

Risk Adjustment Program: HHS Operations

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

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CONTEXT

The contents of this presentation represent preliminary information with the purpose of soliciting stakeholder feedback. Proposed 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. More information on the HHS proposed operational approach when operating risk adjustment on behalf of non-electing States can be found in the Risk Adjustment Bulletin at <http://cciio.cms.gov/resources/files/ppfm-risk-adj-bul.pdf>.

Contents

- Overview and background
- HHS operated risk adjustment program
- HHS data collection approach
- Coordination with existing State risk adjustment data collection
- Timeline and process for implementation

Background

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

Risk Adjustment Under the ACA

- **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

Overview of Risk Adjustment Methodologies

- HHS, in consultation with States, will develop a risk adjustment methodology for use when operating risk adjustment on behalf of a State
- A State may propose an alternate risk adjustment methodology for certification by HHS
- Any Federally certified risk adjustment methodology (including the methodology developed by HHS) could be used by a State operating risk adjustment

HHS Operated Risk Adjustment Program: Payments and Charges Timing

- The risk adjustment program would balance payments within a State and within a market
- HHS would not remit payments to issuers until after receipt of charges owed by issuers in that State. HHS may adjust payments based on receipt of funds to ensure that payments and charges remain balanced
- The intent is that payments and charges would be calculated at the plan level, and would be aggregated up to the issuer level

HHS Risk Adjustment Data Collection: Policy Objectives

- To minimize data transfers in order to lower privacy and data security risks
- To ensure that issuer proprietary data remains within the issuer environment
- To standardize software processes, timing and rules in order to apply risk adjustment uniformly across issuers
- To ensure an audit sample is controlled and maintained

HHS Risk Adjustment Data Collection Approach

- HHS intends on utilizing a distributed approach to data collection
- Two distributed approaches are being considered:
 1. HHS runs software. HHS would run risk adjustment software on enrollee data that resides on issuer's server and provides enrollee level risk scores to the issuer. HHS would calculate enrollee level risk scores.
 2. Issuer runs software provided by HHS. Issuer would run HHS risk adjustment software using enrollee data on its own server and reports back enrollee risk scores to HHS. The issuers would calculate enrollee level risk scores.

HHS Distributed Model in IT Infrastructure

- **Who:** Issuer would house the claims data. HHS would run software on issuer claims information.
- **Where:** Copy of claims information would be stored in a secure system within the issuer's data environment (e.g. edge server or secure cloud storage center). Claims data would not be sent to HHS.
- **What:** HHS would obtain and retain plan-level summarized and individual, de-identified risk score results to run risk adjustment, rather than collect enrollee-level claims information

HHS Coordination with Existing State Data Collection

- HHS will work with States that express an interest in utilizing existing data to assess the appropriateness of the data for risk adjustment. States certified to run an Exchange can elect to run the risk adjustment program
- Potential considerations include:
 - Do States have the authority to collect risk adjustment data?
 - What issuers are included in the existing data?
 - Are data elements required for risk adjustment being collected?
 - What kind of quality checks, audit or review of data is conducted?

Technical Concept

- Proposed Approach
- Proposed Deployment Timeline

Proposed Distributed Data Processing: Technical Approach

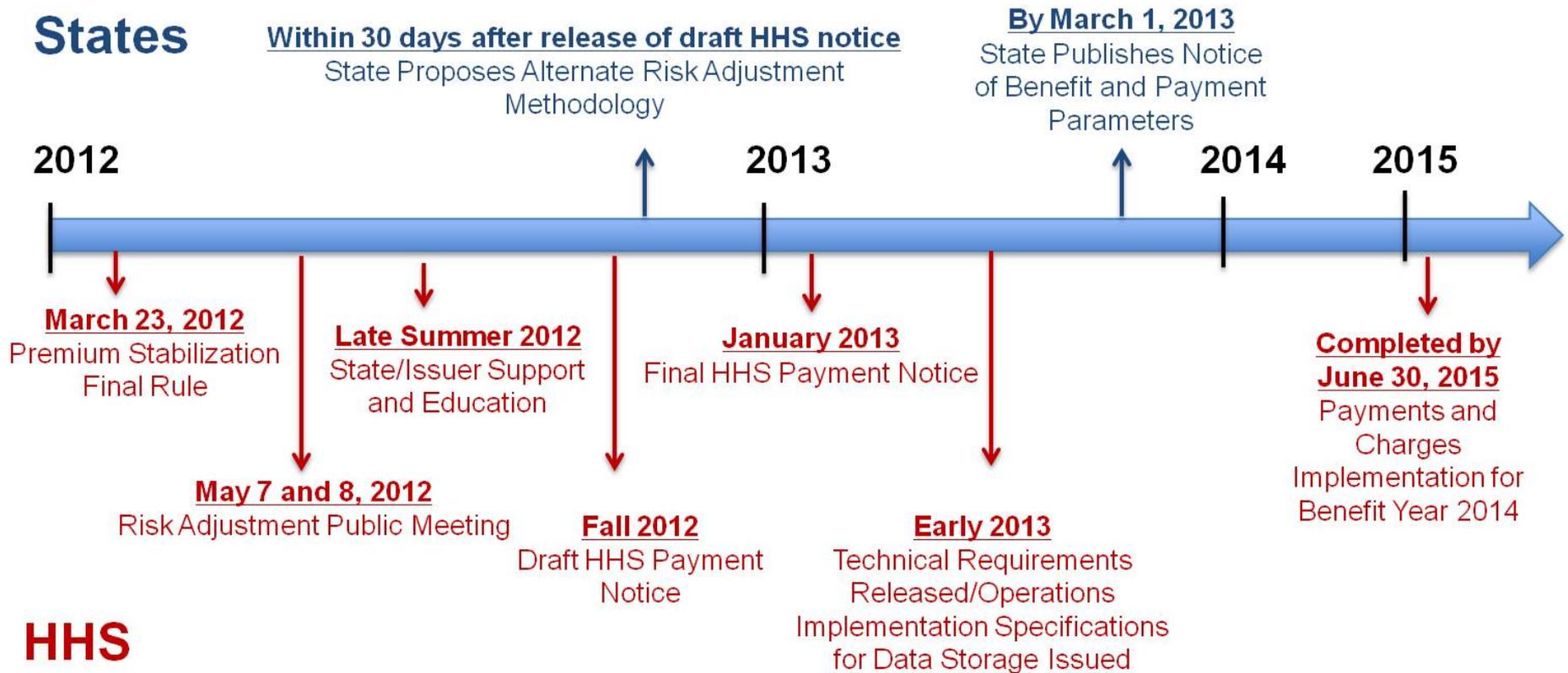
- Secure, technical design using a stand-alone (or segregated physical/virtualized) set of dedicated system components and services to ensure a stable operational environment with performance efficiencies
- Dedicated environment operates independently of other operational processes and supports risk adjustment processing with no impact to issuer production systems, but does require coordination of operational schedules
- Design partitions environment to ensure adequate “firewall” separation of Issuer data and HHS summarized/aggregate data and provides for security and privacy safeguards
- Dedicated environment restricts access to only designated, authenticated users with the proper roles and permissions
- Current plan is to maximize the use of ‘open source’ software

Proposed Deployment Timeline

Development Phase	Task Item	Responsible Party	Target Date
Development	Edge Server / RA process development	HHS	SUMMER 2012
Quality Assurance	System & Integration Test	HHS	SEP 2012
Quality Assurance	Select Sample Issuers for Beta	HHS	SEP 2012
Quality Assurance	Beta Test	Issuers / HHS	DEC 2012
Issuer Instructions	Develop Instruction Guides	HHS	DEC 2012
Issuer Instructions	Publish for Issuers	HHS	JAN 2013
Implementation	Acquire Servers	Issuer	JAN 2013
Implementation	Establish server connectivity	Issuer	JUN 2013
Implementation	Training and Support	HHS	JAN 2013 ¹

Training and support to be ongoing for issuers

Summary of Risk Adjustment Process Timeline



HHS Operated Risk Adjustment Data Validation

Purpose

The purpose of data validation is to promote confidence in the application of a Federally certified risk adjustment methodology

Background

- The Premium Stabilization Final Rule requires States, or HHS on behalf of States, to:
 - Validate a statistically valid sample of data for all issuers that submit for risk adjustment every year
 - Provide an appeals process
- The rule allows States, or HHS on behalf of States, to:
 - Adjust average actuarial risk for each plan based on the error rate found in validation
 - Adjust payments and charges based on the changes to average actuarial risk

HHS Considerations for Proposed Approach

- **Integrity.** Promote confidence in risk adjustment data across market
- **Flexibility.** Allow issuers to set their own internal timelines and workflows for completing the initial audits within the period specified by HHS
- **Privacy.** Limit data transfers and apply privacy protections
- **Consistency.** Permit HHS to establish uniform audit requirements to ensure a level playing field across issuers
- **Burden.** Issuers are better able to leverage existing resources to conduct their data validation
- **Data.** Leverage issuer access to data to conduct data validation activities
- **Accurate Relative Risk.** Account for accurate health status of both healthy and sick enrollees
- **Precedent.** Adopt and build on concepts from other standard industry audit practices

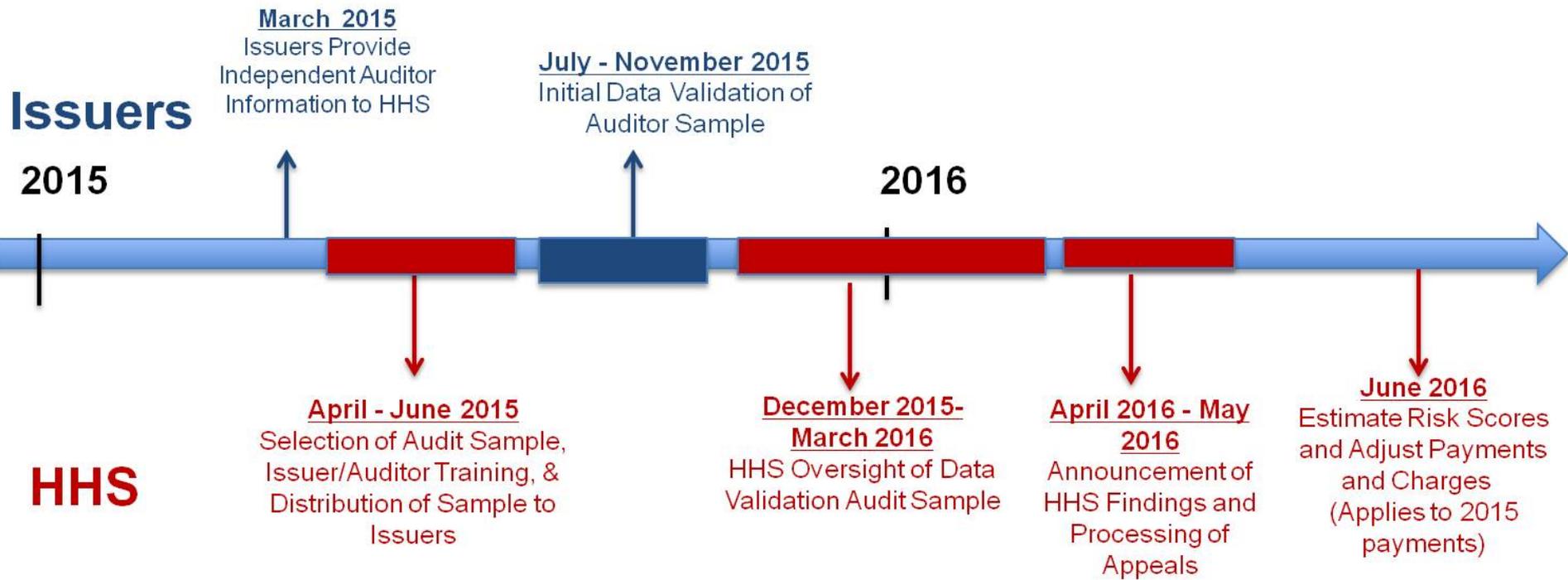
HHS Proposed Data Validation Approach

- In a process similar to HEDIS audits, issuers would hire independent auditors to conduct validation of their risk adjustment data
- HHS would audit the independent auditors to confirm findings
- HHS would establish baseline requirements to be used by initial and second validation auditors when conducting the validation process

HHS Proposed Data Validation Approach

- Risk score error would be extrapolated to the issuer level using a representative sample of enrollees
- Risk score error from 2014 validation would not apply to payments and charges for 2014 benefit year
- HHS would evaluate error rates using 2014 data for potential adjustments beginning in 2016 for calculations of payments and charges for the 2015 benefit year
- Adjustments would not be applied retroactively

Proposed Data Validation Process Set Up and Implementation Timeline for Benefit Year 2014



Proposed Data Validation Process

- **Stage 1. Sampling.** HHS selects a statistical sample of enrollees from each issuer
- **Stage 2. Initial Validation Audits**
 - Issuers provide relevant review documentation to the Initial Validation Auditors
 - Initial Validation Auditors review documentation in accordance with HHS baseline standards and report findings to HHS within an established timeframe
- **Stage 3. HHS Second Validation Audits**
 - HHS performs oversight audits to confirm data validation findings from the Initial Validation Audits
 - HHS provides the opportunity for appeals
- **Stage 4. Payment Adjustments**
 - HHS calculates error rates
 - HHS evaluates error rates for potential adjustments to payments and charges

State Flexibility and Risk Adjustment Implementation

Background

- States that are approved to operate a State-based Exchange may also choose to operate their own risk adjustment program.
- The process that States will need to undertake to set up a risk adjustment program includes:
 1. **State Exchange Approval:** States will notify HHS about their plans to operate a State-based Exchange and risk adjustment program.
 2. **Development of Risk Adjustment Methodology:** States can work with HHS to develop a methodology to be approved by HHS or States can choose any Federally certified methodology.

State Flexibility and Leverage

- States have flexibility when designing their risk adjustment programs to:
 - Propose certain components of the risk adjustment methodology to tailor the program to their needs and to local market conditions; and
 - Leverage existing State-wide data sources and data collection tools
- States will have the opportunity to collaborate with HHS upfront and build off of existing HHS systems and processes if they so choose.
- HHS will work one-on-one with States on an ongoing basis to ensure that their risk adjustment programs operate smoothly or are phased-in appropriately if States opt not to operate risk adjustment in 2014.

Important Questions for States to Consider for Operating Risk Adjustment

1) Operating Risk Adjustment:

Does the State plan to operate risk adjustment?



2) Administration of Risk Adjustment Program:

What is the State's legal authority to operate risk adjustment? What government agency or other entity will be overseeing the risk adjustment program?



3) Implementation of Risk Adjustment Program:

Has the State considered the data collection approach that will be used or necessary system changes associated with accessing complete data? What is the schedule for implementation?

Process for Proposing an Alternate Risk Adjustment Methodology

- Within 30 days of release of the draft HHS payment notice, States must 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 approved 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

State Flexibility in Proposing an Alternate Risk Adjustment Methodology

- States can modify:
 - 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