American Academy of Actuaries

Risk Sharing Subcommittee

Presentation to NAIC Health Actuarial Task Force

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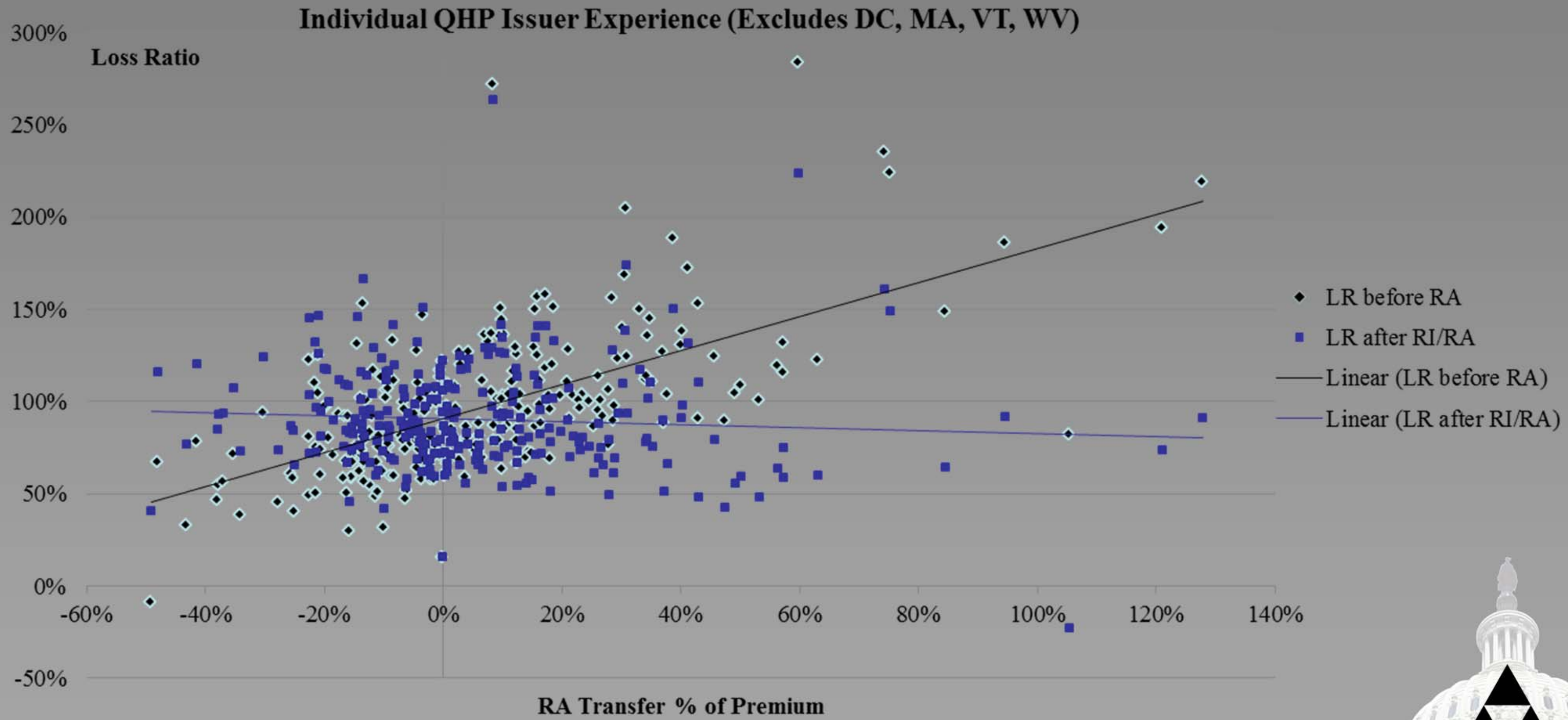
Background

- Overview of purpose of risk adjustment
  - Transfer mechanism between issuers based on risk of enrollees
  - Reduces incentives to avoid high-cost members by adjusting plan payments for risks not fully addressed by allowable premium variations.
  - Does not stabilize overall market premiums or compensate for mispricing

2014 Risk Adjustment Impact on Loss Ratio

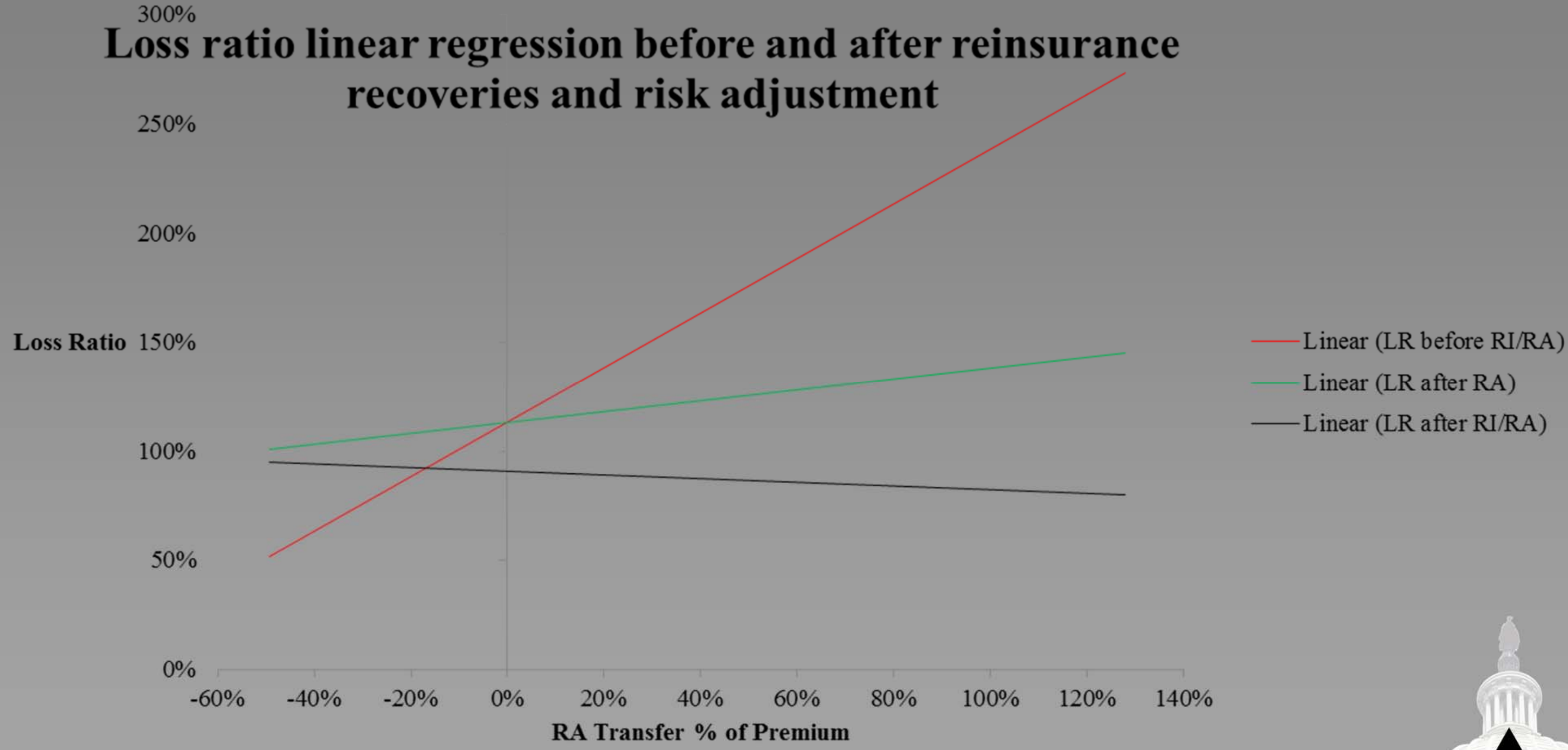
In general, risk adjustment payers had lower loss ratios before risk adjustment and receivers had higher loss ratios before risk adjustment.



Source: American Academy of Actuaries calculations of CCIIO data from 2014 MLR public use file risk corridor reporting fields and billable member month data in the Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers For the 2014 Benefit Year, revised September 17, 2015.

2014 Risk Adjustment Impact on Loss Ratio

The temporary reinsurance program also contributed to equalizing loss ratios across issuers.



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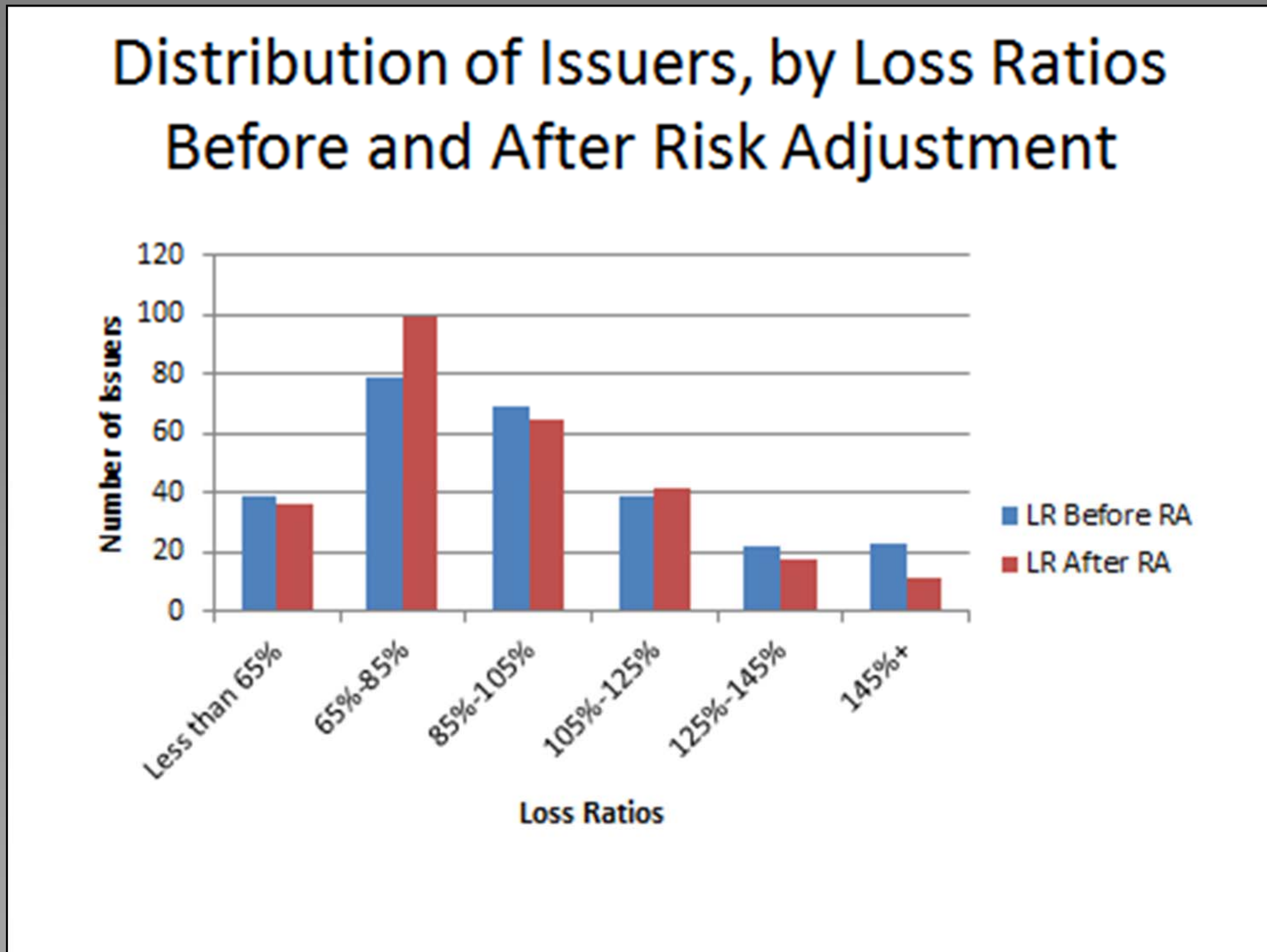

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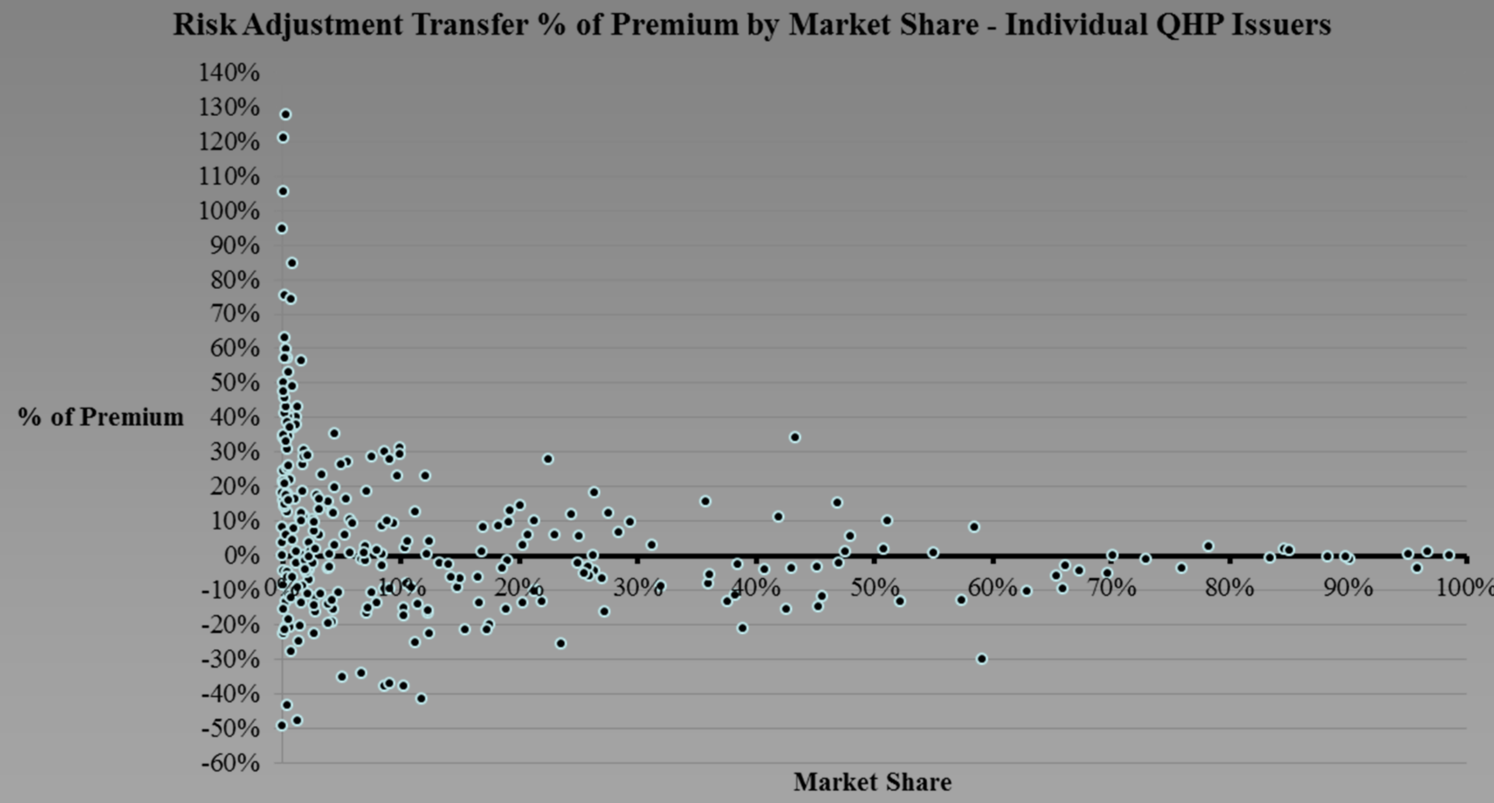
Impact of Market Share

Risk adjustment transfers as a percent of premium were more variable and more likely to be higher for issuers with a smaller market share



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Other Factors Impacting Risk Adjustment Experience

- Issuer experience reflects not only risk adjustment transfers, but also whether premiums were set accurately to reflect market-wide risk profile. Underpricing and overpricing will not be corrected by risk adjustment.
- Some small issuers may have been more likely to be impacted by operational issues (e.g., less sophisticated coding, claims processing issues). These issues should lessen over time.
- More analysis is needed to evaluate the risk adjustment model and to understand whether differences in financial results by issuer size is due to different premium levels, risk adjustment, or other factors such as the types of plans offered and relative administrative expenses.

Implications of Potential Modifications

- Adding pharmacy data into model
- Revisions to risk model
  - High-cost emerging treatments
  - Partial year enrollment
- Prospective model rather than concurrent
- Limiting transfer amounts
- Basing risk adjustment transfers on the claims-based share of the market average premium

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