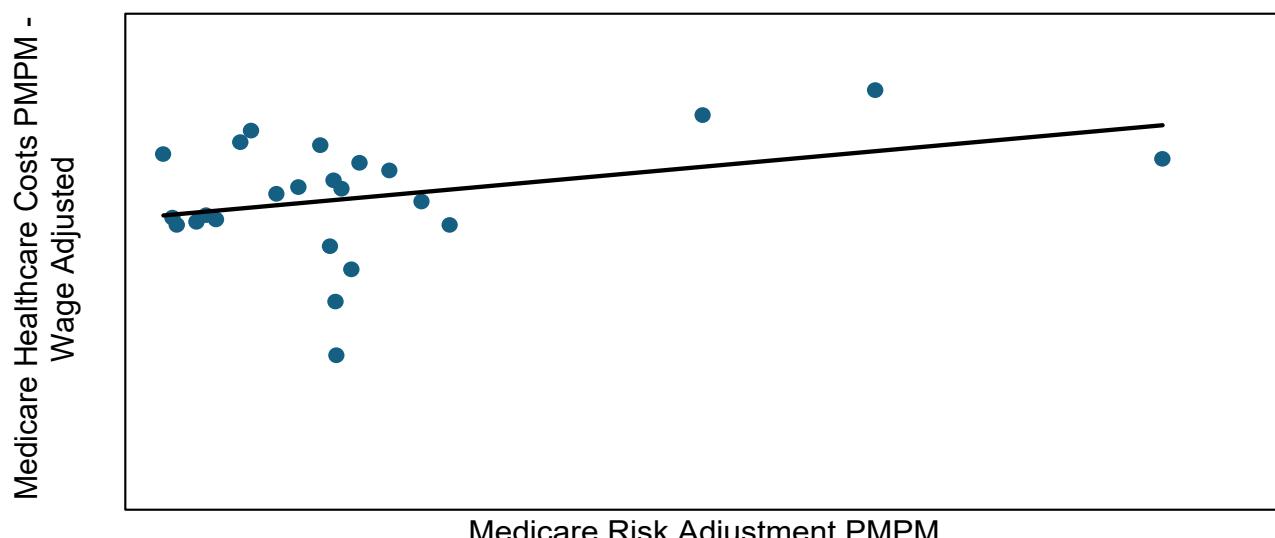


Figure 2, shown on page 2, displays a similar relationship, between Medicare Risk Adjustment expenses and Medicare Health Care Costs after adjusted for cost of living. The analysis shows a P-Value of 8.8% and  $R^2$  of 12.6%. This positive relationship suggests that higher Risk Adjustment expenses are associated with higher health care costs for each member. In other words, risk adjustment activities are more intensive when medical expenses are higher, comporting with the purpose of risk adjustment.

Expenses for risk adjustment correspond with their underlying activities. Figure 3 shows the positive relationship between Medicare Risk Adjustment PMPM expenses and the Number of Chart Reviews per 1,000 Medicare members. The positive correlation suggests that higher Risk Adjustment expenses is related to a greater number of Chart Reviews. The relationship yielded a P-Value of 1.0% and  $R^2$  of 43.3%.

Chart reviews entail auditing provider documentation and notes to establish accurate coding, in this context used for inclusion in calculating each enrollee's risk score. A "chart" is defined as a medical record pertaining to one member for one provider / location per year. "Location", as used here, entails a common EMR (Electronic Medical Record) system.

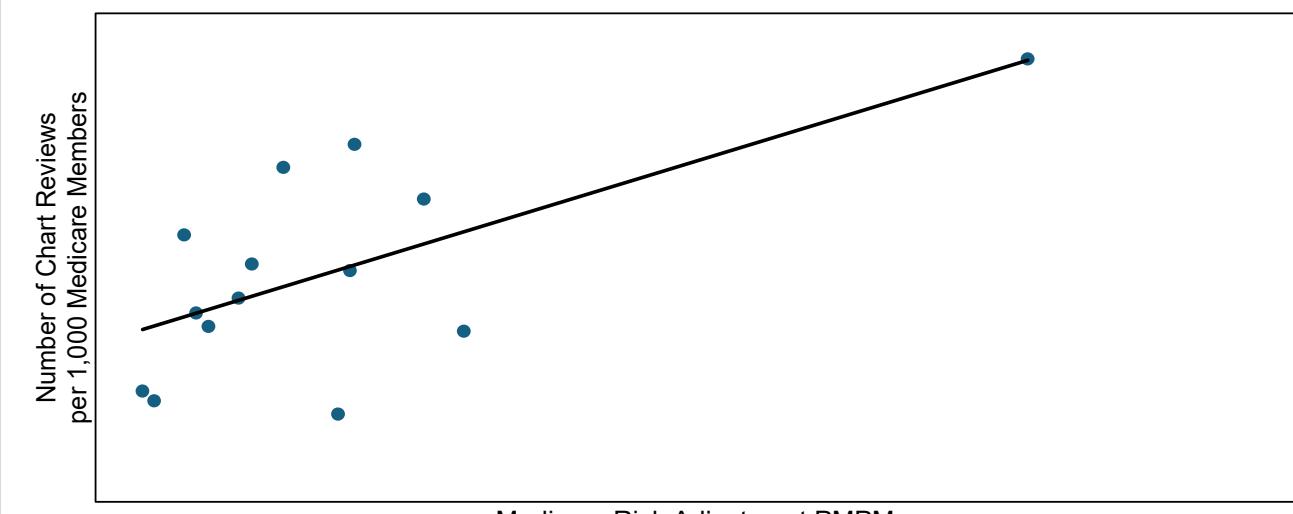
*Sherlock Benchmarks* reporting plans can include in their surveys the amount of additional premium they receive if chart review results in a higher risk score. This is called the Medicare Dollar Reimbursement Yield. Shown in Figure 4 on the next page, there was a positive correlation between Medicare Dollar Reimbursement Yield and the Number of Chart Reviews per 1,000 Medicare Members. The  $R^2$  for this relationship was 41.9%, with a P-Value of 1.7%. The findings suggest that, as the per member volume of Chart Reviews for Medicare increases, so does the per member Dollar Reimbursement Yield.

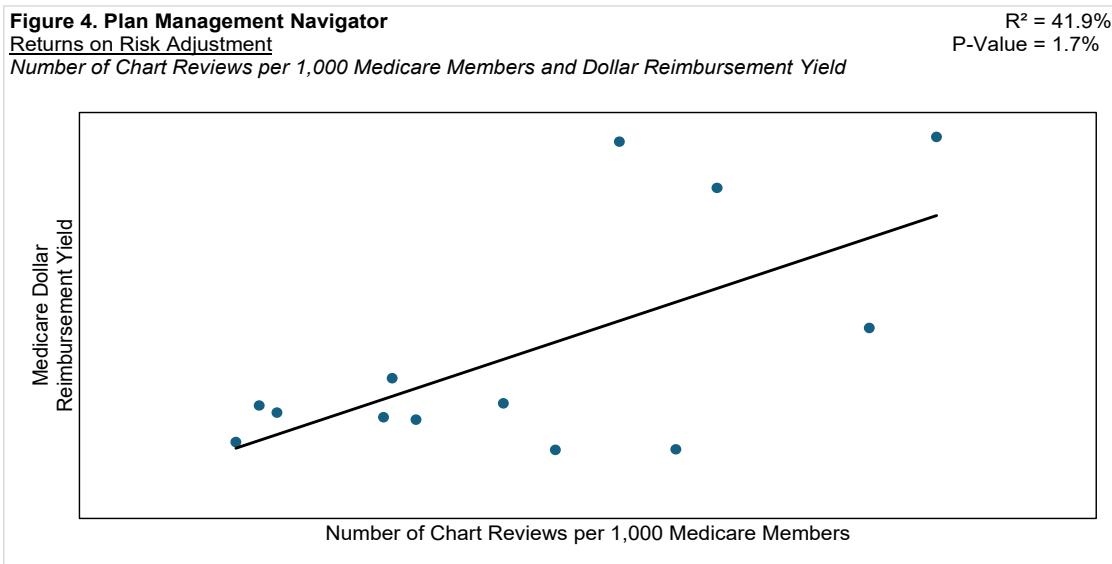
**Figure 3. Plan Management Navigator**

Returns on Risk Adjustment

Medicare Risk Adjustment PMPM & Number of Chart Reviews per 1,000 Medicare Members

$R^2 = 43.3\%$   
P-Value = 1.0%





## Invitation to Participate in the 2025 Sherlock Benchmarking Study

The highly valid, well-populated *Sherlock Benchmarks* provide an unbiased ranking and helps prioritize cost management activities to have the greatest impact on improving your health plan's overall operating performance.

The surveys for the Blue Cross Blue Shield ("Blue") and Independent / Provider - Sponsored ("IPS") universes were launched in recent weeks and the surveys are due back in late April and mid-May respectively. The Blue and IPS universes are comprised of 14 Plans and 12 plans, respectively. If your plan has an interest in participating in either of these universes, please reach out immediately so we can execute a mutual confidentiality agreement and proceed with the survey.

The **Medicare** and **Medicaid** universes will be launched on June 3rd, immediately after the Medicare bids are due. Please reach out to us if your health plan has an interest in participating in these universes.

The 2025 study will be its 28th consecutive year, reflecting a cumulative experience of over 1,000 health plan years. Health plans serving 170 million Americans are either licensees or participants in the *Sherlock Benchmarks* since June 2022. Participating plans have included most Blue Cross Blue Shield plans, large public companies, Independent / Provider-Sponsored health plans, Medicare plans and Medicaid plans, as well as their consultants.

For those unable to participate, licensing is available. Please see the following link [www.sherlockco.com/sherlock-benchmarks](http://www.sherlockco.com/sherlock-benchmarks) for additional information on the *Sherlock Benchmarks*. The Report Tables of Contents shown on that page mirror the Reports received by participants. The difference is that each participant edition is tailored to that participating health plan.

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The *Sherlock Benchmarks* have been called the “Gold Standard” by leading health care consultants. Report publication begins in late June but varies by universe. Participation entails efforts on the part of the plans since actionable outputs require relatively granular inputs. However, the cost is relatively modest.

Please reach out to Douglas Sherlock at [sherlock@sherlockco.com](mailto:sherlock@sherlockco.com) or 215-628-2289 if you are interested in either participation or licensing. *You will be among good company.*

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