Risk Adjustment and Reinsurance: A Work Plan for State Officials

December 2, 2011

State Health Reform Assistance Network
Charting the Road to Coverage

Ross Winkelman, FSA Mary Hegemann, FSA and Syed Mehmud, ASA

Contributions by Tom Leonard, James Woolman, Julie Peper, and Patrick Holland
Caveats

• Our opinions, not those of any state or other consultants at Wakely
• Draft regulations pending
• Work is ongoing
• Our opinions may change
Purpose and Agenda

• Purpose of Work Plan: Importance of What Needs to Happen Over Next Two Years and When it Needs to Happen
• Overview of 3Rs Proposed Rules
• CCIIO white paper
• Data
• Timeline
• Questions and discussion
## Summary of 3 Rs by Market

<table>
<thead>
<tr>
<th>ACA Provision</th>
<th>Sold within Exchange</th>
<th>Sold Outside Exchange</th>
<th>Who Administers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IND</td>
<td>SG</td>
<td>IND, SG</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Grandfathered</td>
</tr>
<tr>
<td>Risk Adjustment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>Yes</td>
<td>No</td>
<td>Yes, No</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Risk Corridor</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>HHS</td>
</tr>
</tbody>
</table>

1 State can decide to administer or allow HHS to administer. If HHS administers, all parameters will be federal.
What is Risk Adjustment?
(At Plan Level)

PLAN A
Average Risk Score
0.9

State

PLAN B
Average Risk Score
1.1

Average Premium Rate = $500 PMPM
Plan A pays Plan B $50 PMPM
What is Risk Adjustment? (At Member Level)

Example 1: John Smith, 32, has the following medical history:

<table>
<thead>
<tr>
<th>Risk Marker</th>
<th>Risk Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male, Age 32</td>
<td>0.22</td>
</tr>
<tr>
<td>Diabetes with significant co-morbidities</td>
<td>1.32</td>
</tr>
<tr>
<td>Asthma/COPD</td>
<td>0.96</td>
</tr>
<tr>
<td>Low cost dermatology</td>
<td>0.30</td>
</tr>
<tr>
<td><strong>Total Risk Score</strong></td>
<td><strong>2.80</strong></td>
</tr>
</tbody>
</table>

If the average risk score is 1.0, John Smith is expected to be 180% more costly than the average enrollee.


Example 2: Mark Johnson, 32, has no medical history:

<table>
<thead>
<tr>
<th>Risk Marker</th>
<th>Risk Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male, Age 32</td>
<td>0.22</td>
</tr>
<tr>
<td><strong>Total Risk Score</strong></td>
<td><strong>0.22</strong></td>
</tr>
</tbody>
</table>

If the average risk score is 1.0, Mark Johnson is expected to be 78% less costly than the average enrollee.
**What is Reinsurance? (At Member Level)**

*Example 1: Individual Claimant with $500,000 claims; State has no local reinsurance program; issuer has commercial program associated with small to mid-sized block of business*

<table>
<thead>
<tr>
<th>Risk Layer</th>
<th>Claim Amount</th>
<th>Coin. Share</th>
<th>Reinsurer Exposure</th>
<th>Issuer Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>No reinsurance coverage</td>
<td>$0 - $50,000</td>
<td>n/a - 100%</td>
<td>n/a</td>
<td>$50,000</td>
</tr>
<tr>
<td>Example of FEDERAL reinsurance</td>
<td>$50,000 - $150,000</td>
<td>20% issuer</td>
<td>$80,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Commercial rein. (layer 1)</td>
<td>$150,000 - $350,000</td>
<td>25% issuer</td>
<td>$150,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Commercial rein. (layer 2)</td>
<td>Excess of $350,000</td>
<td>0% issuer</td>
<td>$150,000</td>
<td>n/a</td>
</tr>
<tr>
<td>Total Claim Split by Party</td>
<td>$500,000</td>
<td></td>
<td>$380,000</td>
<td>$120,000</td>
</tr>
</tbody>
</table>

Federal Reinsurance decreases Issuer’s claim exposure on larger claims to $120,000 from $200,000. May be viewed as a welcome “extension” of the current program.
What is Reinsurance?  (At Member Level)

Example 2: Individual Claimant with $500,000 claims; State has no local reinsurance program; issuer has commercial program associated with large established block of business

<table>
<thead>
<tr>
<th>Risk Layer</th>
<th>Claim Amount</th>
<th>Coin. Share</th>
<th>Reinsurer Exposure</th>
<th>Issuer Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>No reinsurance coverage</td>
<td>$0 - $50,000</td>
<td>n/a - 100% issuer</td>
<td>n/a</td>
<td>$50,000</td>
</tr>
<tr>
<td>Example of FEDERAL reinsurance</td>
<td>$50,000 - $150,000</td>
<td>20% issuer</td>
<td>$80,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>No reinsurance coverage</td>
<td>$150,000 - $250,000</td>
<td>n/a - 100% issuer</td>
<td>n/a</td>
<td>$100,000</td>
</tr>
<tr>
<td>Commercial reinsurance</td>
<td>Excess of $250,000</td>
<td>10% issuer</td>
<td>$225,000</td>
<td>$25,000</td>
</tr>
<tr>
<td><strong>Total Claim Split by Party</strong></td>
<td><strong>$500,000</strong></td>
<td></td>
<td><strong>$305,000</strong></td>
<td><strong>$195,000</strong></td>
</tr>
</tbody>
</table>

Issuer’s liability decreases by the same $80,000 to $195,000. Coverage may be viewed as less valuable since insurer is comfortable with current higher attachment point.
Key Reinsurance Provisions

National Reinsurance Funding (in billions)

<table>
<thead>
<tr>
<th>Program</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance</td>
<td>$10</td>
<td>$6</td>
<td>$4</td>
</tr>
<tr>
<td>Treasury</td>
<td>$2</td>
<td>$2</td>
<td>$1</td>
</tr>
</tbody>
</table>

- All payers assessed same rate (including TPAs)
- Will affect states differently (Individual Market / Total Market and Individual Premiums / Costs)
- States can increase assessment, but can’t decrease
- If increase, can use increase or some % to fund administration
# Reinsurance Premium Impact

<table>
<thead>
<tr>
<th>Program Year</th>
<th>Estimated Market Assessment (Net of Treasury)</th>
<th>Estimated Impact to National Individual Market Premium (Net of Treasury)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.2%</td>
<td>-7.4%</td>
</tr>
<tr>
<td>2015</td>
<td>0.7%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>2016</td>
<td>0.4%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

1 While impact is measured as a percent of premium, actual impact will vary by issuer and be based on actual claims reimbursed.
## Risk Corridor Under ACA

<table>
<thead>
<tr>
<th>Allowable/Target</th>
<th>Action</th>
<th>Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 108%</td>
<td>HHS pays QHP</td>
<td>2.5% of Target + 80% of amount in excess of 108%</td>
</tr>
<tr>
<td>103% to 108%</td>
<td>HHS pays QHP</td>
<td>50% of amount in excess of 103%</td>
</tr>
<tr>
<td>97% to 103%</td>
<td>No action</td>
<td>No payment transfer</td>
</tr>
<tr>
<td>92% to 97%</td>
<td>QHP pays HHS</td>
<td>50% of difference between 97% of target and allowable cost</td>
</tr>
<tr>
<td>Less than 92%</td>
<td>QHP pays HHS</td>
<td>2.5% of Target + 80% of difference between 92% of target and allowable cost</td>
</tr>
</tbody>
</table>
Key Takeaways: Risk Adjustment

• States must get approval from feds if states want to do it; otherwise, feds will do it
• Lots of decisions to be made, but some indications
  – Centralized
  – Medicare-like
  – Retrospective
• Demographic, Medical and Rx (?) data used
• Audit program is a hot button issue because of Medicare Advantage
Key Takeaways: Reinsurance

• If state-run exchange, states have to administer
• Can use federal parameters or develop state parameters
• Must assess at least federal assessment rate
• Can increase assessment to cover administrative costs
• **Significant** impact to individual premium rates
• A lot of uncertainty since it depends on:
  – Individual market size
  – Group market size
  – Individual premium rates
  – Group premium rates / costs
Key Takeaways: Risk Corridor

- Federal program so states cannot change it
- Last in order of 3R’s
- Target = MLR?
  - If so, one-sided protection that moves money from policyholders to HHS
## Issuer Rate Setting in 2013 for 2014

Carriers need to set rates at 1.0

<table>
<thead>
<tr>
<th>Description</th>
<th>Healthier &amp; More Efficient</th>
<th>Sicker &amp; Less Efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historic Costs (PMPM)</td>
<td>$500.00</td>
<td>$700.00</td>
</tr>
<tr>
<td>Trend and Impact of ACA</td>
<td>1.20</td>
<td>1.20</td>
</tr>
<tr>
<td>Impact of New Members (Market Avg)</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Issuer Specific Risk Score (Current)</td>
<td>0.90</td>
<td>1.10</td>
</tr>
<tr>
<td><strong>Estimated Premium Rate @ 1.0</strong></td>
<td><strong>$633.33</strong></td>
<td><strong>$725.45</strong></td>
</tr>
</tbody>
</table>
CCIIO White Paper – Fed Decisions

• Prospective vs. concurrent data and weights for risk adjustment
• Accounting for transitional reinsurance payments in risk adjustment
• Addressing limited claims experience
• Adjusting for receipt of cost sharing reductions
• Pharmacy data in risk adjustment
• Accounting for differences in plan benefit structure
• Risk adjustment for catastrophic plans
• Transitional versus steady state model
• Calculating and Balancing Payments and Charges
• Removing Permissible Rating Factors
Risk Adjustment and Reinsurance: Why 2012 and 2013 are Important

1. No risk scores from HHS prior to 2014
2. Carriers need to set rates for 2014 (mid-2013)
3. No information = Conservative assumptions = Higher premiums
4. If nothing done before 2014, carriers at risk for data quality in 2014
5. Alternative Model and/or Parameters need to be filed by November 2012 (30 days after release of Federal model and parameters)
Spectrum of Carrier Involvement

- **Lower Involvement**
  - Carriers identify high level issues and concerns, but do not drive process
  - State seeks input on some aspects of model and methodology during development phase

- **Higher Involvement**
  - State seeks input on all aspects of model development during development phase
  - State delegates some decisions to a carrier work group
  - State delegates many decisions to a work group tasked with developing methodology
Risk Adjustment Model and Methodology (Centralized)

Source:
1. Issuers (Health Plans, TPAs, Medical Facilities)
2. DOI
3. PBMs
Risk Adjustment Model and Methodology (Distributed)

Source:
1. Issuers (Health Plans, TPAs, Medical Facilities)
2. DOI
3. PBMs
<table>
<thead>
<tr>
<th>Data</th>
<th>Element</th>
<th>Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility</td>
<td>Unique Person Identifier</td>
<td>Assign a member-level risk score</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Date of Birth</td>
<td>Apply demographic risk weights</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Gender</td>
<td>Apply demographic risk weights</td>
</tr>
<tr>
<td>Eligibility</td>
<td>Enrollment</td>
<td>Assess credibility and attribution</td>
</tr>
<tr>
<td>Medical</td>
<td>Unique Person Identifier</td>
<td>Link to eligibility data</td>
</tr>
<tr>
<td>Medical</td>
<td>Diagnosis codes</td>
<td>Apply clinical grouping, assess risk score</td>
</tr>
<tr>
<td>Medical</td>
<td>Procedure codes</td>
<td>Exclude diagnostic codes (see below)</td>
</tr>
<tr>
<td>Medical</td>
<td>Service dates</td>
<td>Extract experience period</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>Unique Person Identifier</td>
<td>Link to eligibility data</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>NDC Code</td>
<td>Apply clinical grouping, assess risk score</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>Service dates</td>
<td>Extract experience period</td>
</tr>
</tbody>
</table>
Status of APCDs*

Existing: 9 States
In Implementation: 6 States

*Source: apcdcouncil.org
# Schedule of APCD Data Submission

<table>
<thead>
<tr>
<th>Submission Schedule</th>
<th>KS</th>
<th>UT</th>
<th>MD</th>
<th>OR</th>
<th>MN</th>
<th>WI</th>
<th>NH</th>
<th>CO</th>
<th>TN</th>
<th>WA</th>
<th>VT</th>
<th>MA</th>
<th>ME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Submission</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi-Annual Submission</td>
<td></td>
<td></td>
<td>X</td>
<td>X²</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quarterly Submission</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly Submission</td>
<td>X</td>
<td>X³</td>
<td></td>
<td></td>
<td>X³</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X³</td>
<td>X³</td>
<td>X³</td>
<td></td>
</tr>
<tr>
<td>Variable Submission</td>
<td>X¹</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

1. First submission due July '11, 2nd: Oct '11, 3rd: Jan '12, 4th: May '12, Quarterly afterwards
2. Implied from published information indicating that the WHIO datamart is refreshed twice a year.
3. Monthly for carriers with more than two thousand covered lives, quarterly otherwise.
WRA Model (www.WRAModel.com)

- Transparent, Open-Source, Free
- Based on CMS-HCC/MedicaidRx
- Statistical & Clinical
- Partial Eligibility
- Rx Exclusions
- ICD-10
- Reporting

<table>
<thead>
<tr>
<th></th>
<th>No Censor</th>
<th>200k Censor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prospective</td>
<td>Concurrent</td>
</tr>
<tr>
<td>A/S, Diagnosis</td>
<td>18%</td>
<td>47%</td>
</tr>
<tr>
<td>A/S, Pharmacy</td>
<td>11%</td>
<td>26%</td>
</tr>
<tr>
<td>A/S, Diagnosis, Pharmacy</td>
<td>19%</td>
<td>47%</td>
</tr>
</tbody>
</table>
### Risk Adjustment and Reinsurance Timeline Prior to 2014

**Centralized Collection of Data.**

**Scenario 1: Begin Early 2012.**
- **Planning**
- **Analysis**
- **Results**

**Scenario 2: Begin Late (July 2012).**
- **Planning**
- **Analysis**
- **Results**

**Legend**
- State
- Carriers

- **Oct 15, 2012 Federal Model Released**
- **Nov 15, 2012 State Alternatives Due**
- **Jan 15, 2013 Federal Response to State Alternatives**

**Timeline Events:**
- Jan 12: Planning
- Apr 12: Analysis
- Jul 12: Results
- Oct 12: Submit Data
- Jan 13: Analysis
- Apr 13: Results
- Jul 13: Prepare Rate Filings
- Oct 13: Review Filing
- Jan 14: Reporting Process, Decisions

**Additional Notes:**
- Federal Model Released
- State Alternatives Due
- Federal Response to State Alternatives
Risk Adjustment and Reinsurance Timeline
Prior to 2014

Centralized Collection of Data.

Scenario 4: Begin Early 2012.

Scenario 3: Begin Late (July 2012).
Key Considerations During 2014

- Cashflow for program
- Cashflow for carriers
- Data availability, including speed of claim payment run-out
- Predictive accuracy of risk adjustment model
- Interim results consistent with final results
- Gaming tactics
- Cost, timing, resources, and effort associated with updates
Roles and Responsibilities: State

• Capacity to accept data and have it analyzed efficiently, expeditiously, and frequently
• Determine incoming and outgoing payments
• Communicate issues with data and results of the analysis
• Establish efficient method of collecting payments from carriers with low-risk
• Track actual to expected payments from carriers
• Retain budget neutrality for risk adjustment
• Establish method of distributing payments to carriers with high-risk
Roles and Responsibilities: Carriers

• Submit accurate data to the exchange
• Appropriately price products based on 1.0 (average) risk
• Estimate accounts payable and receivable based on assumed relative risk of covered population
• Make timely payments to the exchange if they have a population with lower than average risk
Risk Adjustment Timeline
Post 2014

Jan 14            Apr 14            Jul 14            Oct 14           Jan 15            Apr 15             Jul 15           Oct 15            Jan 16

Make Payments
Submit Data
Analysis
Submit Payments
Make Payments
Submit Data
Analysis
Submit Final Payments
Make Final Payments

Legend
State
Carriers
Discussion