Premium Stabilization in the Affordable Care Act: Risk Adjustment

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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Contents

- Affordable Care Act Provisions on risk adjustment
- Premium Stabilization Notice of Proposed Rulemaking (NPRM) on risk adjustment
- Risk Adjustment White Paper
  - Purpose
  - Contents
- Next steps

Risk Adjustment in Affordable Care Act

- **What**: Transfers funds from lower risk plans to higher risk plans
- **Who participates**: Non-grandfathered individual and small group market plans, inside and outside the Exchange
- **How**: Criteria and methods developed by the Secretary, in consultation with States. May be similar to criteria and methods utilized under Part C or D of Medicare.

Risk Adjustment Goals

Overall goals:

- Mitigate the impacts of potential adverse selection
- Stabilize premiums in the individual and small group markets

Aim:

- Premiums reflect differences in benefits and plan efficiency, not health status of enrolled population

Notice of Purposed Rulemakings (NPRM): Risk Adjustment

- State options for establishing a risk adjustment program:
  - States operating Exchanges may choose to establish risk adjustment
  - States not operating Exchanges may not establish risk adjustment
  - HHS will run risk adjustment for all non-electing States

- NPRM proposes a federally-certified risk adjustment methodology
  - HHS-developed methodology
  - Any State proposing to use an alternative methodology will have that methodology certified by HHS
  - Any HHS-approved method may be used by other States

- Risk adjustment methodology will be published in a Federal Notice of Benefit and Payment Parameters with opportunity for public comment

Notice of Purposed Rulemakings (NPRM): Risk Adjustment

- If States use alternate methods, they will publish details in a State Notice of Benefit and Payment Parameters.
- State-proposed methodology includes risk adjustment model, including factors, weights, data collection strategy, and any adjustments made to determine average actuarial risk.
- The NPRM poses a number of detailed methodological questions for comment:
  - How should the methodology adjust for rating variation?
  - What are the implications of the approach on incentives for how issuers set rates?
  - What are the options and issues in the development of payments and charges methodology?

Risk Adjustment White Paper

- Purpose
  - Provide structure for ongoing input as HHS develops a federally-certified risk adjustment methodology
  - Provide context for comments on Premium Stabilization NPRM

- Contents
  - Methodological choices in developing a risk adjustment model
  - Options for calculating and balancing payments and charges
  - Issues in removing permissible rating factors
  - Methods in context of different benefit levels

White Paper: Methodological Decisions

- Risk adjustment model is used to calculate plan risk scores relative to the market
- White paper addresses methodological decisions in model development
  - Issues where stakeholder input would be helpful
  - Mix of issues common to any risk adjustment model and issues specific to the insurance market after 2014
- Examples
  - Prospective or concurrent model
  - Accounting for transitional reinsurance payments

White Paper: Calculating and Balancing Payments and Charges

- Methodology determines how to transfer funds from low risk to high risk plans
- Payments and charges are calculated by multiplying plan risk relative to the market by a “baseline premium”
  - Two options described for establishing “baseline premium” including market average or plan’s own premium
  - Implications for issuer premiums are modeled
- Payments and charges must be calculated in a zero-sum, budget-neutral manner
  - Options for balancing payments and charges described, and implications for issuer premiums are modeled

White Paper: Removing Permissible Rating Variation

- Risk adjustment has typically been applied to community-rated products (Medicare and Medicaid)
- Under the Affordable Care Act, issuers are only permitted to vary rates based on:
  - Age (up to 3:1)
  - Tobacco use (up to 1.5:1)
  - Family size
  - Geography
- Removing permissible rating variation would account for risk already priced into premiums because premiums are already calibrated for these factors relative to the average
- Comments and suggestions on options and implications are welcome

Next Steps

- Public comments on NPRMs due by September 28, 2011 at regulations.gov

- White paper informs development of Federal risk adjustment methodology; responses can be sent to RiskAdjustmentIssues-2011@cms.hhs.gov

- HHS has proposed to issue an advance payment notice in the Fall 2012 that will include federal risk adjustment methodology, offering further opportunity for public comment.

Selected Questions for Discussion

- What are the tradeoffs to the approaches to address individuals with limited claims experience?
- What are the tradeoffs to developing the risk adjustment model based on total plan expenditures versus calibrating to directly reflect plan liability? What are the tradeoffs for adjusting for differences in plan liability at different metal levels?
- To what extent is it important to minimize differences between the transitional and steady state risk adjustment models?
- What are the tradeoffs and implications to the proposed methods for calculating and balancing payments and charges for plans of differing metal levels and relative risks?
- What are the tradeoffs and implications to the proposed methods for removing rating variation?