

MEMORANDUM

To: Health Connector Board of Directors
Cc: Jean Yang, Executive Director
From: Ed DeAngelo, General Counsel
Michael Norton, Senior Manager of External Affairs and Carrier Relations
Sam Osoro, Senior Financial Analyst
Date: January 14, 2015
Re: Contract Extension for Milliman to Assist the Health Connector in its Implementation of the Massachusetts-specific Risk Adjustment Program as required by the Affordable Care Act

EXECUTIVE SUMMARY

At the December 12, 2013 Board meeting, Health Connector staff provided an update on our Affordable Care Act (ACA) required risk adjustment program, including obtaining a Board vote to authorize a contract extension with Milliman, the vendor that had been assisting the Health Connector in this implementation. In advance of the January 15, 2015 Board meeting, this memorandum summarizes work completed around risk adjustment to date and the upcoming key milestones. We will also be seeking another extension of the Milliman contract to support continued work during 2015.

Under the ACA, states can default to the federal program for risk adjustment or stand up a state-based program. Massachusetts opted to administer its own program, which, among other benefits, minimizes administrative burden and cost to the market by using the Commonwealth’s All Payer Claims Database (APCD) and aligns with other state policy goals such as appropriately accounting for the ConnectorCare program in the risk adjustment methodology. On March 11, 2013, the Health Connector received official federal certification of its proposed risk adjustment methodology, making Massachusetts the first and only state with a federally-certified state-specific risk adjustment program. Since that time we have been heavily involved in implementation activities and data infrastructure readiness efforts.

Working with our colleagues at the Center for Health and Analysis (CHIA) and Milliman, we have completed a total of four comprehensive simulations of the Massachusetts risk adjustment program to date, along with ongoing analysis of data quality and one-on-one consultations with each carrier operating in the merged market. Also with CHIA, we developed a Member Month Tracker report that requires validation from each carrier during data submission in order to confirm that the information used in the risk adjustment calculation is accurate.

At the December 11, 2014 Board meeting, the Health Connector proposed to issue draft Risk Adjustment regulations focused on a series of program rules related to the payment and charge settlement. Earlier this month, the Health Connector finalized its Request for Proposals (RFP) for a Risk Adjustment Data Validation (RADV) auditor. With the support of Milliman, the auditor will perform key functions related to data validation, assisting in RADV appeals process, designing training for the audit staff and designing an RADV data transfer process and mechanism throughout 2015.

BACKGROUND: MASSACHUSETTS APPROACH TO RISK ADJUSTMENT

The ACA established three programs to preserve market stability and competition in the small and non-group markets. These risk mitigation mechanisms are the transitional reinsurance program, the

temporary risk corridor program,¹ and the permanent risk adjustment program. Collectively, these three programs are referred to as the “3Rs”. Of these three programs, risk adjustment is the only one that is a permanent program.

Risk adjustment is a premium revenue redistribution mechanism that moves funds from issuers with lower average actuarial risk to issuers with higher average actuarial risk. It applies to carriers that sell plans in the small group and non-group merged market both inside and outside of the Marketplace. The risk adjustment methodology uses diagnosis information from claims data to predict the cost / plan liability for members with certain health conditions. (Condition categories have relative values or “weights” based on the average cost associated with treatment.) Resulting member-level risk scores may also be used to compare and adjust premiums charged by issuers for their products sold in the merged market.

States were provided the option to operate a state-customized risk adjustment program. To evaluate this option, a 3R inter-agency workgroup was convened in early 2012, co-chaired by the Health Connector and the Division of Insurance (DOI). The 3R workgroup also included representatives from MassHealth, the Group Insurance Commission (GIC), the Executive Office for Administration and Finance (ANF) and CHIA (then the Division of Health Care Finance and Policy).

Following a competitive procurement, Milliman was hired to support the workgroup in its planning efforts by conducting a review of the federal laws, regulations and technical guidance specific to risk adjustment. Milliman was also tasked with studying the likely impacts of the risk adjustment methodology in Massachusetts and conducting an evaluation of the Massachusetts APCD as the data warehouse to support a state-based approach to risk adjustment.

Based on the outputs from the planning and research phase, including support among the stakeholder community, it was determined that a Massachusetts-specific approach would offer important benefits. Specifically, a Massachusetts approach allows us to tailor a program that fits with certain unique characteristics of the Massachusetts market and is more reflective of utilization and cost patterns in the Commonwealth. From an operational perspective, our approach would allow us to leverage the APCD for data collection, which dramatically simplifies the administrative process. Milliman subsequently worked with the Health Connector to develop a risk adjustment model calibrated to Massachusetts experience as well as an approach to calculating plan average actuarial risk and payment and charges. As was previously noted, their team also supported the 3R workgroup throughout the federal certification application process.

The end result was an approach that differs in some respects from the federal approach while providing some key advantages to Massachusetts:

- By calibrating the models with data from our own population and utilizing a more expansive list of condition categories, we enhance the effect of premium stabilization. In short, our models use underlying data that is more reflective of utilization and cost patterns in the Commonwealth and have higher predictive accuracy.
- We modified the induced utilization adjustment factors provided by HHS to fit our merged market. Specifically, we have built in an adjustment to reflect selection dynamics among non-group members in our merged market that will not be addressed in premium pricing. We have

¹ Both the risk corridor and reinsurance programs will run through 2016 after which they are scheduled sunset.

also incorporated adjustments to account for the enhanced premium and cost-sharing subsidies that are extended for eligible ConnectorCare members.

- We are capitalizing on the Commonwealth’s investment in the APCD infrastructure to support risk adjustment operations. By leveraging existing data collection processes, it will help to avoid duplication and dramatically reduce the amount of incremental resources required to launch and administer risk adjustment on an ongoing basis.

RISK ADJUSTMENT PROGRAM IMPLEMENTATION

Following federal certification of the Massachusetts approach, the inter-agency 3R workgroup gave way to a smaller risk adjustment implementation team comprised of representatives from the Health Connector, CHIA and our technical consultants, Milliman. The team achieved a number of key milestones in 2014.

Statewide Risk Adjustment Simulations

With significant support from Milliman, we have completed four full-scale simulations of the Massachusetts risk adjustment program as of December 2014 using claims and eligibility data from calendar year 2012 to 2014, submitted by the carriers to the state APCD. The results of the simulations, data quality assessments and other relevant information are subsequently shared with each individual carrier to support carriers’ important financial and operational functions such as rate filing, year-end financial statements, ongoing data quality improvements and better understanding of the risk adjustment program, among other items.

Although the risk adjustment payment and charge calculations are performed once annually (in June for the prior plan year), we have performed quarterly simulations throughout the plan year to enable carriers to plan ahead in terms of their rate filing at the start of the year and booking reserves for anticipated risk adjustment payments towards the end of the year. The table below provides a summary of the quarterly runs, the related observation period, when the applicable data is received by, and when risk score calculations will be available.

Report Name	Claims Incurred	Claims Paid Through	Carrier Data Due	APCD Refresh Complete	Risk Score Calculations	Purpose
Q4 2014	07/01/13 – 06/30/14	09/30/14	10/31/14	11/30/14	12/31/14	Informational
Q1 2015	10/01/13 – 09/30/14	12/31/14	01/31/15	03/28/15	04/31/15	Market averages
2014 Settlement	01/01/14 – 12/31/14	03/30/15	04/30/15	05/31/15	06/30/15	Payment & Charge Notices
Q3 2015	04/01/14 – 03/31/15	06/30/15	07/31/15	08/31/15	09/30/15	Informational

Q4 2015	07/01/14 – 06/30/15	09/30/15	10/31/15	11/30/15	12/31/15	Informational
Q1 2016	10/01/14 – 09/30/15	12/30/15	01/31/16	12/30/15	01/31/16	Market averages

Subsequent years will continue on a similar schedule to that outlined above.

Data Quality Review

Given that data quality is so critical to the credibility of risk adjustment, we undertook a separate but related effort focused on data quality, starting the summer of 2013. Using the same data provided for the simulation, Milliman conducted a review of each carrier’s data submissions. The purpose of these data quality reviews was to check that the carriers’ files conformed to expected and typical cost, utilization and coding patterns. Milliman ran the data through its cost guidelines grouper to identify any anomalies; Milliman also observed the extent to which claims and enrollment totals corresponded to the reported control totals. Finally, Milliman reviewed the files for completeness focusing on key data fields (such as diagnosis codes) that are important for risk score calculation. Customized reports were shared with each carrier and, as mentioned above, we conducted one-on-one consultations with each. Overall, data quality among the carriers is good; instances where data quality may be improved were addressed on a case-by-case basis with individual carriers.

In collaboration with the Health Connector’s data quality improvement efforts, CHIA established bi-weekly calls with each carrier to review the data quality and methods for mitigating errors. DOI conducted in-person meetings with each APCD submitter and consulted on methods to improve the quality of the data.

Member Month Tracker and Data Discrepancy Resolution Process

The Health Connector’s risk adjustment project team implemented a monthly reporting process to track each carrier’s total member months of enrollment subject to risk adjustment and collected premiums, based on carriers’ APCD data submissions. Carriers are asked to review and sign off on the accuracy of the report and resolve discrepancies, if any. This process is aimed to ensure the accuracy of a few key data elements required for calculating risk adjustment fund transfers.

Risk Adjustment Data Validation (RADV)

The Health Connector’s risk adjustment project team has also progressed in establishing an RADV framework. After submitting a Request for Proposal (RFP) on November 17, 2014, the team was able to narrow its focus from three potential outlined RADV frameworks to one. The single level audit approach, as the method selected, will require the team to perform an audit from each of the carriers. The Health Connector is in the process of selecting an RADV vendor and will return to the Board later in 2015 with the results of this procurement.

Supplemental Diagnosis

In order to facilitate the collection of all relevant diagnoses, the Health Connector’s risk adjustment project team, in close discussions with CHIA and the carriers, finalized a policy that allows carriers to

submit supplemental diagnoses data to the APCD for the purpose of risk adjustment starting the 2015 benefit year. A supplemental diagnosis is a diagnosis that is appended to a claim after the claim has already been submitted to the APCD. Submitting supplemental diagnoses to the APCD will allow diagnosis codes to be added to or deleted from previously submitted claims.

Preparation for Settlement Report

In order to prepare for the 2014 benefit year settlement report, and as part of an ongoing effort to improve data quality and program transparency, the Health Connector's risk adjustment project team provided detailed information enabling each carrier to replicate the calculations involved in the statewide risk adjustment simulations. The team provided detailed member level input and output datasets, risk scores and the algorithms used.

Starting in October 2014, the team facilitated monthly meetings with all of the insurance carriers in order to engage them in a dialogue on the methodology and strategic topics. The team also provides bi-weekly email updates related to the risk adjustment program.

Draft Risk Adjustment Program Regulations

The Health Connector Board last month issued draft regulations for public comment that include:

- Requirements for data submission to the APCD related to enrollment, claims and other data to CHIA; penalties related to failure to submit data within required timeframe; data privacy and security standards.
- A process for ongoing discrepancy resolution including reports provided to the carriers from the Commonwealth and timeframe related to review process, reconsideration and resolution processes.
- Transfer calculation and payment connected to calculation results and payment and charges report.
- Grounds for a request for reconsideration, whether related to materiality, type of request, manner and content of request and timeframe.
- Procedure for request for reconsideration, with a determined scope for reconsideration, burden of proof, process for first-level review, process for hearing request, process for actual hearing, process for decision and process for any adjustment, if need be.
- Procedure for the Commonwealth's RADV program.

State Notice of Benefit and Payment Parameters

The team finalized the 2015 State Notice of Benefit and Payment Parameters. The document focused on the methodology, data validation and program integrity. The methodology, reiterated from the 2014 State Notice of Benefit and Payment Parameters, focused on the unique conditions of the Massachusetts risk adjustment program, merged market and the use of the APCD. The RADV section of the document reiterated the framework, consistent with the federal approach, but also emphasized the longer term goal of the RADV approach.

MILLIMAN CONTRACT EXTENSION

Milliman has continued to be a strong partner to the Health Connector throughout 2014. The successful execution of a full-scale simulation, as well as the numerous milestones we have achieved in the last twelve months related to both data infrastructure and operational readiness are the result of much of their effort and support. Moving into 2015, the Health Connector and CHIA will continue to require their technical support.

The Health Connector proposes to renew the Milliman contract on the same terms for a year ending December 31, 2015. Work under that contract will be governed by a series of work orders. The first work order will be for the four-month period ending April 30, 2015. The work order will set out a scope of work to be performed and rates for that time period, as set forth below.

Milliman will provide support on a number of key deliverables by 4/30/2015:

- Assist the Health Connector in drafting and publishing the 2016 State Notice of Benefit and Payment Parameters
- Provide updates to risk adjustment methodology and code set (either include in the 2016 Notice or issue as a separate addendum to the 2015 Notice)
- Conduct 2015 Q1 quarterly statewide risk adjustment simulation and data quality reporting
- Assist the Health Connector in the development and finalization of the risk adjustment program regulations
- Assist the Health Connector and CHIA in data discrepancy resolution and reconsideration
- Assist the Health Connector and its contractor(s) in RADV program development and implementation
- Assist the Health Connector and CHIA in the collection of supplemental diagnoses for risk adjustment
- Assist the Health Connector in its communications with the federal government on matters relating to risk adjustment
- Project operations and management
- Monitor and analyze federal rules, regulations and guidance as they relate to risk adjustment
- Finalize program operations manual
- Ad hoc analyses (including assisting the Connector in creating a data extract for policy research purposes)

Below is a breakdown of the costs by scope of work. Note that the Milliman cost proposal has been served as a not-to-exceed fee.

Scope of Work	Senior Level Consultant	Mid Level Consultant	Junior Level Consultant	Amount
2016 State Payment Notice	7	46	1	\$25,100
Updates to methodology and code set	4	143	37	\$65,122

2015 Q1 quarterly statewide risk adjustment simulation and data quality reporting	31	314	136	\$175,959
Assist the in the development and finalization of the risk adjustment program regulations	3	45	0	\$21,708
Assist the Health Connector and CHIA in data discrepancy resolution and reconsideration	58	421	227	\$142,800
Assist the Health Connector and its contractor(s) in RADV program development and implementation	9	105	12	\$42,712
Assist the Health Connector and CHIA in the collection of supplemental diagnoses for risk adjustment	0	101	0	\$35,620
Assist the Health Connector in its communications with the federal government on matters relating to risk adjustment	9	71	0	\$26,122
Project operations and management	41	364	57	\$136,797
Monitor and analyze federal rules, regulations and guidance as they relate to risk adjustment	2	39	0	\$13,789
Finalize program operations manual	16	90	8	\$51,043
Ad hoc analyses	7	71	18	\$28,472
Total	187	1,811	495	\$765,244

Below please find the Health Connector's expenses from Milliman, Inc. in the last three calendar years:

	Expenses for Milliman, Inc by Year			
	CY2012	CY2013	CY2014	Jan-April 2015
Budgeted	\$1,712,700	\$2,162,722	\$1,524,189	\$765,244
Actual	\$1,267,387	\$1,081,108	\$1,103,815	
Difference	(\$445,313)	(\$1,081,614)	(\$420,374)	

BOARD RECOMMENDATION

Milliman had significant involvement in standing up a robust Massachusetts risk adjustment model that is tailored to the unique characteristics of our market and achieved federal certification. Milliman has since been a key partner in the implementation activities, most notable of which was the successful delivery of a full scale simulation of the model.

Milliman's multi-disciplinary team of national experts in risk adjustment, health informatics, actuarial analysis and regulatory affairs has enabled us to continue to analyze operational decisions from various vantage points and has informed an approach that we believe best balances numerous interests within the Commonwealth. Finally, Milliman has exceptional credibility among the carriers in Massachusetts.

Milliman's high performance in the planning and implementation phases of this engagement, combined with the important efficiencies gained as a result of continuing with a consulting team that is highly familiar with the stakeholders in Massachusetts, the APCD and with the risk adjustment program that they helped to develop, makes them a natural partner for the next phase of the project.

We therefore recommend a year-long contract renewal with Milliman, with a work order for a total cost of \$765,244 through April 30, 2015. Work associated with this effort is eligible for federal reimbursement from Establishment Grant funding.

We look forward to presenting the above information and providing our formal recommendation at the Health Connector Board meeting on January 15, 2015.