MEMORANDUM

To: Health Connector Board of Directors
Cc: Louis Gutierrez, Executive Director
From: Michael Norton, Senior Manager of External Affairs & Carrier Relations
Sam Osoro, Senior Financial Analyst
Date: July 6, 2015
Re: 2014 Risk Adjustment Settlement Update

OVERVIEW

Risk adjustment is a permanent program under the Patient Protection and Affordable Care Act (ACA) and applies to non-grandfathered individual and small group health plans. The Health Connector administers the risk adjustment program for the Commonwealth using a federally-certified methodology that was developed by the Health Connector in consultation with carriers. For the 2014 benefit year, the Health Connector completed the annual risk adjustment funds settlement by June 30, 2015, a deadline set by federal regulation.[1]

This memorandum summarizes the processes that the Health Connector took to conduct risk adjustment funds settlement, efforts the Health Connector made to ensure that the most accurate data was used in the calculations, additional quality controls taken to ensure the accuracy of calculations, Health Connector communications with carriers and other state agencies, and upcoming activities relating to funds settlement.

2014 RISK ADJUSTMENT FUNDS SETTLEMENT CALCULATIONS

1. Data Submissions

The 2014 risk adjustment funds settlement used membership and claims data submitted by carriers to the All Payer Claims Database (APCD) managed by the Center for Health Information and Analysis (CHIA). Specifically, the data included members enrolled in ACA-compliant commercial individual Catastrophic plans, non-Catastrophic plans and small group plans between January 1 and December 31, 2014, and claims incurred during their enrollment and paid through March 31, 2015 and submitted to CHIA through April 30, 2015.

In the months leading to April 30, 2015, the risk adjustment data lockdown deadline, the Health Connector and CHIA worked closely with carriers to resolve data quality issues identified through the state-wide risk adjustment simulations. The Division of Insurance (DOI) and other state agencies were also involved in carrier communications with respect to data quality and timely data submissions. As a result of the collaborative efforts, CHIA received data from all carriers by April 30, 2015.

[1] 45 CFR §153.310(e).

2. Settlement Data Quality Assessment

Milliman New York Health Practice (Milliman), our risk adjustment contractor, received the first batch of data from CHIA on May 29, 2015. In subsequent weeks, Milliman conducted a set of high level data reasonability checks and identified a number of data discrepancies. The project team – Health Connector, CHIA and Milliman – engaged carriers in one-on-one discussions to validate these findings and reached resolutions with the carriers prior to finalizing funds settlement calculations. In some cases, the discrepancies were resolved by file resubmissions to CHIA. In other cases, carriers submitted supplemental information to the Health Connector, which was incorporated into the settlement data by Milliman. Throughout the process, the Health Connector provided interim status updates to the market. No known data quality issue was left unresolved for the purpose of funds settlement.

3. Settlement Calculations and Carrier Reports

Milliman conducted the settlement calculations based on a methodology developed by the Health Connector in conjunction with carriers, and certified by the Department of Health and Human Services (HHS), as described in the 2014 Massachusetts Notice of Benefit and Payment Parameters. In Massachusetts, there are two risk adjustment pools, one for Catastrophic plans and one for non-Catastrophic commercial individual and small group plans. Risk scores were calculated at the member level to estimate the predicted health risks and resulting costs of providing services to that member. These scores were aggregated at the plan-rating area level, then summed up at the issuer level. Risk adjustment payments and charges for each carrier were calculated based on these factors.

Carrier-specific reports describing these calculations and specifying the amount of payments or charges were released to carriers on June 30, 2015. SAS codes (the statistical software used to conduct the analyses) and input and output data files by the Health Connector were also shared in these reports. Carriers may also request raw APCD files from CHIA to further validate and reconcile to the funds settlement calculations.

In 2014, there were 12 carriers and 16 issuers (four carriers held two health insurance licenses) in Massachusetts, and a total of 4.4 million member months subject to risk adjustment. Note that this includes commercial merged market plan members and ConnectorCare members, and only the member months that were subject to risk adjustment.[2] Commonwealth Care plans were excluded from the 2014 risk adjustment program; a decision made by the Centers for Medicare & Medicaid Services (CMS) in November 2014. Total market premium subject to risk adjustment is around $1.98 billion. The average monthly premium in the market is approximately $435. Six issuers will receive a total of about $61

[2] In most cases, individual members had until March 31, 2014 to select an ACA-compliant plan. Small group members enrolled throughout 2014 based on each employer's plan year and renewal dates. Different carriers appear to have different renewal patterns. Some carriers had a large number of their small group members enrolled in the fourth quarter of 2014. As part of ACA implementation, risk adjustment would only apply to plans on the first renewal after January 1, 2014. Thus, members renewed in such plans would not have been taken into account for risk adjustment purposes for the first three quarters of the year.

million, or 3 percent total market premium, from the remaining 10 issuers. As part of program transparency, the Health Connector issued a press release on June 30 and provided the public the settlement figures, which are included below.

Carrier	Payment / Received
Blue Cross Blue Shield HMO Blue, Inc.	$49,839,020 received
Blue Cross Blue Shield of Mass., Inc.	$1,836,923 received
Boston Medical Center HealthNet Plan	$5,149,610 payment
Celticare	$481,138 payment
ConnectiCare Massachusetts	$1,243,072 payment
Fallon Community Health Plan	$11,861,230 payment
Fallon Health and Life Assurance Company	$850,658 received
Harvard Pilgrim Health Care, Inc.	$480,259 received
Harvard Pilgrim Insurance Company	$4,055,614 payment
Health New England	$2,630,068 payment
Minuteman Health	$3,064,679 payment
Neighborhood Health Plan	$27,646,254 payment
Network Health	$3,690,452 payment
Tufts Associated Health Maintenance Organization	$6,826,667 received
Tufts Insurance Company	$1,623,818 received
United Healthcare	$1,635,227 payment

4. Accounting Activities

The Health Connector issued reports on risk adjustment payments and charges to issuers on June 30, 2015 along with wiring instructions. Issuers owing risk adjustment payments (payors) have until the end of July 2015 to make payments. The Health Connector will distribute funds to issuers that will receive transfers (recipients) by the 15th business day in August. In the event that the Health Connector does not receive payments in full from the payors, according to the Massachusetts risk adjustment program regulations, the Health Connector will distribute available funds that have been paid proportionately and will assess and accrue interest payments to those issuers that failed to make full payments.[3]

5. Settlement Calculation Audit Review

To ensure correct calculations and to increase confidence in the risk adjustment process, the Health Connector has engaged FTI Consulting (FTI) to conduct a review of the risk adjustment settlement calculations. This review is complementary, as it relates to data submissions, to the discrepancy reporting process and the reconsideration process that have been outlined previously. These processes work together to provide redundancy and multiple controls to ensure the accuracy of risk adjustment data and calculations.

[3] 956 CMR 13.05.

Milliman will release information to FTI for conducting the review on June 30, 2015. FTI will issue a preliminary report to the Health Connector by July 17, 2015, and issue a final report by July 31, 2015.[4]

As noted above, throughout the data submission process, the Health Connector and CHIA worked closely with carriers to resolve any data discrepancies identified by carriers or by the Health Connector.

Any discrepancies that were reported prior to April 30th but that remain unresolved, or any discrepancies that could not have been identified by the carrier by April 30th, may be addressed through a reconsideration process described in the Health Connector's regulations. Carriers may request reconsideration of the incorrect application of the risk adjustment methodology, including unresolved data discrepancies, or mathematical errors. The Health Connector's risk adjustment regulations lay out the parameters for the reconsideration request, including a materiality threshold, the timing to file a request for reconsideration, as well as the manner and content of the reconsideration request.[5] The reconsideration process provides for two levels of review – an initial first-level reconsideration by the Health Connector, and a hearing before a hearing officer.

Where, following a request for reconsideration, a determination is made that a carrier's risk adjustment payment should be adjusted, the Health Connector will calculate the amount of that adjustment. Because of the balanced, or "zero-sum", nature of risk adjustment transfers, an adjustment to one carrier's transfers would generally require an adjustment to another carrier's transfers.

If the Health Connector determines that a reconsideration decision would cause a need to adjust the payments/charges of other carriers, "the [Health] Connector will determine the level of adjustment required to be applied to each Carrier's transfer amounts, with the adjustment made to the next risk adjustment transfer after the issuance of the final decision."[6] Thus, the adjustments may not necessarily be reflected across all issuers until the following year. This is consistent with how HHS has described it would administer adjustments related to the Risk Adjustment Data Validation (RADV) process.

Health Connector staff will update the Board with any additional significant developments related to the administration of risk adjustment for the 2014 benefit year including, but not limited to, any requests for reconsideration.

[4] Note that, in states where HHS operates risk adjustment, CMS has stated that it has internal validation processes, checks, and verifications of the calculation process, although has not stated that it will have an independent audit of the process.
[5] 956 CMR 13.06.
[6] 956 CMR 13.07(8).