



---

# Risk Adjustment Update

EDWARD DeANGELO  
General Counsel

MICHAEL NORTON  
Senior Manager of External Affairs & Carrier Relations

Board of Directors Meeting, December 10, 2015

# Today's Risk Adjustment Discussion



- The Health Connector, on behalf of the Commonwealth and in collaboration with other state agencies, implemented a state-administered, Massachusetts-specific Risk Adjustment (RA) program
  - RA, whether done at the state level or for a state by the federal government, is required under the Affordable Care Act (ACA); Massachusetts is the only state currently operating a state based-program
- The Commonwealth's authorization from Centers for Medicare & Medicaid Services (CMS) to operate a state-based RA program runs out at the end of benefit year 2016 settlement; as such, we are currently obligated to operate the program through the 2016 settlement (*i.e.*, up through calendar year 2017)
- Today's discussion will focus on whether we seek further federal extension to operate the program for benefit year 2017, which will be settled in the third quarter of calendar year 2018
  - Operating the program in 2017 requires several actions: Federal extension of authorization to operate; Federal approval of payment methodology; allocation of 2017 program costs to carriers, and administration of 2017 risk adjustment program
- In light of broader considerations, such as unique value and cost, we are not planning to pursue federal authorization to operate the Risk Adjustment program for the 2017 benefit year

# Background: the ACA-required Risk Adjustment Program



- Section 1343 of the ACA requires that a permanent RA program be established in each state
- Unlike other areas of the Affordable Care Act, RA cannot be altered or eliminated under Section 1332 of the ACA
- If a state administers its own program, it may choose to either use the Department of Health and Human Services (HHS)'s RA methodology, or develop its own RA methodology subject to certification by HHS
  - Currently, the federal RA methodology is being used in 49 other states
  - The federal government must make any state's approved methodology available for use in any other state with a State-Based Marketplace
- The stated goals of the program are to mitigate the effects of potential “adverse selection” among issuers to make carriers agnostic to whom they enroll, and to stabilize premiums inside and outside of the exchanges
- Under the statute, payments are provided to issuers with plans that have higher-than-average “actuarial risk,” funded by transfer payments from issuers with plans that have lower-than-average “actuarial risk” in accordance with a federally-approved methodology
- Both federal and state methodologies for RA result in significant transfers of money among carriers, as some will have to pay and others will receive payments

# Massachusetts Methodology



- In consultation with stakeholders, the Commonwealth developed an alternate methodology, which was submitted to HHS for certification in December 2012; the methodology was then certified for benefit years 2014-2016
  - It took approximately one year to develop the alternate state methodology
- The Massachusetts methodology closely aligns with the federal methodology, with the addition of certain refinements in diagnostic codes and in treatment of the enhanced benefit design of the ConnectorCare program
  - Medical diagnoses from clinically valid sources are used to establish relative risks across members and plans
  - Uses state average premium as basis for funds transfer
  - Similar theoretical construct for calculating funds transfers
  - Conducts risk adjustment data validation (RADV) to ensure the accuracy and integrity of the data
  - Employs regulatory processes for resolving carrier data discrepancies and appeals

# Massachusetts Methodology (cont'd)



- Both federal and state methodologies have similar results in terms of the direction of the transfer of funds among carriers. In other words, carriers that receive transfer payments and carriers that make transfer payments are the same under either methodology
- Further, the methodologies are likely to result in a similar dollar size of transfer overall based upon analysis for the 2014 calendar year merged market simulation
  - To date, the effects of risk adjustment nationally, both in directionality and level of funds transferred, are consistent with what we have experienced in Massachusetts
- Quarter-to-quarter simulation results can vary widely given market dynamics, leading to uncertain long-range projections

# Administration of State-Based Risk Adjustment



- In addition to dedicated internal resources to manage the RA program, the Health Connector relies heavily on outside consultants to operate and audit the program
- For 2017 and beyond, we would expect the cost to administer the program at a state level would remain relatively constant at ~\$4.4M, though were we to retain it we would require the market directly to absorb the costs as it would in the Federal program
- Notably, exclusive of RADV, the estimated per member per month cost for 2017 would be \$0.31 for a total of ~\$2.8M as opposed to \$0.15 under the federal model for a total of ~\$1.2M; more than twice the cost to administer at the state level for that benefit year

Work	
Estimated Staff Expenses	\$ .185M
Risk Adjustment Technical Consultant	\$2.1M
All Payer Claims Database (APCD)	\$.2M
Risk Adjustment Settlement Audit	\$.25M
Risk Adjustment Consideration Process	\$.05-\$.06M
Subtotal:	~\$2.8M
Risk Adjustment Data Validation (RADV)*:	\$1.6M
<b>TOTAL:</b>	<b>~\$4.4M</b>

Cost Per Member Per Month for Each Program (exclusive of RADV)*	
State PMPM	Federal PMPM
\$0.31	\$0.15

\*RADV is required under either state or federal administration of RA.

# Market Perception of State's Role in Risk Adjustment



- The Health Connector issued a Request for Information on November 6, 2015 seeking comment from the market about whether to retain a state-based RA program
- We received responses on November 20, 2015 from nine Massachusetts issuers and the Massachusetts Association of Health Plans (MAHP)
- Some plans advocated that we keep the state program, in the hope that the state can substantially alter the terms of the program and to do so immediately
- Several issuers commented more broadly on the implications of RA programs given that the methodology (whether state or federal) serves to penalize smaller, “low cost, high growth” issuers in favor of larger, more expensive issuers; these commenters proposed conceptual changes that would require significant modeling and consensus building to achieve
- One issuer supported transitioning both the operation and methodology of the RA program to the federal government
- Another plan supported state administration for 2017 (and consideration of methodology changes for 2018), but only if the state would use the federal RA methodology
- Yet another plan supported state administration for 2017 but was unwilling to pay more than the federal amount

# Policy Considerations

- In light of the comments that we received, along with our own considerations, it would seem that committing to the program over the longer term should be premised on the following assumptions:
  1. The state would be allowed by the federal government flexibility to redesign it – to add genuinely unique value;
  2. The state could operate with comparable efficiency to the federal program;
  3. Massachusetts market consensus could be reached on substantially different terms; and
  4. We are able to predict with relative certainty the transfer outcomes in out-years under either program

# Policy Considerations (cont'd)

***On balance, particularly given costs and relative benefits, we are not planning to pursue continued authorization to operate a state-based Risk Adjustment program.***

## Redesign Flexibility

- Not available for 2015/2016
- Not feasible for 2017 given timeline; only modest changes possible
- Given requirement for Federal approval, changes fundamentally affecting RA operation unlikely unless such changes originate at Federal level

## Efficient Operations

- State administration of RA inefficient when compared to Federal government economies of scale
- MA taxpayers / premium payers disproportionately bear cost in a state-administered program

## Market Consensus

- Market consensus contingent on uncertain outcomes
- Sentiment divided in terms of intentions:  
*Only if we...*
  - Convert to Federal methodology
  - Make substantive changes
  - Depends on market participants agreeing on opposing outcomes

## Benefit to Market

- Outcomes can vary widely scenario to scenario, making long-range predictions uncertain

# Next Steps



- Continue to work closely with issuers on 2015 and 2016 benefit years risk adjustment
- Notify CMS/Consumer Information and Insurance Oversight (CIIO) of MA decision not to pursue further authorization to operate for the 2017 benefit year
- Coordinate planning activities with CMS/CCIIO to support smooth transition
- CMS would memorialize the decision of MA not to pursue RA in the final 2017 Federal Notice of Benefit and Payment Parameters in February 2016