

# Adverse Selection Issues

Ross Winkelman  
Wakely Consulting Group

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Charting the Road to Coverage



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# Overview

- Overview / Background
- Single risk pool inside and outside the SHOP
- Qualified Health Plans priced the same inside and outside the SHOP
- Risk adjustment across all small group market products, inside/outside of exchange
- Questions and discussion

# Adverse Selection and the Actuary



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# What is Adverse Selection

Adverse selection in the context of the insurance exchanges generally refers to individuals' propensity, acting as direct purchasers or small employee groups, to make decisions that benefit themselves, to the detriment of the insurance market in general or to a specific health insurer.

# Types of Adverse Selection

- Adverse Selection against the **market in total** (“Market Adverse Selection”). This generally refers to healthy people deciding not to purchase insurance or purchasing minimum coverage and sick people purchasing maximum coverage when they need it.
- Adverse Selection against the **HBE** (“Exchange Adverse Selection”). This generally refers to sick people purchasing coverage through the HBE and healthy people purchasing coverage outside of the HBE.
- Adverse Selection against a **given insurer** (“Insurer Adverse Selection”). This generally refers to sick people disproportionately purchasing coverage through a given insurer or insurers and healthy people disproportionately purchasing coverage through another given insurer or insurers.

# Sources of Adverse Selection (SHOP)

- Association, PEO, MEWA (10)
- Self-funding (10)
- Multi-State Plans (4)
- Sole-proprietor (3)
- Employee Choice (2)

# Adverse Selection Protections

	Type of Adverse Selection SG Market		
	Market	Exchange	Issuer
<b>ACA or State Provision</b>			
<b>Risk Adjustment</b>		X	X
<b>Reinsurance</b>		Ind. Only	Ind. Only
<b>Risk Corridor</b>		X	X
<b>Same Inside and Outside</b>		X	X
<b>Open Enrollment Period</b>	X		
<b>Limits on Choice</b>	X	X	X
<b>Stop Loss Regulation</b>	X	X	X
<b>Association, PEO, etc. Regulation</b>	X		

No Employee Choice									
Member	Total Costs	Plan Coverage	Total Premium	Employer Contribution	Employee Premium	Employee Cost Sharing	Total EE OOP	Issuer Claim Costs	Claims Cost Gain / (Loss)
John	\$5,000	80%	\$13,667	\$6,833	\$6,833	\$1,000	\$7,833	\$4,000	\$9,667
Jim	\$7,500	80%	\$13,667	\$6,833	\$6,833	\$1,500	\$8,333	\$6,000	\$7,667
Chris	\$25,000	80%	\$13,667	\$6,833	\$6,833	\$5,000	\$11,833	\$20,000	-\$6,333
Mary	\$0	80%	\$13,667	\$6,833	\$6,833	\$0	\$6,833	\$0	\$13,667
Jill	\$15,000	80%	\$13,667	\$6,833	\$6,833	\$3,000	\$9,833	\$12,000	\$1,667
Michelle	\$50,000	80%	\$13,667	\$6,833	\$6,833	\$10,000	\$16,833	\$40,000	-\$26,333
Total	\$102,500	80%	\$82,000	\$41,000	\$41,000	\$20,500	\$61,500	\$82,000	\$0
Employee Choice									
Member	Total Costs	Plan Coverage	Total Premium	Employer Contribution	Employee Premium	Employee Cost Sharing	Total EE OOP	Issuer Claim Costs	Claims Cost Gain / (Loss)
John	\$5,000	70%	\$11,958	\$6,833	\$5,125	\$1,500	\$6,625	\$3,500	\$8,458
Jim	\$7,500	70%	\$11,958	\$6,833	\$5,125	\$2,250	\$7,375	\$5,250	\$6,708
Chris	\$25,000	90%	\$15,375	\$6,833	\$8,542	\$2,500	\$11,042	\$22,500	-\$7,125
Mary	\$0	70%	\$11,958	\$6,833	\$5,125	\$0	\$5,125	\$0	\$11,958
Jill	\$15,000	90%	\$15,375	\$6,833	\$8,542	\$1,500	\$10,042	\$13,500	\$1,875
Michelle	\$50,000	90%	\$15,375	\$6,833	\$8,542	\$5,000	\$13,542	\$45,000	-\$29,625
Total	\$102,500	88%	\$82,000	\$41,000	\$41,000	\$12,750	\$53,750	\$89,750	-\$7,750
Change	\$0		\$0	\$0	\$0	-\$7,750	-\$7,750	\$7,750	-\$7,750



# Risk Adjustment Limitations

**Table VI.1 Prospective without Prior Cost (Recalibrated, Nonlagged)  
Predictive Ratios by Cost Percentile Groupings  
(Cost Groupings Defined for 2004)**

Risk Adjuster Tool	Percentile Ranges							
	99-100	96-99	90-96	80-90	60-80	40-60	20-40	0-20
ACG	21.8%	42.5%	67.5%	100.0%	152.2%	265.0%	570.7%	8308.1%
CDPS	18.2%	38.4%	63.6%	96.8%	154.5%	275.1%	595.3%	9335.9%
Clinical Risk Groups*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DxCG DCG	20.5%	41.7%	67.3%	100.1%	153.3%	263.6%	558.3%	7869.0%
DxCG RxGroups	18.2%	43.8%	72.8%	105.8%	155.0%	248.8%	516.9%	7914.0%
Ingenix PRG	19.2%	44.3%	72.6%	104.2%	152.9%	247.4%	523.9%	8301.4%
MedicaidRx	15.9%	40.1%	69.9%	107.0%	163.4%	261.9%	516.9%	7374.3%
Impact Pro	26.9%	48.3%	73.3%	103.9%	152.1%	241.4%	480.9%	6605.6%
Ingenix ERG	18.0%	41.5%	71.1%	108.7%	163.6%	261.4%	509.2%	6171.7%
ACG - w/ Prior Cost**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DxCG UW Model**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Percentile Ranges							
Service Vendor	99-100	96-99	90-96	80-90	60-80	40-60	20-40	0-20
MEDai**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

# Conclusions

- Be especially concerned about market adverse selection.
- Employee Choice adverse selection is real, but there is a benefit (with an associated cost).
- Health Plans may try to play games with pricing even though basic requirements of ACA prohibit. Strong DOI oversight important.
- Risk Adjustment will provide significant protection, but it's imperfect.