

Risk Adjustment Methodology Overview



DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS for MEDICARE & MEDICAID SERVICES
Center for Consumer Information and Insurance Oversight



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Contents

- Background
- HHS-developed risk adjustment methodology
 - Risk adjustment model
 - Payment transfers
- State alternate methodologies
- Note: see also presentations at :
<http://cciio.cms.gov/resources/other/index.html#fm>

CONTEXT

- The contents of this presentation represent preliminary information with the purpose of soliciting stakeholder feedback. Draft policies for the risk adjustment program will be announced in the draft HHS notice of benefit and payment parameters, which will be subject to comment before finalized.
- Additional information is available at:
<http://cciio.cms.gov/resources/other/index.html#fm>

Overview of Risk Adjustment Program

- Section 1343 of the Affordable Care Act provides for a permanent risk adjustment program
 - Applies to non-grandfathered individual and small group plans inside and outside Exchanges
- Provides payments to health insurance issuers that disproportionately attract higher-risk populations (such as individuals with chronic conditions)
- Transfers funds from plans with relatively lower risk enrollees to plans with relatively higher risk enrollees to protect against adverse selection

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

Overview of Risk Adjustment Program (cont.)

- States that are approved to operate a State-based Exchange are eligible to establish a risk adjustment program:
 - States operating a risk adjustment program may have an entity other than the Exchange perform this function
 - HHS will operate a risk adjustment program for each State that does not operate risk adjustment

Overview of Risk Adjustment Program (cont.)

- HHS will develop, publish, take comment, and finalize a risk adjustment methodology for use when operating risk adjustment on behalf of a State
- A State operating risk adjustment may use the Federal methodology or propose alternate risk adjustment methodologies for certification by HHS.
 - Any federally certified risk adjustment methodology can be used by a State operating risk adjustment

Notices of Benefit and Payment Parameters

- HHS will publish a draft HHS notice of benefit and payment parameters in the Fall of 2012 for the benefit year 2014. There will be a 30 day comment period, and a final notice will be published in January 2013.
- State notices of benefit and payment parameters must be published by March 1, 2013:
 - State must publish a notice if it establishes a reinsurance program and plans to modify the Federal parameters, or if it plans to operate a risk adjustment program.

· HHS Risk Adjustment Model

Risk Adjustment Model

- Risk adjustment model means an actuarial tool used to predict health care costs based on the relative actuarial risk of enrollees in risk adjustment covered plans (45 CFR 153.20)
- HHS is developing a risk adjustment model for the nonelderly population to be used when HHS is operating risk adjustment on behalf of a State. States operating a risk adjustment program may choose to use this model or an HHS certified alternate risk adjustment methodology

Risk Scores

- Individual risk scores
 - Each enrollee risk score is based on the individual's demographic and health status information
 - A risk score is calculated as the sum of these demographic and health factors weighted by their estimated marginal contributions to total risk
- Calculated relative to average expenditures:
- For example:
 - Average = \$1,000
 - Female, 57 = \$500 = .5 risk factor
 - Condition A = \$700 = .7 risk factor
 - Risk Score = $0.5 + 0.7 = 1.2$

Risk Model Calibration Data

- The primary source for risk adjustment model calibration is Thomson Reuters MarketScan[®] data
 - Data from employers and health plans
 - HIPAA de-identified
- 2010 MarketScan[®] database
 - Initial Sample Size: 49.2 million in 2009, 45.2 million in 2010
 - Male (49%), Female (51%)
 - Ages 0 to 64
 - Includes data from all 50 States and DC

Diagnosis Classification

- HHS will use the Hierarchical Condition Category (HCC) classification system as a basis for the HHS risk adjustment model
- HHS will review and refine the HCC classification system for private insurance populations where needed
 - Includes review of medical literature, empirical data analysis, and clinical review consultants

Concurrent Model

- HHS intends to use a concurrent model when operating risk adjustment
 - A model that uses diagnoses in the current year to predict expenditures in the current year
 - HHS will likely not be using Rx as a predictor in the initial model

Variable Selection

- HHS will select a different set of HCCs for the HHS risk adjustment methodology than Medicare to reflect differences in population.
- HCCs may be excluded from the risk adjustment model if they are not empirically predictive of costs or their corresponding diagnoses are:
 - Vague/nonspecific (e.g., symptoms)
 - Discretionary in medical treatment or coding (e.g., osteoarthritis)
 - Not medically significant (e.g., muscle strain)

Risk Adjustment Occurs Across Metal Levels: Total Expenditure v. Plan Liability

- Risk adjustment occurs across metal levels. Plans in different metal levels will not only have different expenditures for the same condition, the range of the relative expenditures for low and high risk individuals will be farther apart in a bronze plan than in a platinum plan.
- There are multiple options to calibrate a risk adjustment model in light of differing metal levels
 - Total expenditure: The risk adjustment weight is total expenditure and resulting risk score is multiplied by the plan AV
 - A person would have the same risk score across metal levels
 - One model for all metal levels
 - Plan liability: The risk adjustment weight is expenditures a plan would pay for each benefit tier
 - A person's risk score would depend on their metal level
 - Separate model for each metal level

Total Expenditure v. Plan Liability (cont'd)

- HHS is considering the plan liability approach
 - More accurately reflects plan liability for initial expenditures in light of differing deductibles
 - More accurately reflects plan liability for people with higher versus lower expenditures across plan benefit tiers
- HHS is also considering how to address costs for individuals with higher total expenditures
 - Individuals with multiple conditions may produce different coefficients than predicted due to differences in plan liability

Additional Issues to be Addressed: Reinsurance

- Plans in the individual market that receive risk adjustment payments may also receive ACA transitional reinsurance payments for the same high risk enrollees. Adjusting for transitional reinsurance payments would address concerns that a plan could be compensated twice for the same high-risk individuals
- HHS is inclined to propose not to adjust for transitional reinsurance payments given the temporary nature of the program
- Adjusting would:
 - Reduce incentives for issuers to enroll high risk individuals
 - Increase model complexity and may increase uncertainty
 - Raise analytic issues to correctly calibrate a risk adjustment adjusted for reinsurance payments
- Comments welcome

Additional Issues to be Addressed: Cost Sharing Reductions

- Individuals who qualify for cost sharing reductions may have higher utilization patterns because cost sharing reductions lower the financial burden of medical care
 - Adjusting for receipt of cost sharing reductions would adjust for differences in utilization among individuals in the individual market but not in SHOP exchange
 - We are considering whether the HHS risk adjustment model should include receipt of cost sharing reductions as a factor in the model to account for the utilization

Risk Adjustment Payment Transfer Methodology

Sequence of Payment Transfer Process



Risk Score Normalization

- Risk scores predict how a plan's liability will differ from the State average due to the health status of its enrollees
- The risk adjustment model is being developed using a national sample.
- Average predicted State costs may differ from the average predicted costs in the model sample.
- A State-specific adjustment must be applied to risk scores to account for the difference between the State average predicted cost and the average predicted cost in the model sample.

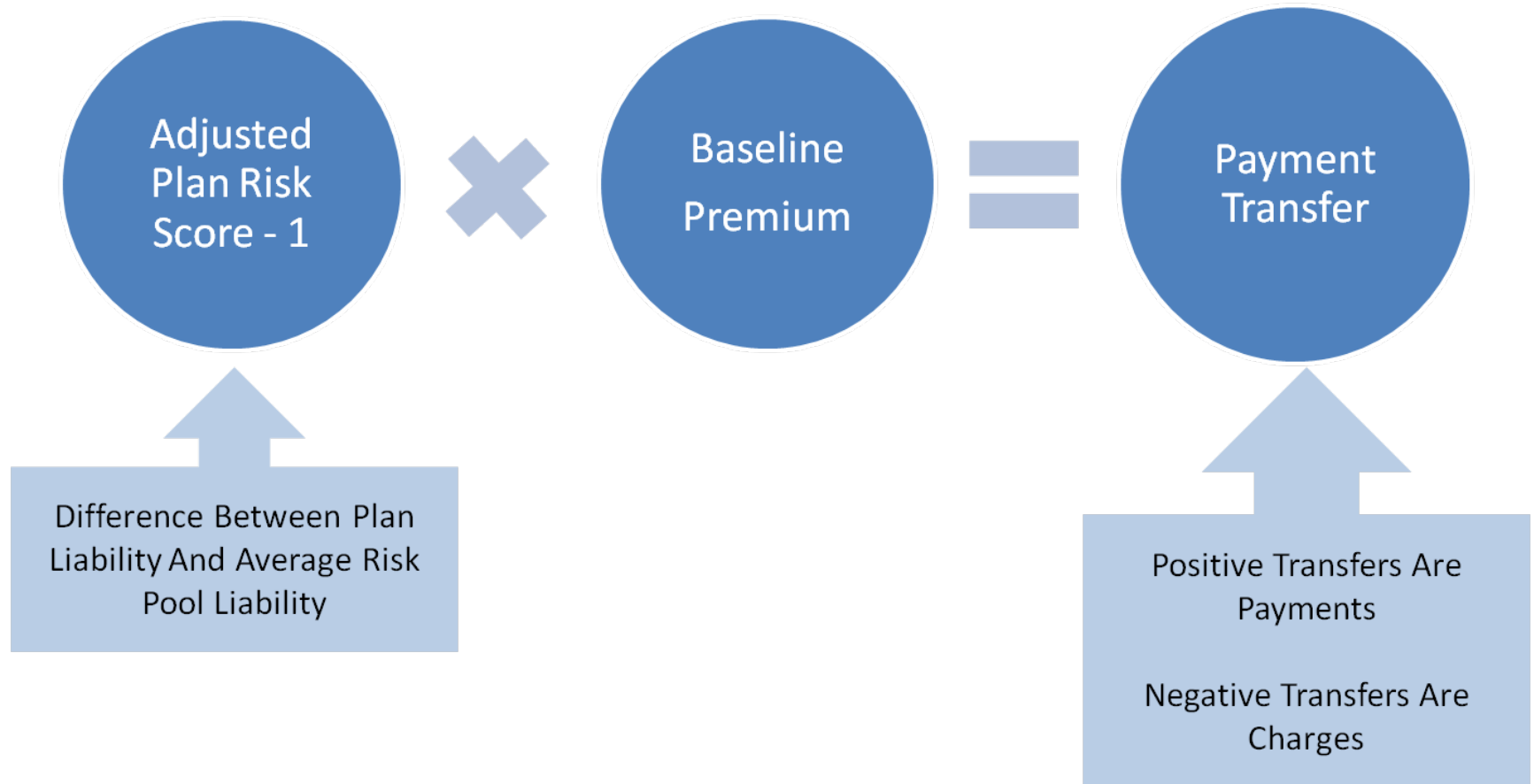
Actuarial Value Adjustment

- Plan AV differences impact plan liability risk scores (e.g. Gold plans have higher risk scores than Bronze plans).
- Risk scores may be adjusted for AV in order to ensure that payment transfers do not compensate plans for actuarial value differences.

Permissible Rating Variation Adjustment

- 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
- Payment transfers should not compensate plans for health status related liability that is already built into the premium rating structure

Basic Form of the Payment Transfer Calculation



Options for Addressing Imbalances in Payments and Charges

1. Plans' own premiums can be used as the basis for determining transfers and a balancing adjustment can be applied to transfers
2. The risk pool average premium can be used to set transfers. Under this approach no post-transfer balancing is required

Using the State Average Premium as the Baseline Premium

- HHS is considering using a payment methodology based on the State average premium.
- This approach could:
 - Results in balanced transfers
 - Provide a practical and straightforward approach to calculating transfers
- Aim is for transfers that promote premiums that reflect differences in actuarial value

State Flexibility and Alternate Methodologies

Overview of Risk Adjustment Methodologies

- HHS will develop a risk adjustment methodology for use when operating risk adjustment on behalf of a State
- A State may propose alternate risk adjustment methodologies for certification by HHS
- Any Federally certified risk adjustment methodology (including the methodology developed by HHS) can be used by a State operating risk adjustment

Risk Adjustment Methodology

- Risk adjustment methodology is defined in Premium Stabilization final rule as:
 - Risk adjustment model
 - Calculation of plan average actuarial risk
 - Includes removing rating variation for age, geography, tobacco use, and family status
 - Calculation of payments and charges
 - Data collection approach
 - Schedule for implementation

State Flexibility

- States can modify the:
 - Risk adjustment model
 - Calculation of plan average actuarial risk
 - Calibration data
 - Data collection approach
 - Schedule for implementation
- For example, a State could propose an alternate model that:
 - Incorporates a prospective model approach
 - Has State-specific weights different from the weights in the model developed by HHS
- States cannot initially vary from the HHS methodology for payments and charges

Process for Proposing a State Alternate Risk Adjustment Methodology

- Within 30 days of release of the draft HHS payment notice, States interested in using an alternate methodology would submit to HHS:
 - Risk adjustment model description
 - Calculation of plan average actuarial risk
 - Data collection approach
 - Schedule for implementation
 - Schedule for recalibration
- HHS will consider alternate methodologies based on criteria established in 45 CFR 153.330 (i.e. uses data that is complete, high quality, and available in a timely fashion) and detailed in the draft HHS payment notice
- HHS will publish the list of certified methodologies in the final HHS payment notice
- States can choose any Federally certified methodology when operating risk adjustment. The State must notify issuers and the public in the State Notice of Benefit and Payment Parameters

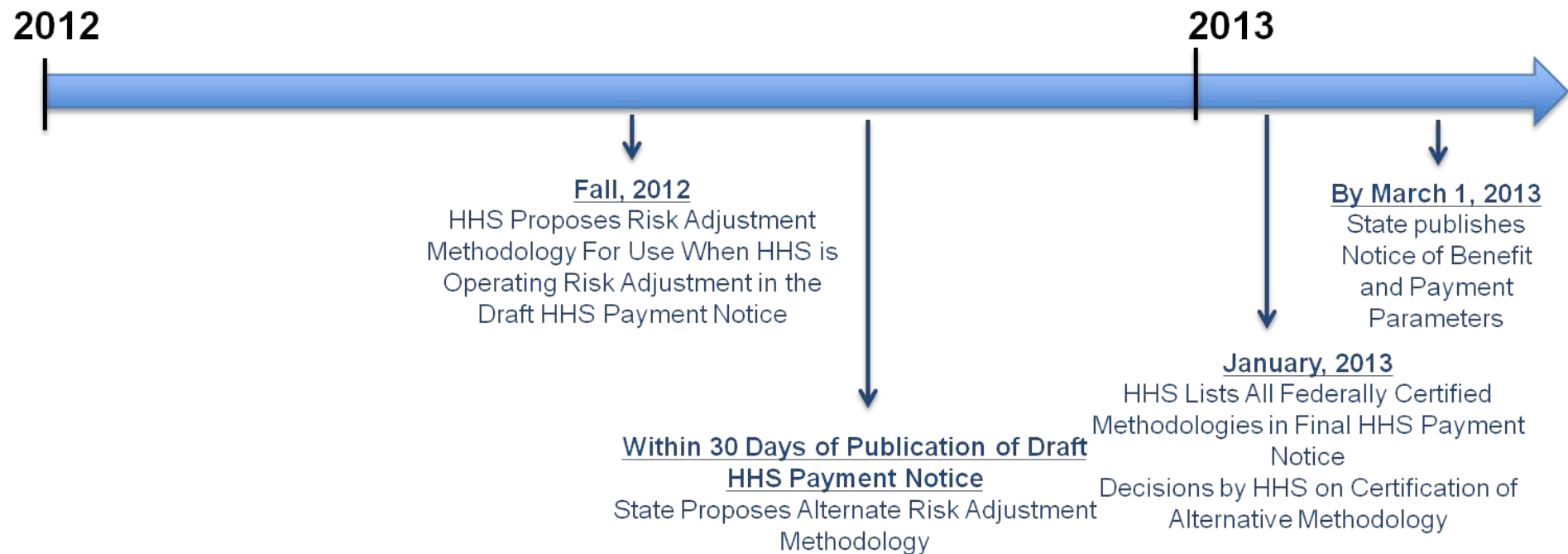
Process for Proposing a State Alternate Risk Adjustment Methodology (cont'd)

- A State request to HHS for the certification of an alternate risk adjustment methodology will include:
 - Information noted in 45 CFR 153.330
 - Additional information that will be forthcoming in the draft HHS payment notice
- Information will likely include:
 - Underlying clinical and predictive logic and organization of the alternative risk adjustment model
 - Description of how each plan's average actuarial risk will be calculated
 - Description of data collection approach
 - Statistical model performance
 - Written evaluations of model performance

Evaluation Criteria for State Alternate Risk Adjustment Methodology

- Criteria for evaluating alternate methodologies will be finalized in the draft HHS payment notice
- HHS is considering some of the following criteria to review alternate methodologies:
 - Model would produce risk scores based on individual level data
 - Risk factors are calibrated on a sample reasonably representative of the anticipated risk adjustment population
 - Risk scores produced would reflect the relative health care expenditures or resource use associated with the required covered benefits
 - Methodology would have a reasonable level of transparency
 - Model track record will be evaluated

Major Milestones for Risk Adjustment Methodology for 2012-2013



Technical Assistance

- HHS will provide technical assistance to any State that is thinking about developing an alternate methodology
- States that are considering submitting an alternate methodology are encouraged to contact HHS at any point in their development for assistance
- States can propose an alternate methodology after the initial year

Next Steps

- Ongoing HHS technical support for States and issuers
- Draft HHS payment notice in Fall 2012
- Final HHS payment notice in January 2013