

Risk Adjustment Can Reduce Inefficiencies and Waste

By Rishi N. Sud, MD, MBA

When applied correctly, the risk-adjustment system is a transformative solution to the inefficiencies plaguing our health care system. It addresses the estimated over \$1 trillion in waste, which accounts for over a third of all health care spending. By accurately adjusting payments based on patients' health status, risk adjustment ensures that health care providers are incentivized to focus on prevention and managing diseases in their early stages rather than rewarding unnecessary spending on end-stage disease management.

The risk-adjustment model is a powerful tool that aligns financial incentives to deliver comprehensive and proactive care. It provides appropriate compensation for managing patients with varying degrees of illness, empowering health care providers to invest in preventive measures and early interventions. This not only improves patient outcomes but also reduces long-term health care costs, demonstrating the system's potential to transform health care delivery.

The additional funds generated through accurate risk adjustment enable health care providers to offer specialized services and community health programs, particularly for complex and underserved populations. These investments are crucial in addressing the social determinants of health and ensuring that vulnerable populations receive the comprehensive care they need. The focus on early detection and prevention is a key strategy in mitigating the disparities in health care access and outcomes that these groups often face, demonstrating the system's potential for significant social impact.

The risk-adjustment system is a catalyst for a culture of proactive health care, where the early identification and treatment of conditions are prioritized. By rewarding the accurate diagnosis and management of diseases, the system inspires health care providers to focus on long-term health outcomes rather than short-term financial gains. This shift towards preventive care not only leads to better patient health

but also contributes to a more sustainable health care system, offering hope and optimism for the future.

Instances of Misuse Identified

Despite its intended benefits, the risk-adjustment system has faced criticism due to instances of misuse, as highlighted in a recent *Wall Street Journal* article.¹ The article reveals that some insurers have exploited the system by adding questionable diagnoses to inflate payments, leading to billions of dollars in excess costs to Medicare. This misuse undermines the system's integrity and diverts funds from genuine patient care needs.

The reported cases of false diagnoses and the lack of corresponding treatment of severe conditions such as HIV and diabetic cataracts indicate significant flaws in the current implementation of risk the risk-adjustment model. These practices not only waste taxpayer money but also erode trust in the health care system. Patients and their doctors are often unaware of these additional diagnoses, meaning that the supposed benefits of risk adjustment are not realized in actual patient care.

The system's reliance on home visits and chart reviews, sometimes aided by artificial intelligence, can also lead to inaccurate or inappropriate coding of patient conditions. The incentives for insurers to maximize their payments through these methods can result in a focus on financial gain rather than genuine patient well-being. This highlights the need for more robust mechanisms to ensure risk adjustment is used appropriately and ethically.

The risk-adjustment system has the potential to enhance care for all patients, especially those in complex and underserved populations. It also addresses wasteful spending across all populations. Ensuring accurate and ethical application of the system is crucial for achieving its intended goals without compromising the trust and resources essential to the health care system. The solution is to provide physicians with more oversight and the ability to control the process, ensuring the system works effectively when patients and physicians remain central to the process. ◀

Reference

1. Weaver C, McGinty T, Mathews AW, Maremont M. Insurers Pocketed \$50 Billion From Medicare for Diseases No Doctor Treated. *The Wall Street Journal*, July 8, 2024.



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