

# CHOICES

CONSUMERS FOR HEALTH OPTIONS, INSURANCE COVERAGE IN EXCHANGES IN STATES

## **Technical Issues with ACA Risk Adjustment and Risk Corridor Programs, and Financial Impact on New, Fast-Growing, and Efficient Health Plans**

### **Executive Summary**

The Affordable Care Act makes sweeping changes to public and private health insurance in the United States. Among the legislation's many goals and priorities is the establishment of new healthcare marketplaces. Due to the financial risks inherent in these new markets, the ACA wisely includes the "3 Rs" programs for permanent risk adjustment, transitional reinsurance, and temporary risk sharing with the federal government through the risk corridor program.

Unfortunately, certain limitations in the current risk adjustment and risk corridor programs have an unintended and extremely adverse financial effect on new health insurance plans, those experiencing rapid growth in enrollment, and any insurer that focuses on efficient, innovative, and value-driven care. These limitations have already contributed to the withdrawal or outright failure of a number of marketplace plans, and 2017 premium rates will have significant upward pressure if this is not fixed.

The purpose of this paper is threefold:

- To describe the technical problems affecting the ACA risk adjustment and risk corridor programs;
- To illustrate their impact on new, innovative, rapidly growing, and low-cost health insurance options; and
- To strongly recommend that corrections be implemented both prospectively and retrospectively to prevent the unintended and anomalous results caused by the risk programs' operations in their current form.

This paper identifies seven technical issues that have contributed to the unintended adverse impact on certain carriers.

Technical Issue #1: Time lag until risk adjustment determination is available

Technical Issue #2: Time lag between enrollment of new members and identification of their conditions (and HCC diagnoses) for new and fast-growing plans

Technical Issue #3: Risk adjustment formula coefficients that are too low for non-HCC enrollees and too high for those with one or more HCC diagnoses

Technical Issue #4: Exclusion of prescription drug utilization data from the HHS-HCC risk adjustment model

Technical Issue #5: Lack of a “Care Coordination Factor” in the risk transfer formula

Technical Issue #6: Use of the Statewide market average premium in the risk transfer formula for all plans

Technical Issue #7: Statutory requirement for the risk corridors program to be self-funded

This paper also proposes four emergency measures to address the problems with the 2014 risk adjustment program. These include:

- Exempt new and fast-growing plans from risk adjustment for the first 3 to 5 plan years, in recognition of their difficulty in obtaining complete HCC diagnoses for their enrollees. A gradual phasing-in of risk adjustment for such plans would also address this problem.
- Alternatively, apply a “credibility-based” approach to participation in risk adjustment, accounting for both overall plan size and the proportion of members who have not previously been enrolled with their current insurer. Plans with very low credibility would be excluded from risk adjustment altogether, and others would participate proportionally until fully credible.
- Place an upper bound (e.g., 10%) on the amount of a plan’s risk adjustment transfer charge, to avoid financial harm to insurers and undue premium increases for members resulting from limitations in the risk adjustment program.
- Recalculate 2014 and later risk transfer payments and charges for all plans with below-average premiums in a State, using the plans’ own average premium amount or average claims cost, to avoid the unjustified leveraging of these transfers for efficient plans when based on the Statewide market average premium

The member organizations in the CHOICES coalition stand ready to work with regulators and lawmakers to ensure that these important risk programs work as intended for the overall benefit of marketplace enrollees across the country.