

Risk Adjustment and Reinsurance: A Work Plan for State Officials

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State Health Reform Assistance Network
Charting the Road to Coverage

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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

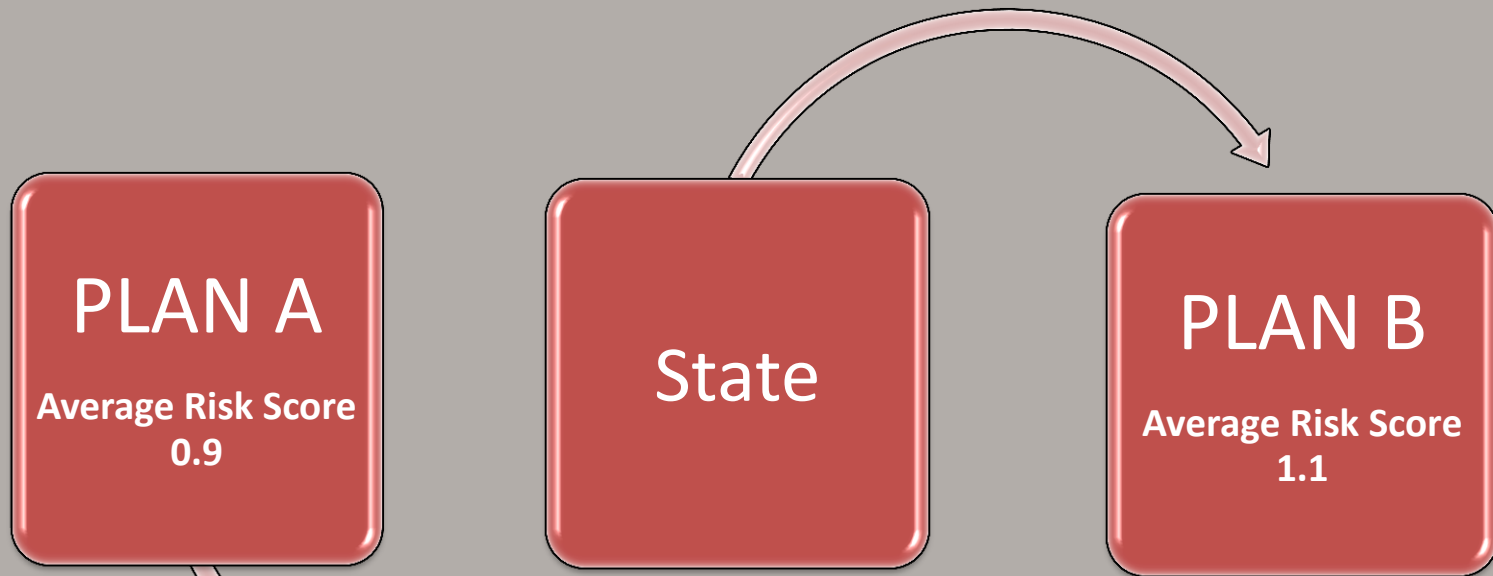
- Purpose of Work Plan: Importance of What Needs to Happen Over Next Two Years and When it Needs to Happen
- Overview of 3Rs Proposed Rules
- CCIO white paper
- Data
- Timeline
- Questions and discussion

Summary of 3 Rs by Market

	Sold within Exchange		Sold Outside Exchange			Who Administers	
	IND	SG	IND	SG	Grand-fathered	State Run Exchange	Federal Run Exchange
ACA Provision	IND	SG	IND	SG	Grand-fathered	State Run Exchange	Federal Run Exchange
Risk Adjustment	Yes	Yes	Yes	Yes	No	State or HHS ¹	HHS
Reinsurance	Yes	No	Yes	No	No	State	State or HHS ¹
Risk Corridor	Yes	Yes	No	No	No	HHS	HHS

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)



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:

Risk Marker	Risk Weight
Male, Age 32	0.22
Diabetes with significant co-morbidities	1.32
Asthma/COPD	0.96
Low cost dermatology	0.30
Total Risk Score	2.80

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

Source: American Academy of Actuaries: Issue Brief, "Risk Assessment and Risk Adjustment," 5/2010

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

Risk Marker	Risk Weight
Male, Age 32	0.22
Total Risk Score	0.22

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

Risk Layer	Claim Amount	Coin. Share	Reinsurer Exposure	Issuer Exposure
No reinsurance coverage	\$0 - \$50,000	n/a - 100% issuer	n/a	\$50,000
Example of FEDERAL reinsurance	\$50,000 - \$150,000	20% issuer	\$80,000	\$20,000
Commercial rein. (layer 1)	\$150,00 - \$350,00	25% issuer	\$150,000	\$50,000
Commercial rein. (layer 2)	Excess of \$350,000	0% issuer (100% to reinsurer)	\$150,000	n/a
Total Claim Split by Party	\$500,000		\$380,000	\$120,000

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

Risk Layer	Claim Amount	Coin. Share	Reinsurer Exposure	Issuer Exposure
No reinsurance coverage	\$0 - \$50,000	n/a - 100% issuer	n/a	\$50,000
Example of FEDERAL reinsurance	\$50,000 - \$150,000	20% issuer	\$80,000	\$20,000
No reinsurance coverage	\$150,00 - \$250,00	n/a - 100% issuer	n/a	\$100,000
Commercial reinsurance	Excess of \$250,000	10% issuer	\$225,000	\$25,000
Total Claim Split by Party	\$500,000		\$305,000	\$195,000

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)

Program	2014	2015	2016
Reinsurance	\$10	\$6	\$4
Treasury	\$2	\$2	\$1

- 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

	Estimated Market Assessment (Net of Treasury)	Estimated Impact to National Individual Market Premium (Net of Treasury) ¹	
Program Year	Estimate	High Scenario	Low Scenario
2014	1.2%	-7.4%	-11.4%
2015	0.7%	-3.5%	-5.2%
2016	0.4%	-1.2%	-2.7%

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

Allowable/ Target	Action	Amount Paid
Greater than 108%	HHS pays QHP	2.5% of Target + 80% of amount in excess of 108%
103% to 108%	HHS pays QHP	50% of amount in excess of 103%
97% to 103%	No action	No payment transfer
92% to 97%	QHP pays HHS	50% of difference between 97% of target and allowable cost
Less than 92%	QHP pays HHS	2.5% of Target + 80% of difference between 92% of target and allowable cost

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

Description	Healthier & More Efficient	Sicker & Less Efficient
Historic Costs (PMPM)	\$500.00	\$700.00
Trend and Impact of ACA	1.20	1.20
Impact of New Members (Market Avg)	0.95	0.95
Issuer Specific Risk Score (Current)	0.90	1.10
Estimated Premium Rate @ 1.0	\$633.33	\$725.45

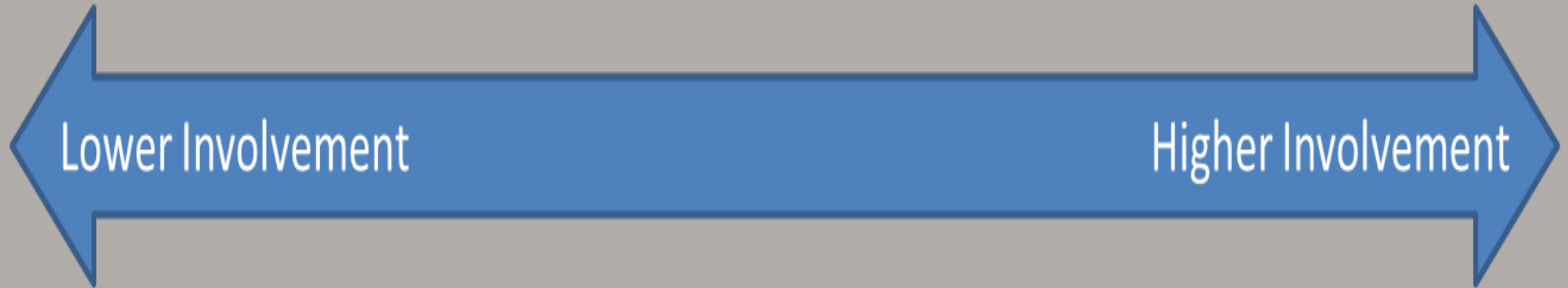
CCIIO White Paper – Fed Decisions

- 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



Carriers identify high level issues and concerns, but do not drive process

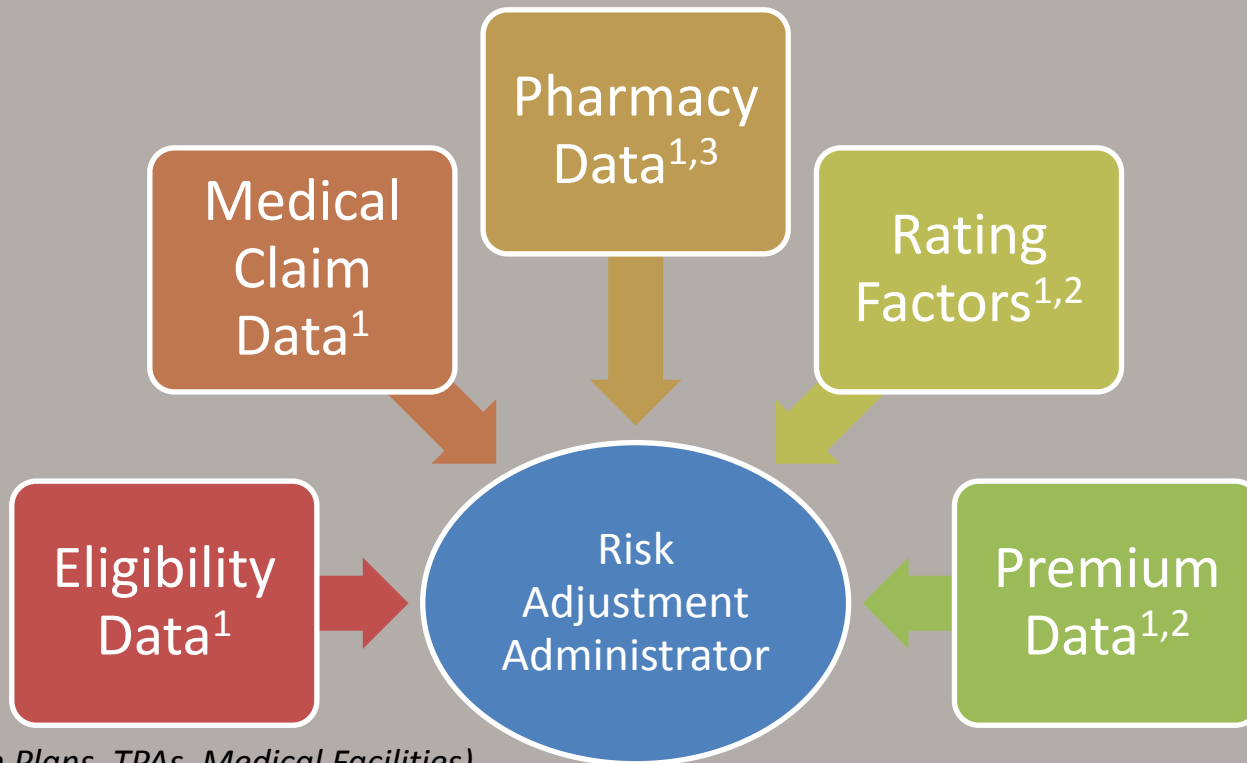
State seeks input on some aspects of model and methodology during development phase

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

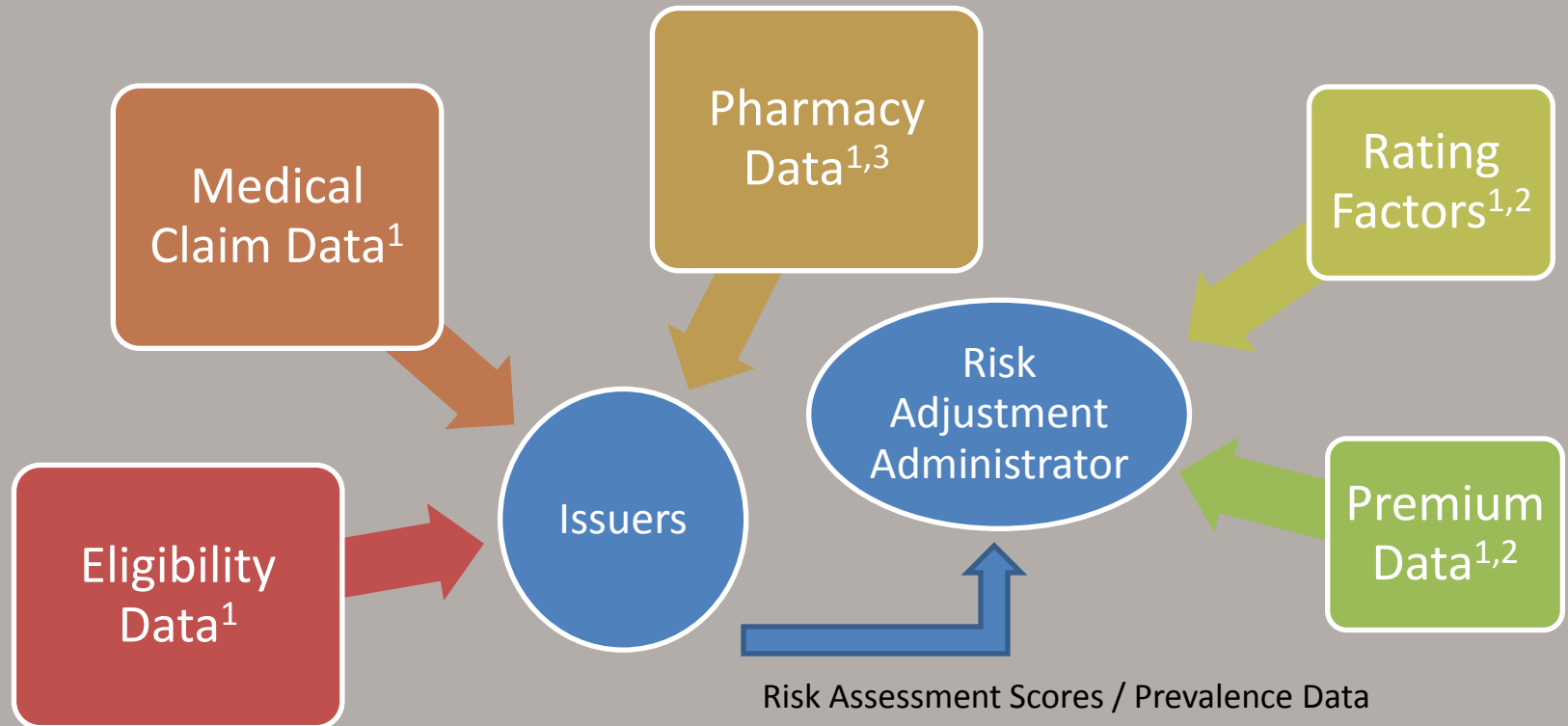
Risk Adjustment Model and Methodology (Centralized)



Source:

1. Issuers (Health Plans, TPAs, Medical Facilities)
2. DOI
3. PBMs

Risk Adjustment Model and Methodology (Distributed)



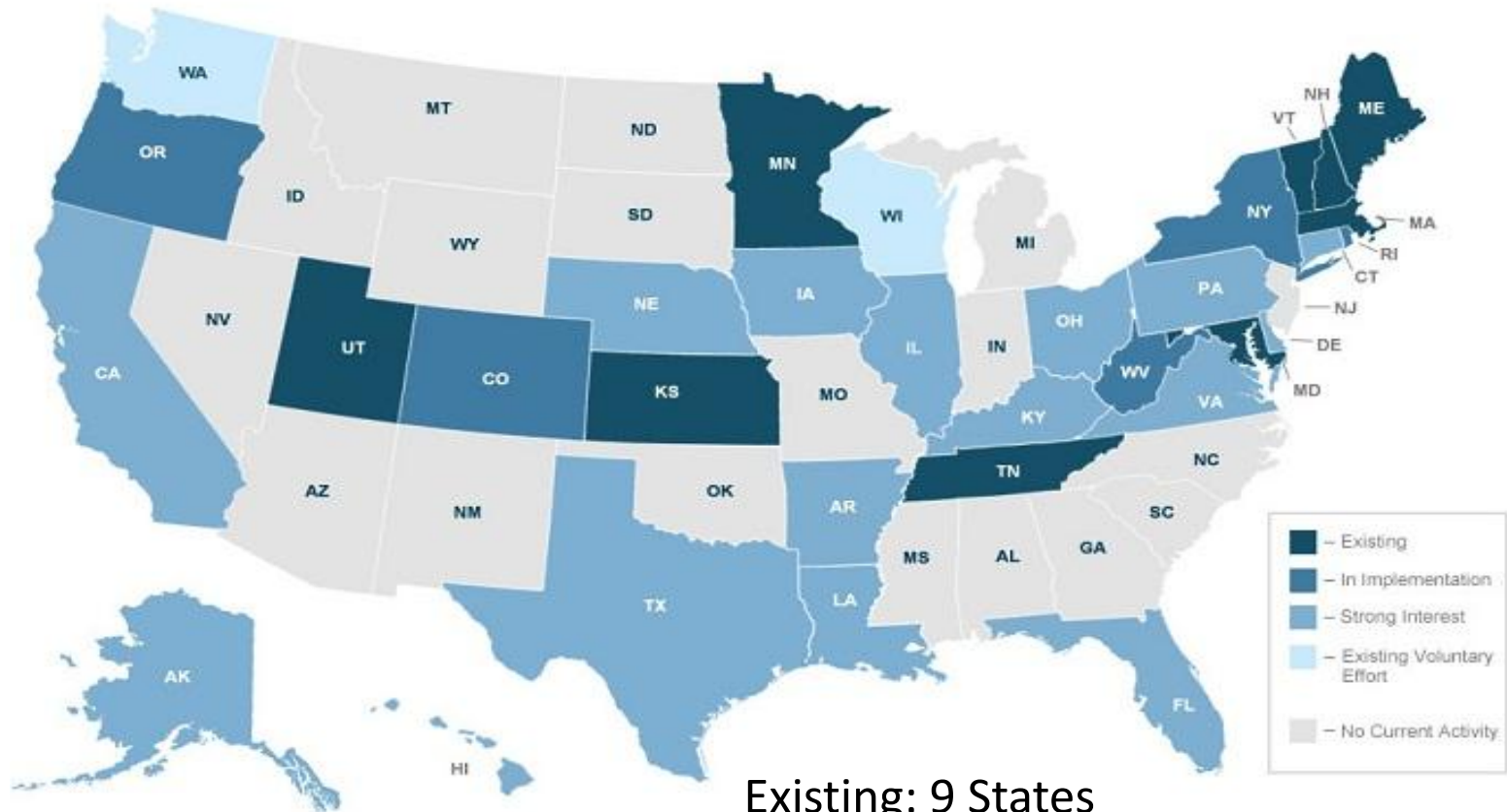
Source:

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Data Needed for Risk Adjustment Model

Data	Element	Use
Eligibility	Unique Person Identifier	Assign a member-level risk score
Eligibility	Date of Birth	Apply demographic risk weights
Eligibility	Gender	Apply demographic risk weights
Eligibility	Enrollment	Assess credibility and attribution
Medical	Unique Person Identifier	Link to eligibility data
Medical	Diagnosis codes	Apply clinical grouping, assess risk score
Medical	Procedure codes	Exclude diagnostic codes (see below)
Medical	Service dates	Extract experience period
Pharmacy	Unique Person Identifier	Link to eligibility data
Pharmacy	NDC Code	Apply clinical grouping, assess risk score
Pharmacy	Service dates	Extract experience period

Status of APCDs*



Existing: 9 States

In Implementation: 5 States

*Source: apcdouncil.org

Schedule of APCD Data Submission

Submission Schedule	KS	UT	MD	OR	MN	WI	NH	CO	TN	WA	VT	MA	ME
Annual Submission			X										
Semi-Annual Submission					X	X ²				X			
Quarterly Submission	X								X				
Monthly Submission		X					X ³	X ³			X ³	X ³	X ³
Variable Submission				X ¹									

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

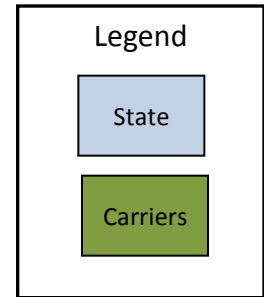
	Weights
Prospective/Concurrent	2
Partial Member Months	4
Type of data (A/S Only, Dx, Rx, Combo)	4
Censor Levels	2
Total # of Weights	64

WRA Ver 1.01	Total # of diagnosis codes	17,275
	# of Demographic Categories	24
	# of Clinical Categories	90
	Total % of codes marked as excluded	16.8%
	Coverage of typical commercial diagnoses	100.0%
	Coverage of typical commercial (IP+OP) spe	100.0%

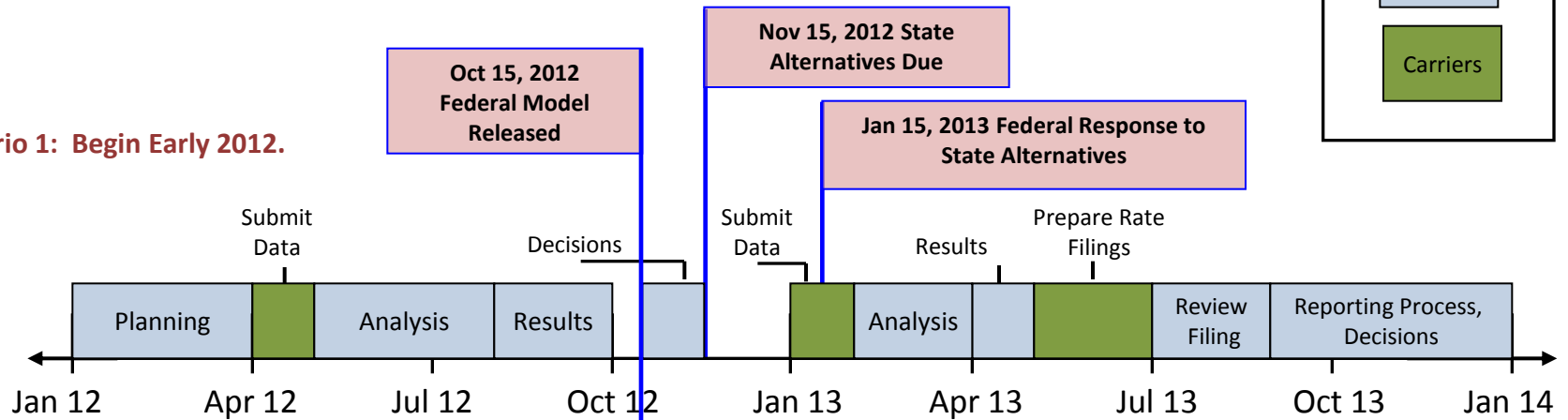
	No Censor		200k Censor	
	Prospective	Concurrent	Prospective	Concurrent
A/S, Diagnosis	18%	47%	23%	53%
A/S, Pharmacy	11%	26%	17%	33%
A/S, Diagnosis, Pharmacy	19%	47%	25%	55%

Risk Adjustment and Reinsurance Timeline Prior to 2014

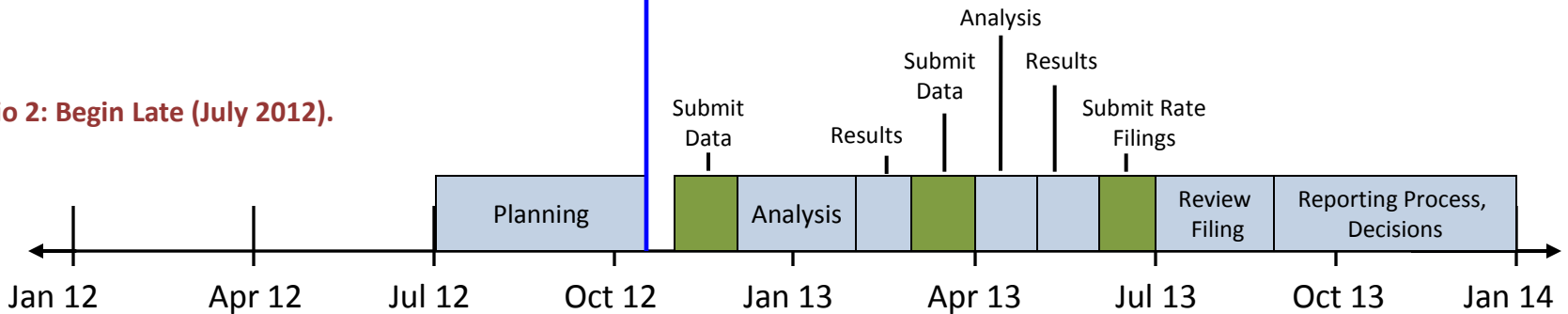
Centralized Collection of Data



Scenario 1: Begin Early 2012.

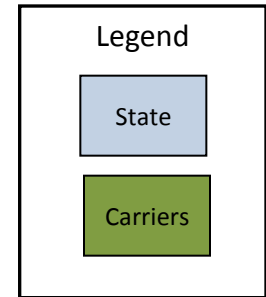


Scenario 2: Begin Late (July 2012).

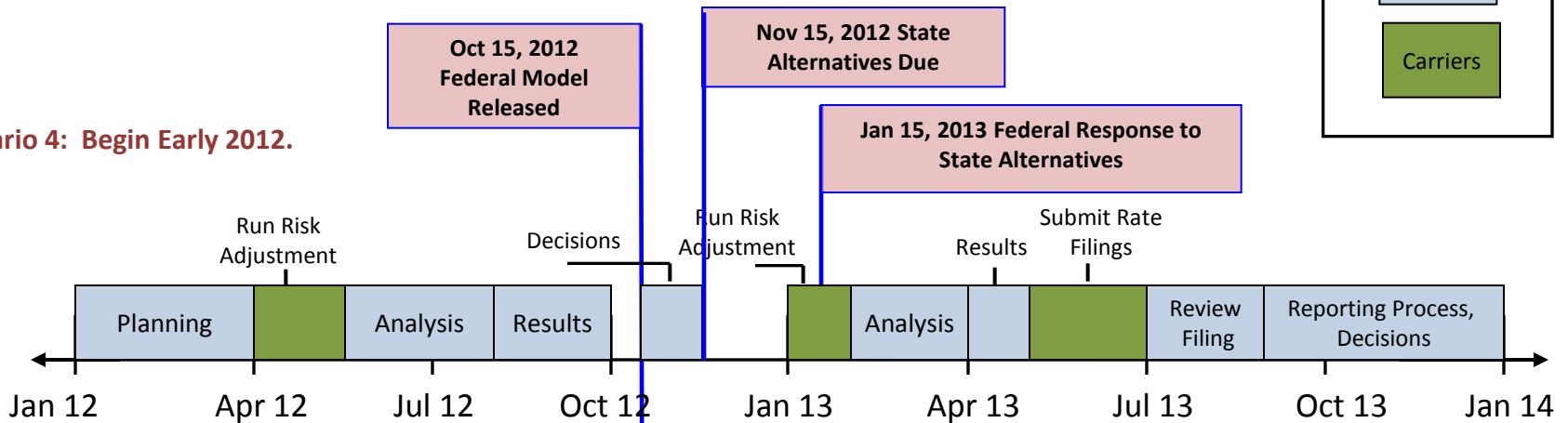


Risk Adjustment and Reinsurance Timeline Prior to 2014

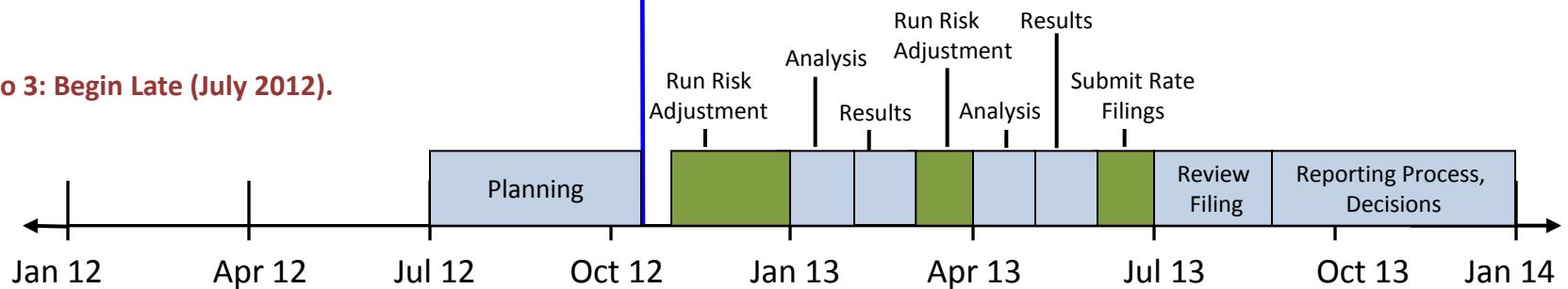
Distributed Approach



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

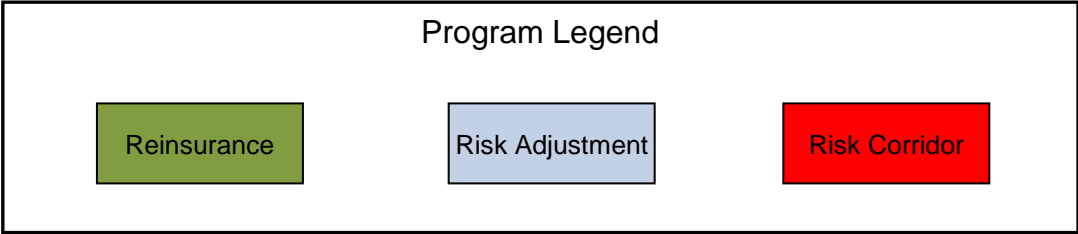
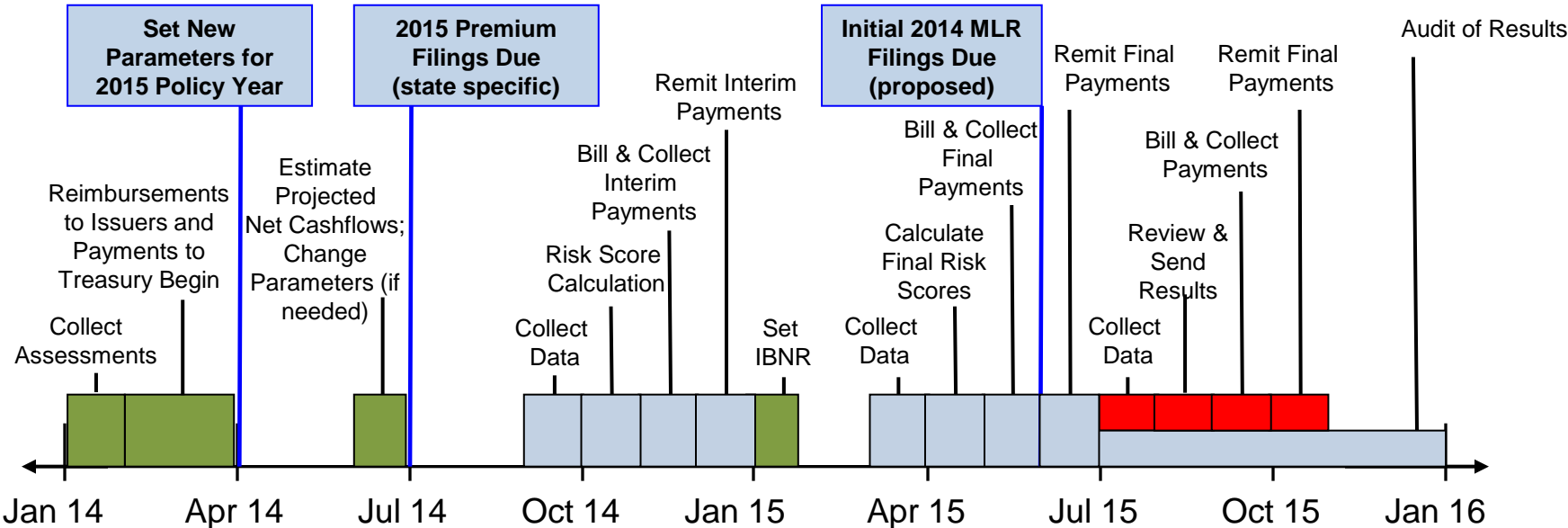
Roles and Responsibilities: State

- 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

Expected Timing of Cashflows for 2014 Policy Year Reinsurance, Risk Adjustment, and Risk Corridor



Questions