

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight
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Title: Transitional Adjustment for 2014 Risk Corridors Program

Background

On November 14, 2013, the Centers for Medicare & Medicaid Services (CMS) sent a letter to the insurance commissioners of the 50 states and the District of Columbia announcing a policy under which CMS will not consider certain health insurance coverage in the individual or small group markets that is renewed for a policy year starting after January 1, 2014, under certain conditions to be out of compliance with specified 2014 market rules (CMS transitional policy), and requested that states adopt a similar non-enforcement policy¹. To help mitigate the CMS transitional policy's effect on the risk pool for qualified health plan (QHP) issuers for the 2014 benefit year, CMS amended the temporary risk corridors program provisions at 45 CFR Part 153 to provide for a one-time state-level adjustment to profits and administrative expenses in the risk corridors formula (transitional adjustment).² The transitional adjustment for each state is determined based on the percentage of enrollment in the individual and small group markets in policies under the CMS transitional policy in that state during the 2014 benefit year.

Transitional Adjustment Data Collection

To calculate the transitional adjustment for each state, CMS collected 2014 enrollment data from issuers of individual and small group major medical coverage in the 39 states that adopted the CMS transitional policy (transitional states)³. The authority and requirements for this data collection were set forth in 45 CFR 153.530(e). All issuers of individual or small group major medical coverage in transitional states in 2014 were subject to this data collection, whether or not they offered plans on a Marketplace.

¹ <http://www.cms.gov/CCIIO/Resources/Letters/Downloads/commissioner-letter-11-14-2013.pdf>

² 79 FR 13744

³ For 2014, the transitional states are: Alabama, Alaska, Arizona, Arkansas, California (small group only), Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia, Wisconsin, and Wyoming.

Calculation of Transitional Adjustment

In the 2015 Notice of Benefit and Payment Parameters, CMS stated that it would calculate the risk corridors adjustment amount based on the percentage of enrollment in plans under the CMS transitional policy in the non-grandfathered, ACA-compliant market in each transitional state, using the following assumptions for a “typical plan”: claims costs of 80 percent of premium, federal income taxes of 35 percent of pre-tax profits, state income taxes and fees of 7.5 percent of premiums, and other administrative costs equal to 8 percent of premiums.⁴ The resulting state-specific adjustment percentages will increase the profit margin floor in the risk corridors formula (from 3 percent of after-tax premium) and the allowable administrative costs ceiling (from 20 percent of after-tax premium) by an amount calculated to mitigate, for an issuer’s QHP business, the estimated effects on the risk pool of enrollment in plans under the CMS transitional policy.

Application of the Transitional Adjustment

A QHP issuer will input its state-specific adjustment percentages, indicated in the table below, in its Medical Loss Ratio (MLR) and Risk Corridors Reporting Form for 2014. All QHP issuers in a state will receive the same transitional adjustment, regardless of the issuer’s transitional enrollment, if any. For issuers in states that did not apply the transitional adjustment, the risk corridors calculation will be based on a profit floor of 3 percent and allowable administrative costs ceiling of 20 percent (that is, the transitional adjustment will be 0 percent).

CMS will hold a training to provide more detailed instructions on the application of the transitional adjustment prior to the 2014 MLR/Risk Corridors data collection.

⁴ 79 FR 13744

Transitional Enrollment and Adjustment Percentages by State

State	Individual Market		Small Group Market	
	Transitional Enrollment Percentage	Transitional Adjustment Percentage	Transitional Enrollment Percentage	Transitional Adjustment Percentage
Alabama	0.0%	0.00%	0.7%	2.86%
Alaska	2.0%	3.01%	8.5%	3.79%
Arizona	0.5%	2.84%	28.0%	5.28%
Arkansas	18.8%	4.89%	76.8%	11.35%
California	N/A	0.00%	27.5%	5.26%
Colorado	2.6%	3.08%	30.4%	5.40%
Connecticut	N/A	0.00%	N/A	0.00%
Delaware	N/A	0.00%	N/A	0.00%
District of Columbia	N/A	0.00%	N/A	0.00%
Florida	10.6%	4.07%	59.9%	7.81%
Georgia	4.3%	3.27%	32.2%	5.49%
Hawaii	34.7%	5.63%	67.4%	9.01%
Idaho	14.6%	4.63%	51.5%	6.86%
Illinois	33.4%	5.55%	55.3%	7.25%
Indiana	3.8%	3.22%	45.5%	6.34%
Iowa	54.4%	7.16%	47.2%	6.48%
Kansas	31.8%	5.47%	66.5%	8.84%
Kentucky	15.2%	4.72%	47.0%	6.46%
Louisiana	7.2%	3.63%	14.1%	4.56%
Maine	13.9%	4.53%	20.6%	4.96%
Maryland	N/A	0.00%	N/A	0.00%
Massachusetts	N/A	0.00%	N/A	0.00%
Michigan	13.3%	4.45%	40.6%	5.99%
Minnesota	N/A	0.00%	N/A	0.00%
Mississippi	0.0%	0.00%	34.4%	5.61%
Missouri	16.2%	4.80%	67.2%	8.97%
Montana	0.0%	0.00%	0.3%	2.81%
Nebraska	0.0%	0.00%	28.4%	5.30%
Nevada	N/A	0.00%	N/A	0.00%
New Hampshire	3.3%	3.15%	17.6%	4.85%
New Jersey	2.3%	3.04%	11.1%	4.13%
New Mexico	29.7%	5.36%	5.9%	3.47%
New York	N/A	0.00%	N/A	0.00%
North Carolina	31.0%	5.43%	71.4%	9.85%
North Dakota	8.9%	3.84%	11.6%	4.20%
Ohio	17.2%	4.83%	61.7%	8.06%
Oklahoma	0.7%	2.86%	21.1%	4.98%
Oregon	17.8%	4.85%	30.3%	5.39%
Pennsylvania	5.8%	3.45%	40.5%	5.98%
Rhode Island	0.0%	0.00%	0.0%	0.00%
South Carolina	11.4%	4.17%	34.4%	5.61%
South Dakota	54.2%	7.13%	49.1%	6.64%
Tennessee	26.7%	5.22%	37.4%	5.78%
Texas	2.5%	3.06%	41.7%	6.06%
Utah	15.3%	4.74%	18.2%	4.87%
Vermont	N/A	0.00%	N/A	0.00%
Virginia	N/A	0.00%	N/A	0.00%
Washington	N/A	0.00%	N/A	0.00%
West Virginia	0.0%	0.00%	39.4%	5.91%
Wisconsin	26.7%	5.22%	58.6%	7.64%
Wyoming	2.1%	3.01%	63.6%	8.35%