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Introduction

- Presentation contains a mix of policy and operations
- Information from three main sources:
  - Affordable Care Act (*policy*)
  - Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Notice of Proposed Rulemaking (*proposed policy*)
  - Financial Management Business Architecture Supplement (*operations*)
- As proposed by Exchange Notice of Proposed Rulemakings (NPRMs), certain functions are mandatory for Exchange certification, while others are optional.

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September 19-20, 2011
Overview of Business Areas

- Advance Payments of the Premium Tax Credit and Cost Sharing Reductions
- Premium Processing
- Premium Stabilization (reinsurance, risk adjustment, and risk corridors)
- Data Collection
- Issuer Payment Transfers (including the flow of funds for payments and charges for the premium stabilization programs)

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Advance Payments of the Premium Tax Credit and Cost Sharing Reductions

- Advance payments of the premium tax credits will assist qualifying individuals participating in the Exchange with premiums.
- Cost sharing reductions will limit the cost burden for out-of-pocket spending for qualifying individuals, or
- The Exchange will determine the advance payment of the premium tax credit and/or cost sharing reduction of the qualifying individual.
- The Exchange will record and submit this information to CMS so that payments can be made on behalf of the qualifying individual to the issuer.
Premium Processing

Encompasses all the Exchange functions required to:

- Collect SHOP premiums from employers on behalf of issuers
- Resolve invoice discrepancies with individuals and employers
- Aggregate premium receipts and distribute these to issuers
- Collect individual premiums on behalf of issuers (*optional Exchange function*)
Exchange Financing

• Beginning in 2015, States electing to operate an Exchange will finance the administrative costs of operating an Exchange.

• States may charge assessments or user fees to participating issuers in the Exchange.
Standards related to reinsurance, risk corridors, and risk adjustment are proposed in the Premium Stabilization NPRM

Overall goals:

• Mitigate the impacts of potential adverse selection
• Stabilize premiums in the individual and small group markets
• Stabilize plan participation in the individual and small group markets
• Maintain viability of the Exchange
## Risk Spreading: Reinsurance, Risk Adjustment, and Risk Corridors

<table>
<thead>
<tr>
<th>Program:</th>
<th>Reinsurance</th>
<th>Risk Adjustment</th>
<th>Risk Corridors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>What:</strong></td>
<td>Provides funding to plans that cover highest cost individuals</td>
<td>Transfers funds from lowest risk plans to highest risk plans</td>
<td>Limit issuer loss (and gains)</td>
</tr>
<tr>
<td><strong>Who Participates:</strong></td>
<td>All issuers and Third Party Administrators contribute funding; non-grandfathered individual market plans (inside and outside the Exchange) are eligible for payments</td>
<td>Non-grandfathered individual and small group market plans, inside and outside the Exchange</td>
<td>Qualified Health Plans (QHPs)</td>
</tr>
<tr>
<td><strong>When:</strong></td>
<td>Throughout year 2014-2016</td>
<td>After end of benefit year 2014 and subsequent years</td>
<td>After reinsurance and risk adjustment 2014-2016</td>
</tr>
</tbody>
</table>
Risk Spreading: Reinsurance

• State options for establishing a reinsurance program
  – States operating an Exchange will establish a reinsurance program
  – States not operating an Exchange may choose to establish a reinsurance program
  – HHS will establish a reinsurance program in States not operating an Exchange

• Statute directs States to establish or contract with a nonprofit entity to administer reinsurance

• Reinsurance funded from collections from all health insurance issuers and third-party administrators for self-insured plans
  – Reinsurance contributions will total $10 billion in 2014
  – The NPRM proposes that HHS establish a national contribution rate to be set as a percent of premium and seeks comment on this approach

• Reinsurance payments based on medical cost experience.
  – The NPRM proposes a portion of costs paid above an attachment point, subject to a cap
  – States have flexibility to modify these parameters

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Risk Spreading: 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.
Risk Spreading: Risk Corridors

• Federally-administered program with no State variation; specified in the Affordable Care Act.

• HHS will pay a Qualified Health Plan (QHP) issuer when its claims costs are greater than 103% of its cost projections.

• HHS will receive payments from a QHP issuer when its claims costs are less than 97% of its cost projections.
Data Collection

Encompasses all the State functions required to:

• Collect claims and encounter data from the small group and individual markets for use by the State in risk adjustment calculations.
• Collect enrollee and rate data from outside the Exchange for use by the State in risk adjustment calculations.
• NPRM recommends that data be collected in a consistent format, but allows States to vary the amount and type of data collected.
• Data may also be used to support validation of other business processes, such as risk corridors or reinsurance payments.
• NPRM seeks comments on data efficiencies and reducing reporting burden.

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Issuer Payment Transfers

• The programs described previously require financial transfers occurring periodically between different parties, including States, reinsurance entities, Exchanges, CMS, issuers, employers, and individuals.

• Issuer payment transfers encompasses the State and Exchange functions that are required to:
  – Collect payments from health insurance issuers
  – Pay issuers
  – Verify payment amounts and reconcile issuer invoice and payment discrepancies
  – Collect user fees (optional)
Next Steps

• For more information, review the Financial Management Business Architecture Supplement (available on the Collaborative Application Lifecycle Tool)
  – Engage in discussions regarding approaches and integration points to support the operation of the Exchange, the Reinsurance Entity, or the State risk adjustment program with appropriate stakeholders
  – Identify opportunities for business service reuse across State and Federal health programs
• Also review the Risk Adjustment Implementation Issues white paper (draft available on CMS website)
• Comments for Premium Stabilization NPRM due 9/28/2011
• Questions?