



Risk Adjustment

A Possible Utah State-Based Approach

Overview

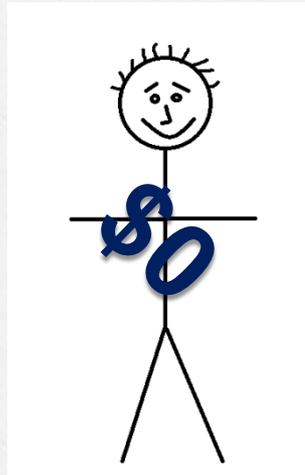
- Why Risk Adjustment?
- What is Risk Adjustment?
- Analysis of State Based vs. Federal
- Conclusions

Currently

- o Individual market is not guaranteed issue.
- o Premiums vary by health status.
- o High risk pools are the insurer of last resort.

Example - Currently

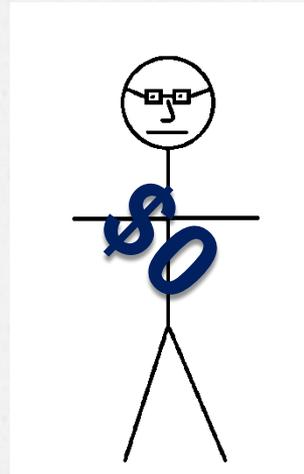
Bob



Age: 40
Health Status: Healthy
Cost: \$250

Issued
Premium: \$250

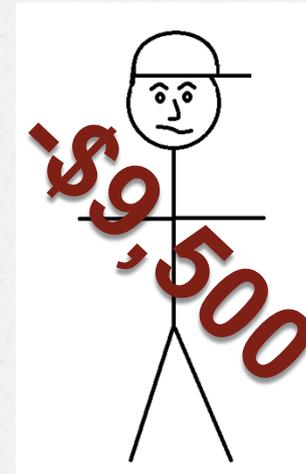
Tom



Age: 40
Health Status: Asthma
Cost: \$750

Issued
Premium: \$750

Jon



Age: 40
Health Status: Cancer
Cost: \$10,000

Rejected by Insurers
Issued High Risk Pool
Premium: \$500

Changes in 2014

- Individual market becomes guaranteed issue.
- Modified Community Rating – Premiums are not allowed to vary by health status.

Example – 2014 before 3 R's

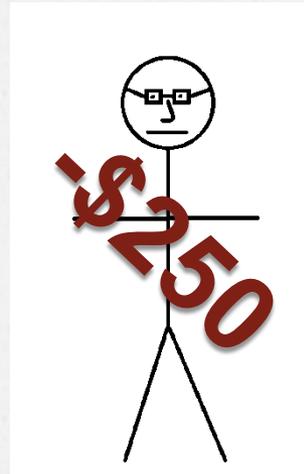
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What is Risk Adjustment?

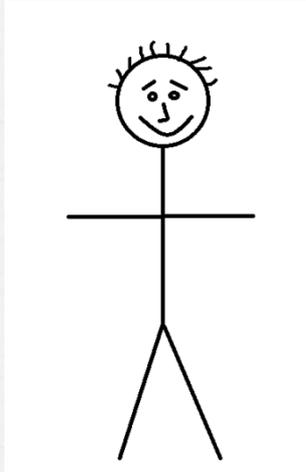
- o Provides payments to health insurance companies that disproportionately attract sick people. (chronic conditions such as asthma, diabetes, etc.)
- o Where do those payments come from? It comes from the insurance companies with the healthier populations.
- o Total payments and charges between carriers net to zero.

How does it work?

- **Calculate a Risk Score** – Model estimates how sick or healthy people are and their expected costs relative to the market average.
- **Compare Carriers** – Which carriers have sicker populations than average?
- **Transfer Money** - Carriers with sicker populations receive money from carriers with healthier populations.

Simplifying the Example

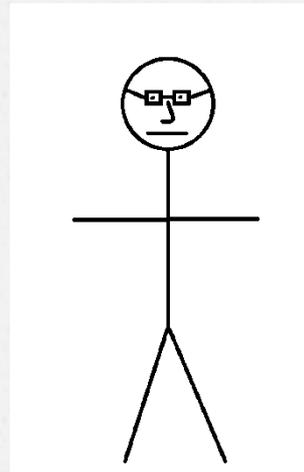
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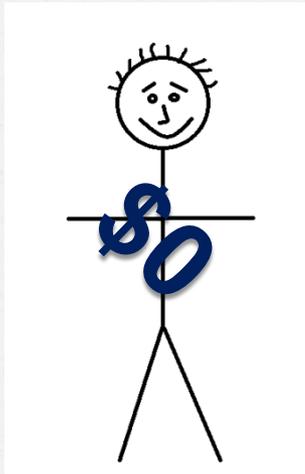


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Premium: \$500**

Example – Risk Adjustment

Bob



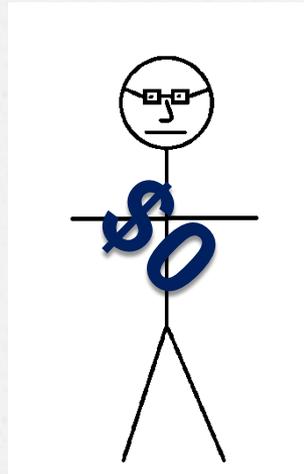
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Cost: \$250

**Issued
Premium: \$500**

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Health Status: Asthma

Cost: \$750

**Issued
Premium: \$500**

Bob's insurance company pay's Tom's insurance company \$250.

What is Risk Adjustment?

	Carrier A		Carrier B	
Risk Score	1.5		0.5	
Premium	\$	500	\$	500
Claims	\$	750	\$	250
Gain/(Loss) before Risk Adj	\$	(250)	\$	250
Risk Adjustment	\$	250	\$	(250)
Gain/(Loss) after Risk Adj	\$	-	\$	-

What Are The Right Questions to Ask?

- o Is it accurate?
- o Is it transparent?
- o Is it efficient?
- o Is it flexible?
- o Will reporting meet stakeholders' needs?
- o Should risk adj. & reinsurance interact?
- o Does it facilitate future health care reform?
- o Does a State-Based Approach Burden Multi-State Carriers?
- o What are the unknowns?

Is it Accurate?

Risk Adjustment Model

Federal

- o HHS is developing a new risk adjustment model starting with their Medicare (65+) risk adjustment model and adjusting it so it will work for the under 65 private market.

Utah

- o Utah would use a risk adjustment model that has been used commercially for many years in the private under 65 market.

Is it Accurate?

Model Calibration

Federal

- CMS will calibrate the model using the Thomson Reuters MarketScan data. (commercial database with nationwide claims.)

Utah

- Utah would calibrate their model against the Utah APCD, the same database that would be used to administer risk adj.

Is it Transparent? Risk Adjustment Model

Federal

- o They are still in the process of developing the model, so it is hard to say.

Utah

- o The Department of Health is currently using 3M's CRG model.

Is it Transparent? Model Calibration

Federal

- Thomson Reuters database is a proprietary commercial database that we would have to pay a fee to access.

Utah

- We have complete control over the Utah APCD.

Is it Efficient? Data Collection

Federal

- o Health insurance companies will have to set up Edge Servers and comply with new data format requirements.

Utah

- o Health insurance companies are already submitting monthly data to the APCD. Some changes may be required.
- o Coordination of APCD data collection process with reinsurance program will create efficiencies.

Is it Efficient? Model Design

Federal

- o HHS plans on having a separate model for each metal level.
(Plan liability)
- o More complex.

Utah

- o Will have a single model for all metal levels.
(Total expenditure)
- o More simple and straightforward.

Is it Flexible? Model Design

Federal

- o HHS will not allow state-specific variances to the federal risk adjustment methodology if HHS is administering risk adjustment.

Utah

- o Utah is giving all interested carriers a voice in the process of designing its state-based risk adjustment methodology.
- o Needs and concerns of marketplace participants will be addressed.

Will Reporting Meet Stakeholders' Needs?

Federal

- 2014 risk adjustment results will not be available until the summer of 2015.

Utah

- Utah plans to publish quarterly risk adjustment results.
- This will enable carriers to monitor emerging experience for pricing and financial reporting purposes.

Should Risk Adj. & Reinsurance Interact?

Federal

- HHS has indicated that they don't plan on modifying risk adjustment to take reinsurance into account since the reinsurance program is intended to end after three years.

Utah

- Utah has indicated it intends to run the reinsurance program and make it permanent.
- State-based risk adj. methodology would take reinsurance into account to avoid long term double-counting.

Does it Facilitate Future Health Care Reform?

Federal

- o Might be similar to trying to enact state-based health care reform with Medicaid market.

Utah

- o **APCD** - Ensures a robust and dependable database for future public policy analysis.
- o **Common Framework (3M CRG)** – Allows innovation since public policy analysis, risk adj. and reinsurance will all “talk” the same language.

Multi-State Carrier Burden? Data Collection

Federal

- o Will likely have to setup new edge servers for other states regardless of what Utah decides.

Utah

- o Carriers are already submitting data to the Utah APCD every month and will continue to do so regardless of what Utah decides.
- o Six additional fields will be added.

Multi-State Carrier Burden? Estimating Risk Adj. Impact

Federal

- Will likely have to estimate risk adjustment impact according to federal methodology in other states.

Utah

- Will have to adjust to Utah's differences from the federal model.
- Lack of consistency with federal norm will be mitigated by more accurate state-specific results.

What are the Unknowns?

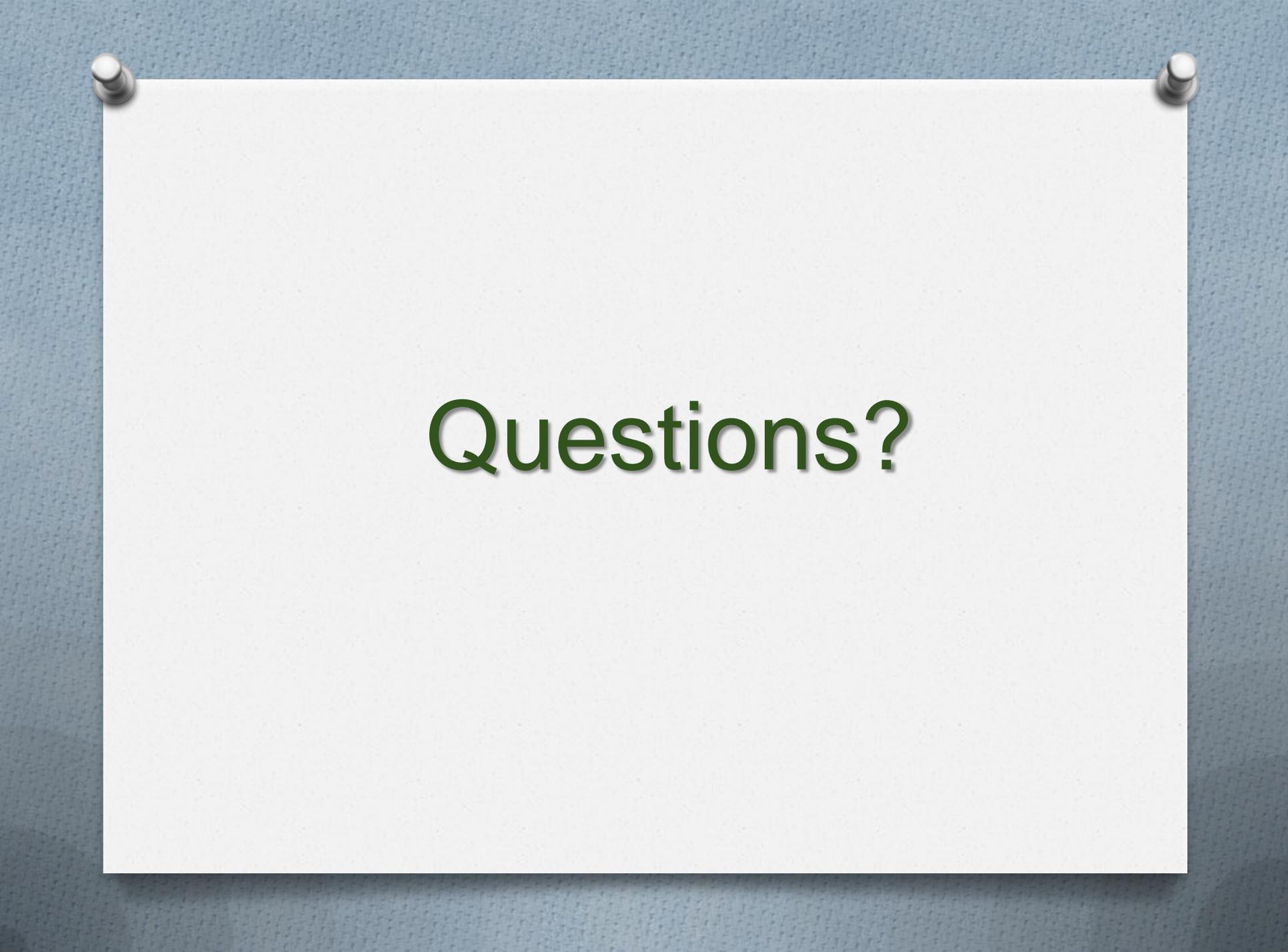
- Uncertainty around federal cost vs. state-based cost.
- Will Utah operate a state-based exchange?

Questions	Federal	State
Accuracy		
Transparency		
Efficiency		
Flexibility		
Reporting		
Interaction with Reinsurance		
Facilitate Future Reform		
Less Multi-State Carrier Burden		

Conclusion

**State-based risk adjustment
is only an option
with
a state-based exchange.**

Is it worth it?



Questions?