# KPIs, financial modeling can smooth transition to ICD-10

Health plans preparing for the Oct. 1 transition from ICD-9 code sets to the more expansive ICD-10 coding system need to be aware that the transition is a major business transformation event — not just an IT event. An integral part of the transformation strategy should include key performance indicator (KPI) monitoring and financial modeling that will allow them to assess their environment and update or remediate their benefit plans, medical policies, provider contracts and systems as necessary, according to speakers during an Optum™ webinar, "ICD-10 KPIs: Do You Measure Up?"

Under ICD-10, other codes, such as diagnosis related group (DRG) codes and hierarchical condition categories (HCCs) "can shift or drift to affect reimbursement and create other financial implications," said Michael Sauls, vice president, Optum, so preparing for the transition "is a business imperative." Sauls explained that although there is no single tool that plans can use to prove financial neutrality, plans should currently be working on "minimizing risks to an acceptable variance with a focus on testing early and often to validate outcomes."

## KPIs as baseline for ICD-10 change

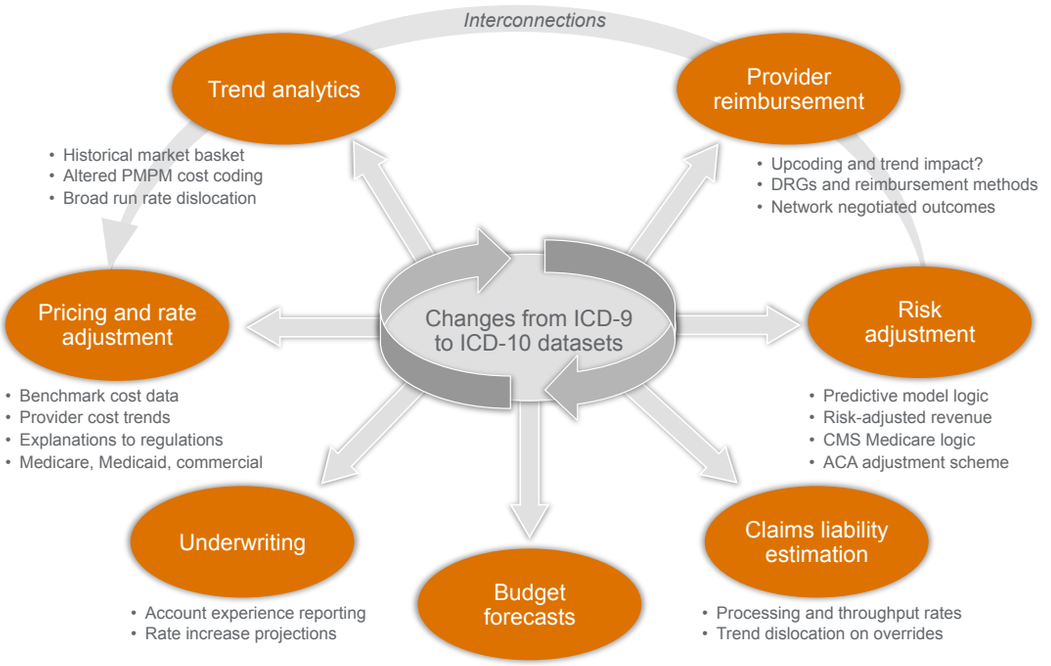
Theresa Kupecz-Louden, senior consultant, Optum, told webinar attendees that although plans likely are tracking key performance indicators already, KPIs take on even more importance as plans transition to ICD-10. "KPIs really are the foundation of ICD-10 assessment of operations and activities within your plan, and they allow you to understand what is happening in your current environment," Kupecz-Louden said. "The KPIs help you create a baseline for determining any changes that you might be experiencing from ICD-10. It is critical that you measure performance because you can't fix what you don't know is broken."

From a best practices perspective, she advised plans to begin creating KPI baselines now, because having at least one year's worth of data is optimal for assuring trends and identifying anomalies. Plans also should conduct cross-functional reviews to establish collective knowledge. "Get out of silos and don't assume that one key department or work stream doesn't affect another," she said. "For example, claims trends affect call centers, finances and provider relations, so plans should assure that cross-functional teams include subject matter experts from all aspects for the business."

Kupecz-Louden also recommended that plans focus on critical KPIs, such as those that measure financial, clinical, operational, member and provider and cross-functional impacts, and that plans develop tolerance bands for both increases and decreases in such areas as claim volume and pend rates. "Look at increases and decreases and what steps should be taken as a result," she told attendees. "The KPIs you track must be measurable and actionable" and take into account high-impact areas, such as payment, benefits and revenue.

Because of the obvious impact the ICD-10 transition will have on claims, "now is the time to determine which areas are subject to upcoding and to monitor those," stated Kecia Rockoff, director, actuarial consulting, Optum. "Some hospital contracts state that if ICD-10 impacts reimbursement by 'X' amount, they have the right to renegotiate the contract, so plans need to be able to model that," Rockoff said. She discussed how changes from ICD-9 to ICD-10 datasets would affect provider reimbursement, risk adjustment, claims liability estimation, forecasting and budgets, underwriting pricing and rate adjustment, and trend analytics (see diagram below).

### Actuarial view of ICD-10 code change impacts



Importantly, one of these changes is higher risk scores on the commercial reimbursement side — which does not necessarily equate to higher risk, Rockoff remarked. The benefits of ICD-10 financial modeling, she explained, are the ability to assess overall risk to the organization and the capacity to identify specific services that generate risk. Based on financial modeling, plans can:

- Formulate specific contractual requirements
- Conduct provider outreach
- Do real-time monitoring and focused reporting to determine where they are vulnerable and how they should react
- Engage in staff training and education

**Examine potential ICD-10 impact on HCCs, DRGs, MDCs**

Plans also should be prepared for the release of mapping ICD-10 to hierarchical condition categories (HCCs), because there may be a significant impact on HCCs due to the vastly greater number of codes in ICD-10 and the potential for new HCCs. Rockoff noted that over 1,000 ICD-9 codes have more than one ICD-10 option and that as of the date of the webinar, the Centers for Medicare & Medicaid Services had not yet assigned HCCs to ICD-10. "The risk scores are based on the prior year's diagnosis, so this issue won't have an impact on revenue until 2015, and 2016 will be the first full year under this model," she said, "but it will impact forecasting much, much sooner."

To assess the ICD-10 impact, she continued, plans should:

- Leverage the general equivalency maps (GEM) for identifying relationships between ICD-9 and ICD-10 codes
- Identify ICD-9 codes that share the same ICD-10 relationship but fall into different HCC categories
- Identify a minimum impact and maximum impact "substitution" ICD-10 codes
- Run minimum and maximum substitution codes through the HCC model to reveal areas of potential impact

For example, a diagnosis of "intestinal obstruction" under ICD-9 does not fall into a conditional category (CC), Rockoff said, but under ICD-10, there are two possible outcomes — one with no CC and one with a CC, so plans "should work with their clinical people to determine how many more claims are likely to fall into the conditional category and then model minimum and maximum impact scenarios (see example below).

## Case study results

**Case study population**
**Analyzed Medicare 5% sample population | Minnesota | Approximately 20,3000 members**

**"Minimum" impact scenario**

| | % of study population | Change in risk score |
|---|---|---|
| Risk score change | 5% | 2.1% |
| No change | 95% | 0.0% |
| | 100% | -0.2%[1] |

**"Maximum" impact scenario**

| | % of study population | Change in risk score |
|---|---|---|
| Risk score change | 12% | 25.1% |
| No change | 88% | 0.0% |
| | 00% | 4.5%[1] |

*Hypothetical example.*
[1] Based upon weighted risk scores and not weighted simply upon members.

Examining how ICD-10 will affect DRGs is another piece of the cost-of-care puzzle. Rockoff explained that there may be major shifts due to the increased specificity in ICD-10, which will cause changes in DRG assignment. Using the ICD-10 remediated DRG version, plans can start modeling the potential impact on the savings projected for cost-of-care initiatives and can determine which members to target for care management intervention.

Rockoff shared that hypothetical modeling conducted by Optum shows that for health plans, the major diagnostic category (MDC) areas subject to the greatest impact from ICD-10 are likely to be:

- Pregnancy/childbirth
- Newborns
- Circulatory system

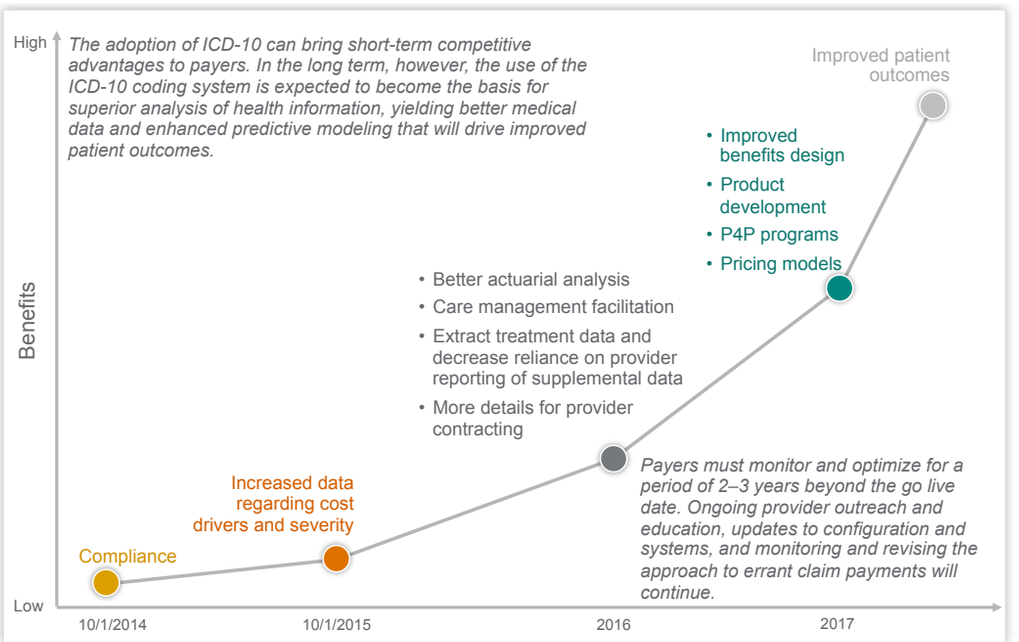
In the provider area, the greatest impact areas will be nervous system, digestive system, musculoskeletal system and factors influencing heath status. Because these potential shifts will affect reimbursement — in some cases significantly — providers should be willing to collaborate with plans to code accurately.

After Rockoff shared an example of the potential reimbursement implications for hand/wrist procedures from ICD-9 to ICD-10 showing two possible DRG codes — one reimbursed at $7,225 and one reimbursed at $15,847 — Sauls noted that the only difference between the two, other than a delta of $8,622, is one procedure code. "You will want to work with clinicians to determine how many of these procedures are likely to fall into the higher reimbursement category," Rockoff advised attendees.

Finally, the speakers made it clear to attendees that based on their KPI findings and ICD-10 financial modeling results, they should be sure to inform plan management of what is known — and not known — about the financial and actuarial impact on plans starting Oct. 1 and extending into 2015. "Ultimately, we will be able to be more accurate, but it's best to call out any potential bad news and minimize surprises today," Rockoff said. "It's going to be a bit of a rough ride. If you can get ahead of the curve, you can respond and make corrections quickly."

Sauls emphasized that the ICD-10 transition does not end with the Oct. 1 implementation date. "Being able to take advantage of ICD-10 and gain a competitive advantage in the marketplace really starts in October 2014," he said, adding that the increased granularity of ICD-10 "should result in better actuarial analysis and care management facilitation and most importantly, improve patient care."

## Continuum of potential payer benefits

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