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New health plan coalition urges changes to federal risk programs

Report: Current federal Risk Adjustment, Risk Corridor policies inadvertently de-stabilize the market and drive up prices

BOSTON—A newly-formed coalition of health plans today sent a letter to U.S. Health and Human Services Secretary Sylvia Burwell and other health and legislative officials urging changes to the "3R" programs (risk adjustment, risk corridor and reinsurance) contained in the Affordable Care Act.

The letter was accompanied by a white paper which concluded that the initial program and subsequent changes have de-stabilized the market, driven up premiums, and penalized new, fast-growing, lower-cost health plans that work with efficient providers.

Richard S. Foster, who served as Chief Actuary of the Centers for Medicare & Medicaid Services from 1995 through 2012, served as a technical advisor for this paper. In it, he identifies seven "technical issues" with the current risk programs that have posed extreme difficulties for health plans. The paper proposes four emergency measures to "address the chaotic financial situation in which new, fast-growing, and highly efficient plans in the ACA marketplace find themselves."

Thomas Policelli, CEO of Boston-based Minuteman Health and co-founder of Consumers for Health Options, Insurance Coverage in Exchanges in States (CHOICES), said the new coalition is eager to work with federal officials to improve the risk formulas.

"Topics like the '3Rs' sound like really boring insurance stuff, but the impacts are real for consumers and healthcare reform overall. The simple reality is that these well-intentioned programs are not working as policymakers had planned. They are driving up premiums – in particular on the products that price-sensitive buyers favor. If not repaired, they will likely drive up premiums significantly for next year and force many plans to consider whether and how to participate in the insured market," Policelli said.

Policelli continued: "Lastly – and directly against the intent of both state and federal healthcare reform law – they effectively penalize efficient healthcare providers by forcing a subsidy to the highest-cost, least efficient hospitals. That is the bad news. The good news is that short-term fixes are actually very simple. And longer-term solutions can be designed by looking to the successful models now in use voluntarily in the commercial market and the Medicare and Medicaid markets as well."

CHOICES members are non-profit as well as investor-owned, health system-sponsored and independent, and newer entrants as well as companies with decades of experience as members of their local communities. The group came together to examine what gaps may exist between the policy intent and the practical reality of the '3Rs' programs today. Such gaps are to be expected in any launch of a new methodology, and CHOICES looks forward to continuing to work productively with CMS to replace old assumptions with the current data.

CHOICES founding members include Minuteman Health, Health New England (Massachusetts), HealthyCT (Connecticut), Land of Lincoln (Illinois), Melody Health Care (Colorado), New Mexico Health Connections, and the National Alliance of State Health CO-OPS (NASHCO).

Background on 3Rs:

The 3R Programs were created by statute to stabilize the health insurance market.

Reinsurance

- Intent – to reimburse higher-dollar claims on exchange members (many previously uninsured)
- Funding – charge all covered lives a premium, but only pay claims for on-exchange members
- Result – since far lower exchange membership than forecast, the pool is heavily over-funded

Risk Adjustment

- Intent – to shift funds from low-populations to higher-risk populations
- Funding – zero-sum transfer based on calculated risk score and relative premium levels
- Result – data, methodology, and market average premium calculation forced plans that were lower-premium and higher-growth to pay out to a few large, very high premium plans

Risk Corridor

- Intent – stabilize healthplans' earnings by assessing windfall profits and reimbursing excess loss
- Funding – zero-sum transfer based on percentage of gains or losses versus company target
- Result – 12.6% of claims were covered since few large plans paid in while many high-growth plans filed claims

None of the 3Rs has worked as intended. Given the changes in the market, this is unsurprising. The unfortunate result is that 3Rs are currently *de-stabilizing the market* instead of stabilizing it, and therefore not fulfilling the statutory intent. **The result of such instability is higher premiums for consumers and small businesses.**

The Risk Adjustment program is the key. It alone is permanent, and **in its current form Risk Adjustment will continue to pressure plans to either raise premiums significantly or exit the business**. This will decrease competition and cost individuals, small businesses, and the federal government more money.

Recommendations

Short term options:

- Cap the amount a plan could pay out
- Exempting newer or fast-growing plans from risk adjustment for an initial period
- Applying a 'credibility-based' approach to participation in risk adjustment

Such moves would also greatly increase the solvency of the Risk Corridor program since Risk Adjustment-driven losses have been a key driver in the Risk Corridor shortfall

Longer term:

Risk Adjustment methodologies successfully work in the commercial market today. Study those private-sector examples and modify the federal data, methodology, and calculations to stabilize the market. Modifying the methodology based on such analysis does not require statutory changes.

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