FAMILIESUSA
THE VOICE FOR HEALTH CARE CONSUMERS

Risk Adjustment 101: Protecting Access to High-Quality Health Care

Introduction

Value-based payment models have become a cornerstone of efforts to transform the U.S. health care system into a system that pays health care providers for the quality of care they deliver instead of the volume of services patients receive. These **value-based payment models incentivize improved patient experience and outcomes while lowering costs, and are used on a large scale across public and private payers.** In fact, more than 88 million people who have traditional Medicare, Medicare Advantage, Medicaid or commercial insurance now receive health care that is paid through some form of managed care or value-based payment arrangement.[1]

These payment models rely heavily on risk adjustment as part of their core payment structure, yet many consumer health care advocates and other stakeholders may not fully understand the impact of risk adjustment on health and health care. This primer is designed to support those interested in engaging in policy discussions around value-based payment arrangements by outlining what risk adjustment is, how it is used, why accurate risk adjustment is so important, and what aspects of risk adjustment require oversight and improvement.

What is risk adjustment?

Risk adjustment is a critical mechanism to account for the differences in patients' health care costs and underlying health care needs when determining how much a health plan or health care provider is paid in a value-based payment arrangement.[2] The risk adjustment process takes into account certain patient characteristics, like age, sex, medical diagnoses and sometimes even health-related social needs, to predict how much health care patients will need in the future and then adjusts health care payments upward or downward accordingly.[3]

This process of adjusting payment and financial resources based on the health care needs of a patient population is a critical tool in effectively allocating health care dollars to higher need populations and helps to drive higher-value and more efficient health care payments throughout the health care system.[4]

The specific goal of risk adjustment is to reduce incentives to cherry-pick healthy patients, to ensure fairness in payment, and to protect access to care for people with chronic or costly conditions.[5]

Risk adjustment ensures providers in value-based payment arrangements are incentivized to treat both healthy and sick patients alike.[6] Under value-based payment arrangements, health care providers are often financially incentivized to provide higher-quality care at a lower cost.[7] When implemented poorly, these financial incentives can encourage providers to avoid sicker, more complex patients because they are more expensive to manage and treat.[8] The result of providers engaging in this "favorable selection" is often a reduction in access to appropriate and lifesaving health care for the patients that need it most, which undermines value-based payment efforts that seek to align providers' financial incentives with the health and financial security of patients.[9]

When designed well, risk adjustment can be a key tool to mitigate cherry-picking by instead offering providers who care for more medically complex patients a higher risk-adjusted payment to account for those patients' health care needs and associated higher treatment costs.[10] By modifying the cost and quality performance targets for providers treating sicker and more complex patients, risk adjustment ensures greater fairness in value-based payments to providers and helps to protect providers treating sicker, more complex patients from any possible financial penalties that might arise from caring for patients with greater medical need.[11] As a result, risk adjustment helps even the playing field for providers and assures that financial rewards (and penalties) are distributed fairly based on providers' actual performance, rather than based on their patient population.[12]

Considerations for effective risk adjustment processes

As a growing proportion of health care dollars flow through risk-adjusted payments to providers, it is critical that the design and implementation of risk adjustment methods are continually strengthened to ensure that provider payments adequately and efficiently reimburse health care providers and that those payments financially incentivize and hold providers accountable for delivering the high-quality, affordable health care that patients and consumers deserve.

Risk adjustment helps even the playing field for providers and assures that financial rewards (and penalties) are distributed fairly based on providers' actual performance, rather than based on their patient population.

To that end, there are three critical areas that consumer advocates and aligned stakeholders should track to ensure appropriate oversight of risk adjustment, and to drive improvements in the use of risk adjustment models in U.S. health care payment:

1. **Strengthening and diversifying data sources to measure risk:** Risk adjustment models most commonly rely on historical health care spending data to determine the factors that are linked to differences in health care spending and costs, such as patients' sex, age and medical diagnoses.[13] It is essential that this data is accurate and comprehensive since risk adjustment models adjust provider payments upward or downward based on the presence of these factors in the provider's patient population.[14]

   Yet current risk adjustment models may use data sources, such as administrative claims or billing data, that do not always capture all of the factors that drive health care spending and costs. This incomplete data can result in an underestimate of the health care needs and costs associated with treating certain patient populations, and it can leave those providers and patients without access to critical health care resources and services.[15] Moreover, the use of historical health care spending data to inform risk adjustment may reflect existing, long-term disparities in health care access and utilization experienced by underserved communities, potentially leading to lower payments for providers serving the very communities that need even more care and resources.[16]

   As risk adjustment models evolve, advocates should push for the inclusion of other key data sources that strengthen the prediction of health care needs and costs. Rather than relying solely on claims data, risk adjustment processes should use more comprehensive risk adjustment methods that combine a variety of data sources, including claims, administrative data, electronic health records, Census Bureau data, patient-reported outcome measures, and patient surveys that can accurately identify and predict the numerous factors that drive differences in health in order to accurately adjust health care payments.[17]

2. **Evolving risk adjustment to include social risk data:** Recent efforts to improve risk adjustment have sought to incorporate measures of social risk, which adjust health care payments based on patients' health-related social needs or the nonmedical factors that drive significant differences in health care outcomes and spending.[18] For instance, certain population-based payment models, such as the Accountable Care Organization (ACO) Realizing Equity, Access, and Community Health (REACH) model, adjust payments to providers based on geographic measures of social risk, including the extent to which participating providers serve a higher proportion of patients in lower socioeconomic areas (for example, areas with lower educational attainment,

lower income or higher unemployment) and those dually eligible for Medicare and Medicaid coverage. By adjusting health care payments based on additional social factors, risk adjustment can help to better align provider resources and payments, with the goal of improving the health outcomes of patients.[19]

Research makes it clear that the inclusion of social risk factors in risk adjustment processes helps equip providers with the tools to meet the health needs of the most vulnerable patients and address disparities in health outcomes.[20] Fortunately, social risk measures, such as the Area Deprivation Index, which measures and ranks the socioeconomic conditions of neighborhoods, are increasingly being included in value-based payment models. Advocates must continue to engage and support efforts to grow the integration of social risk adjustment in risk adjustment methodologies to ensure that health care payments to providers better account for the resources needed to help patients achieve their best health.

3. **Increasing safeguards against "upcoding":** Because risk-adjusted payments are adjusted upward or downward based on the health status of patients, health care providers and health plans have a financial incentive to engage in a practice called "upcoding," where they overreport diagnoses to make their patients appear sicker and more costly in order to increase their payments.[21] Upcoding is a particular concern within the Medicare Advantage program, with Medicare Advantage insurers often submitting diagnoses unsupported by patients' medical records to receive higher risk-adjusted payments but without delivering additional care or coverage to beneficiaries.[22] Advocates should ensure that risk adjustment models include strong safeguards, such as evaluating claims data over a longer period of time or creating caps on annual growth of risk adjustment scores to prevent upcoding and other forms of industry gaming.[23]

Conclusion

Risk adjustment is a crucial tool used across the health care system to accurately predict health care costs and treatment needs, helping to ensure that all patients receive the health care they need and that physicians receive adequate compensation for every patient under their care. As the design and implementation of risk adjustment processes continue to evolve, health advocates should find opportunities to strengthen risk adjustment approaches and better align the design of health care payments with the resources providers need to be held accountable for improving patient health and containing health care costs.

Risk adjustment is a crucial tool used across the health care system to accurately predict health care costs and treatment needs.

Endnotes

[1] "2024 APM Measurement," Health Care Payment Learning & Action Network (HCPLAN), 2024, https://hcp-lan.org/apm-measurement-effort/2024-apm/2024-infographic/.

[2] Celli Horstman and Corinne Lewis, "The Basics of Risk Adjustment," The Commonwealth Fund, April 11, 2024, https://www.commonwealthfund.org/publications/explainer/2024/apr/basics-risk-adjustment; Michael Zhu et al., The Future of Risk Adjustment: Supporting Equitable, Comprehensive Health Care (Margolis Center for Health Policy at Duke University, June 29, 2022), https://healthpolicy.duke.edu/sites/default/files/2022-06/Margolis%20Future%20Risk%20Adjustment%20Paper%20v3.pdf.

[3] Horstman and Lewis, "The Basics of Risk Adjustment"; Zhu et al., *The Future of Risk Adjustment*.

[4] Horstman and Lewis, "The Basics of Risk Adjustment."

[5] David N. Bernstein et al., "Is There an Association Between Bundled Payments and 'Cherry Picking' and 'Lemon Dropping' in Orthopaedic Surgery? A Systematic Review," *Clinical Orthopaedics and Related Research* 479, no. 11 (November 2021): 2430–2443, https://journals.lww.com/clinorthop/abstract/2021/11000/is_there_an_association_between_bundled_payments.18.aspx.

[6] Horstman and Lewis, "The Basics of Risk Adjustment."

[7] Corinne Lewis et al., "Value-Based Care: What It Is, and Why It's Needed," The Commonwealth Fund, February 7, 2023, https://www.commonwealthfund.org/publications/explainer/2023/feb/value-based-care-what-it-is-why-its-needed.

[8] Rebecca Bowen, "Including Social Determinants of Health in Value-Based Care Payment," *ASHA Leader Live*, American Speech-Language-Hearing Association (ASHA), May/June 2023, https://leader.pubs.asha.org/do/10.1044/leader.BML.28052023.slps-value-based-care.24/full/.

[9] Bernstein et al., "Is There an Association?"

[10] Horstman and Lewis, "The Basics of Risk Adjustment."

[11] Horstman and Lewis, "The Basics of Risk Adjustment."

[12] Horstman and Lewis, "The Basics of Risk Adjustment."; "Quality Payment Program Overview," Quality Payment Program, U.S. Centers for Medicare & Medicaid Services, Accessed October 7, 2025, https://qpp.cms.gov/about/qpp-overview.

[13] Horstman and Lewis, "The Basics of Risk Adjustment."; U.S. Centers for Medicare & Medicaid Services, "Quality Payment Program Overview."

[14] Horstman and Lewis, "The Basics of Risk Adjustment."; U.S. Centers for Medicare & Medicaid Services, "Quality Payment Program Overview."

[15] Horstman and Lewis, "The Basics of Risk Adjustment."; U.S. Centers for Medicare & Medicaid Services, "Quality Payment Program Overview."

[16] Horstman and Lewis, "The Basics of Risk Adjustment."; Zhu et al., *The Future of Risk Adjustment*.

[17] Mark McClellan et al., *Modernizing Medicare Risk Adjustment and Performance Measurement: Moving Beyond Fee-for-Service for Payment Accuracy, Care Improvement, and Burden Reduction* (Margolis Center for Health Policy at Duke University, February 2024), https://healthpolicy.duke.edu/sites/default/files/2024-03/Modernizing_Medicare_Risk_Adjustment_and_Performance_Measurement.pdf.

[18] Brian E. Outland et al., "Modernizing Risk Adjustment in Health Care: A Position Paper of the American College of Physicians," *Annals of Internal Medicine* 178, no. 8 (July 2025), https://www.acpjournals.org/doi/10.7326/ANNALS-25-00280; "Social Risk Factors and Medicare's Value-Based Purchasing Programs: Reports," U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation (ASPE), Accessed October 7, 2025, https://aspe.hhs.gov/topics/health-health-care/social-drivers-health/social-risk-factors-medicares-value-based-purchasing-programs/social-risk-factors-medicares-value-based-purchasing-programs-reports.

[19] Outland et al., "Modernizing Risk Adjustment."

[20] Teresa L. Rogstad et al., "Social Risk Adjustment in the Hospital Readmissions Reduction Program: A Systematic Review and Implications for Policy," *Health Affairs* (Millwood) 41, no. 9 (September 2022): 1307–1315, https://pmc.ncbi.nlm.nih.gov/articles/PMC9513720/; State Health Access Data Assistance Center at the University of Minnesota, *Risk Adjustment Based on Social Factors: State Approaches to Filling Data Gaps (State Health and Value Strategies,*

Princeton University Woodrow Wilson School of Public and International Affairs, August 2020), https://www.shvs.org/wp-content/uploads/2020/08/FINAL_SHVS-Risk-Adjustment-Brief.pdf; "Risk Adjustment in Quality Measurement," U.S. Centers for Medicare & Medicaid Services, Measures Management System (MMS), September 2021, https://edit.cms.gov/files/document/blueprint-risk-adjustment.pdf.

[21] Rogstad et al., "Social Risk Adjustment"; State Health Access Data Assistance Center, *Risk Adjustment Based on Social Factors; U.S. Centers for Medicare & Medicaid Services, "Risk Adjustment in Quality Measurement*."

[22] Rogstad et al., "Social Risk Adjustment"; State Health Access Data Assistance Center, Risk Adjustment Based on Social Factors; U.S. Centers for Medicare & Medicaid Services, "Risk Adjustment in Quality Measurement"; Michael Geruso and Timothy Layton, "Upcoding: Evidence from Medicare on Squishy Risk Adjustment," Working Paper no. 21222, National Bureau of Economic Research, revised April 2018, https://www.nber.org/papers/w21222; "New Evidence Suggests Even Larger Medicare Advantage Overpayments," Committee for a Responsible Federal Budget, July 17, 2023, https://www.crfb.org/blogs/new-evidence-suggests-even-larger-medicare-advantage-overpayments.

[23] Paul Ginsburg and Steve M. Lieberman, "Improving Medicare Advantage by Accounting for Large Differences in Upcoding Across Plans," University of Southern California Leonhard D. Schaeffer Institute for Public Policy & Government Service, February 3, 2025, https://schaeffer.usc.edu/research/improving-medicare-advantage-by-accounting-for-large-differences-in-upcoding-across-plans/; Zhu et al., *The Future of Risk Adjustment*.

This publication was written by:
Nicholas Chang, Policy Analyst, Families USA
Aaron Plotke, Associate Director, Health Care Innovation, Families USA
Sophia Tripoli, Senior Director, Health Policy, Families USA

The following Families USA staff contributed to the preparation of this material (listed alphabetically):
Alicia Camaliche, Senior Policy Analyst
Nichole Edralin, Associate Director, Design and Publications
Sophia Ly, Website Content Manager
Anthony Wright, Executive Director
Kiersten Zinyengere, Communications Manager

FAMILIESUSA
THE VOICE FOR HEALTH CARE CONSUMERS

202-628-3030 info@familiesusa.org FamiliesUSA.org | @FamiliesUSA | @FamiliesUSAYT

VAL2025-25