



---

# **Risk Adjustment Update and Consultant Contract Extension (VOTE)**

DANIEL APICELLA  
Director of Finance

Board of Directors Meeting, December 12, 2013

# Background on Risk Adjustment



- The Affordable Care Act (ACA) establishes three premium stabilization programs for the small and non-group health insurance market that must go into effect in 2014. They are collectively referred to as the 3“R”s
- The Risk Adjustment program is the only one of the 3Rs that is permanent and will be administered at the state level
  - The Health Connector is authorized to administer this program in Massachusetts
  - The transitional Reinsurance (non-group only) and the temporary Risk Corridor programs will both be administered by HHS
- At the February 28, 2013 Board meeting, we described our rationale for pursuing a state-based approach, the process for achieving federal certification and some of the distinct features of the Massachusetts approach
- Today’s presentation is to provide an update on the implementation activities completed to date and to discuss some key next steps for 2014
  - Seek a Board vote on a proposed contract extension with Milliman

# Massachusetts Approach to Risk Adjustment



- As discussed at the February Board meeting, there are some clear advantages to operating our own risk adjustment program in Massachusetts
- Our approach is similar to the HHS (federal) methodology in many key aspects; however, by leveraging Massachusetts data, we are able to develop a methodology that is “better performing” in terms of predicting members’ cost – this enhances the potential for premium stabilization
  - Models calibrated using data that reflect the experience of the Massachusetts merged market as well as Commonwealth Care
  - Our model thus has meaningfully higher statistical performance than the federal model (R-squared, which is a measure for predictive accuracy, is 45-55%, compared with that of the HHS model of <40%)
  - Based on empirical analysis, incorporated adjustment factors that allow us to account for state-specific policies (e.g., state “wrap” cost-sharing subsidies)
- Our approach enables us to leverage the Commonwealth’s All-Payer Claims Database (APCD) for data collection, which dramatically simplifies the administrative process

# Program Implementation

- Since receiving federal certification on March 11, 2013, Health Connector staff, in partnership with colleagues at the Center for Health Information Analysis (CHIA) and Milliman, has been heavily involved in program implementation efforts
- We have achieved several key milestones in 2013 in support of a successful program launch:
  1. We successfully completed a full-scale simulation of the Massachusetts risk adjustment program in the Spring
  2. We generated customized and detailed data quality reports for every carrier in the market
  3. We have worked with CHIA on a number of initiatives to enhance file submissions and the APCD's intake process
  4. We continue to formalize the standard operating procedures related to the risk adjustment program

# Risk Adjustment Simulation

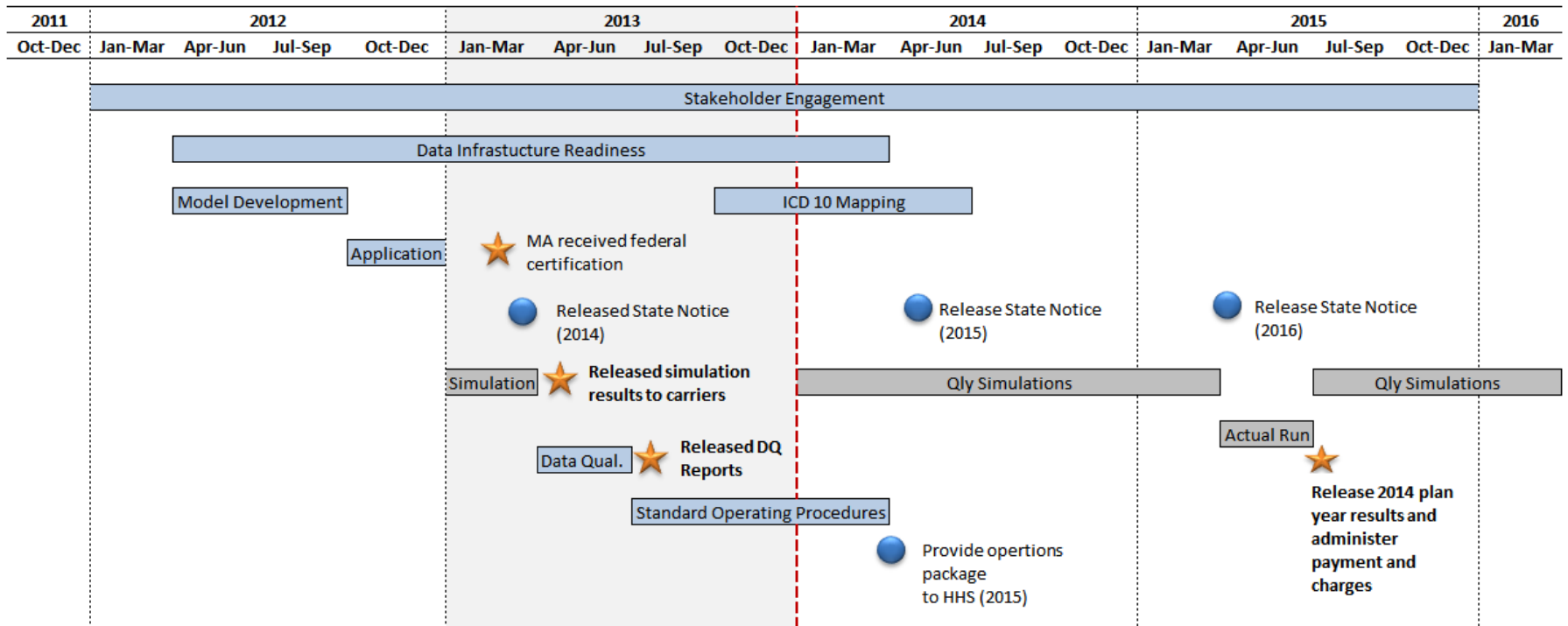
- With significant support from Milliman and CHIA, the Health Connector successfully completed a full-scale simulation of the program in May
  - The results of the risk adjustment simulation were subsequently shared with each individual carrier on May 30, 2013, ahead of their rate filing deadline
- We used claims and eligibility data submitted to the APCD that covered calendar year 2012
- In addition, we used supplemental files from the carriers which included additional data elements not collected through the routine APCD submission process
- Risk adjustment and payment and charges calculations will be performed once annually (in June for the prior plan year), however we plan to also conduct simulations on a quarterly basis throughout the plan year to enable carriers to plan ahead
  - Simulations support: a) carriers' rate filing efforts, b) their ability to plan ahead by booking reserves for anticipated risk adjustment payments and c) also stimulate analytics that lead to improved data quality

# Data Quality and Data Readiness

- Given the importance of data quality to risk adjustment, we undertook a separate effort in the early summer of 2013 focused entirely on ensuring the quality of the data
  - Milliman ran each carriers' data through their cost guidelines grouper to identify whether it conformed with typical cost and utilization benchmarks. They also cross-checked claims and enrollment totals provided against reported control totals
  - Milliman also reviewed the files for completeness and credibility focusing on key fields most important to risk adjustment (e.g., diagnosis codes)
- Overall, data quality across the carriers operating in the Massachusetts merged market appears to be good
  - Instances where quality may be improved were addressed through direct consultations with individual carriers
- The Health Connector team has also worked with CHIA to expand the APCD file submission specifications to include new data elements not previously captured
  - e.g., AV, metal level, billable member flag, risk adjustment covered plan flag
- CHIA has also enhanced its file intake process; increasing the number of automated tests to assess the conformance of files for completeness
- CHIA has invested heavily in a number of hardware and software upgrades to make processing and transmission even more efficient

# Implementation Road Map

The timeline below shows the workstreams and key milestones achieved to date; as reflected below, implementation activities will continue through 2014.



# Activities in 2014

- Milliman has provided essential support to date and we anticipate a critical role for them in 2014 as we continue our implementation activities
- Milliman will take a lead role in performing the quarterly risk adjustment simulations
- The team will also support our reporting requirements to CMS and assist the Health Connector in building out remaining operational features of the program
  - We plan to provide details of our operations plan to CClIO by March 2014; Milliman will assist us in the preparation of an interim report to CClIO on the first ten months of activities towards the end of the year
  - We anticipate their support working with the carriers to establish the standards around a formal risk adjustment data validation (RADV) process
- We are currently documenting all of the standard operating procedures related to the risk adjustment program and Milliman will continue to provide key inputs
  - The operations manual, which will be complete by March 2014, will detail the end-to-end process from data aggregation through to payment and charge
  - It will also contain the agreed-upon roles and responsibilities of all parties, including between the Health Connector and CHIA
- Finally, given the conversion to ICD-10 in October 2014, the mapping will need to be updated to reflect this change



# Proposed Work Order for Contract Extension



<p>Key Deliverables</p>	<ul style="list-style-type: none"> <li>• Lead role in generating risk scores and calculating payment and charges during this initial year of operations and until the program stabilizes</li> <li>• Given the conversion to ICD-10 in October 2014 the diagnosis grouping will need to be updated, Milliman is currently working on the mapping and expects to release the updated mapping by March 31, 2014</li> <li>• Assist with the development of a formal risk adjustment data validation (RADV) process</li> <li>• Milliman will assist the Health Connector in obtaining operational qualification for 2015, finalizing the risk adjustment program operations manual and preparing an interim report to CCIIO on the first ten months of activities towards the end of the calendar year</li> <li>• Milliman will assist in the development of program oversight metrics</li> <li>• Support engagement with federal partners and the carrier community</li> </ul>
<p>Milliman Consulting Team</p>	<ul style="list-style-type: none"> <li>• Milliman: Actuarial, health care data informatics (IT), regulatory</li> </ul>
<p>Timeframe</p>	<ul style="list-style-type: none"> <li>• The contract extension will take us through the end of the next calendar year (January 2014 – December 2014)</li> </ul>
<p>Funding</p>	<ul style="list-style-type: none"> <li>• Level 1A and Level 2 Exchange Establishment Grants</li> </ul>

# VOTE



**Health Connector staff recommends that the Board authorize the Executive Director to extend the current contract with Milliman to provide risk adjustment implementation support through December 31, 2014.**