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

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# Background on Risk Adjustment



- The Affordable Care Act (ACA) established three premium stabilization programs for the small and non-group health insurance market that has gone into effect starting January 1, 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, the Health Connector described the 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 the first four months of calendar year 2015
  - Seek a Board vote on a proposed twelve month contract extension with Milliman with a four month work order through April 30, 2015

# Massachusetts Approach to Risk Adjustment



- As discussed at the December 13, 2013 Board meeting, there are some clear advantages to operating our own risk adjustment program in Massachusetts
- Our approach enables us to leverage the Commonwealth's All Payer Claims Database (APCD) for data collection, which dramatically simplifies the administrative process
- Our program methodology 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
  - Our model thus achieves 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%)

# 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, have been heavily involved in program implementation efforts
- We have achieved several key milestones in 2014 in support of a successful program launch:
  1. We completed three full-scale simulations of the Massachusetts risk adjustment program
  2. We generated customized and detailed data quality reports for every carrier in the Massachusetts merged market
  3. We 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 submissions
  4. We finalized a supplemental diagnosis policy that allows carriers to submit supplemental diagnosis data to the APCD for the purpose of risk adjustment starting in 2015
  5. We progressed in establishing a Risk Adjustment Data Validation (RADV) framework and are currently reviewing procurement proposals
  6. We issued draft regulations for public comment in order to establish a process for settlement period

# Risk Adjustment Simulation

- Three simulations of the Massachusetts risk adjustment program were completed in 2014 using claims and eligibility data from calendar year 2012 – 2014 submitted through the state APCD
- The purpose of performing quarterly simulations is 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
- The frequency of these simulations and the transparency they offer allows for a continued dialogue with the carriers, building confidence in the process

# Data Quality and Data Readiness

- Because data quality is so critical to the credibility of risk adjustment, we focused extensively on data quality
- The purpose of the carrier data quality reports is to check that the carriers' files conformed to expected and typical cost, utilization and coding patterns
- Milliman provided customized reports for each of the carriers and CHIA, the Health Connector and the state Division of Insurance (DOI) have conducted separate one-on-one consultations with each carrier for the purposes of data quality improvement

# Activities through April 2015

- Statewide risk adjustment simulation
- Data quality review
- Monthly risk adjustment All-Carrier Meetings
- Member Month Tracker and Data Discrepancy Resolution Process
- Development of Risk Adjustment Data Validation (RADV) process
- Finalize Risk Adjustment Program regulations
- Drafting of 2016 State Notice of Benefit and Payment Parameters
- Finalize risk adjustment program operations manual

# January-April Scope of Work



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
<b>Total</b>	<b>187</b>	<b>1,811</b>	<b>495</b>	<b>\$765,244</b>

# Milliman Expenses

	Expenses for Milliman, Inc by Year			
	CY2012	CY2013	CY2014	1/1/15-4/30/15
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)	

\*All budgeted figures represent not-to-exceed

**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, 2015, with a work order for services through April 30, 2015 as set forth in this presentation.**