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Ellen Montz, PhD
Deputy Administrator and Director
Center for Consumer Information & Insurance Oversight (CCIIO)
Centers for Medicare & Medicaid Services (CMS)
200 Independence Avenue SW, Room 739H-02
Washington, DC 20201

Re: Draft 2023 Actuarial Value Calculator Methodology

Dear Dr. Montz:

On behalf of the Individual and Small Group Markets Committee of the American Academy of Actuaries,[1] I am pleased to submit these comments regarding the Draft 2023 Actuarial Value Calculator Methodology.

Concerns Regarding AVs Across Metal Levels

We have previously commented[2] that the Actuarial Value (AV) calculator should use a single standard population for all metal levels adjusted to reflect induced utilization differences based on the standard AV for each metal level to produce the continuance tables by level. Under tables designed in this manner, the AVs for a given plan design would increase monotonically from bronze to platinum, reflecting only the effect of induced utilization. The current metal level continuance tables are developed from the experience of enrollees with plan designs assumed to match the metal level. Cost Sharing Reduction (CSR) enrollees in the highest CSR variants are included in the platinum metal level continuance table. The current process results in metal level tables that reflect morbidity differences in the underlying population. The Committee notes that the Centers for Medicare & Medicaid Services (CMS) analysis in the 2021 Risk Adjustment technical paper[3] indicates that high-AV CSR enrollees do not exhibit induced utilization for the higher benefits compared to standard silver enrollees, so their experience may not be appropriate for platinum enrollees.

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[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
[2] Comments of Nov. 9, 2020.
[3] 2021 RA Technical Paper 102621.

The 2023 AV Calculator shows monotonically increasing AVs for a given plan design over bronze through gold, but the platinum AV is less than the gold AV. This is an improvement over the 2021 AV Calculator, which also has an inconsistency with the silver AV compared to the bronze AV. These results, illustrated in Table 1, are counterintuitive.

Table 1. Actuarial Values Produced by the 2020, 2021, and 2023 AV Calculators, Select Plan Designs

Plan Option		Bronze	Silver	Gold	Platinum
$8,250 Deductible 100% Coinsurance $8,250 MOOP*	2020	59.07%	59.78%	59.96%	60.85%
	2021	61.94%	60.90%	63.82%	61.31%
	2023	61.50%	63.00%	64.87%	63.20%
$3,000 Deductible 80% Coinsurance $6,000 MOOP	2020	69.42%	70.35%	70.68%	71.55%
	2021	71.06%	70.87%	73.51%	71.50%
	2023	70.64%	72.60%	74.20%	72.99%
$1,500 Deductible 80% Coinsurance $5,000 MOOP $25 PCP/MH/SA copay** $35 SCP copay***	2020	78.96%	79.43%	79.50%	80.01%
	2021	79.74%	79.69%	81.44%	80.04%
	2023	79.76%	81.26%	82.03%	81.14%
$500 Deductible 90% Coinsurance $1,000 MOOP $2 / $5 / $25 / $100 pharmacy copays	2020	91.28%	91.79%	92.03%	92.35%
	2021	91.28%	91.69%	92.77%	92.06%
	2023	91.23%	92.34%	93.00%	92.64%

*MOOP—Maximum out-of-pocket
**PCP—Primary care physician/MH—Mental Health/SA—Substance abuse
***SCP—Specialty care physician

The metal levels are meant to indicate the relative richness of the cost-sharing designs to help consumers make their plan choice, so we suggest that the AVs be standardized to be measured on the same standard population where only benefit richness is being measured, and not morbidity differences. The benefit richness measure is being distorted by the morbidity differences in the AV Calculator, which reduces the usefulness of the AV as a tool for helping consumers understand the relative generosity of different benefit plans. In addition, the Affordable Care Act (ACA)[4] requires the use of a standard population and is referenced in Actuarial Standard of Practice (ASOP) No. 50.[5]

The inclusion of morbidity in the continuance tables seems inconsistent with pricing requirements and risk adjustment assumptions. Issuers are required to price plans using a single risk pool, but they are not required to use the AVs produced by the AV Calculator in pricing. Instead, issuers are allowed to determine a pricing AV assuming a single risk pool. If the AV Calculator's AVs reflect morbidity differences among the populations enrolled, there may be more differences between pricing AVs and the AV Calculator's AVs, which may lead to greater premium rate differentials between carriers within a standard AV for each metal level, less distinction of plans by richness of cost sharing design, and more consumer confusion. In addition, the risk adjustment formula assumes that issuers are pricing based on the metal level AVs. As noted above, issuers use a pricing AV to price plans, but this assumption will be more accurate if the metal level AVs do not reflect morbidity differences.

Another continuing issue with AV Calculator updates is the difficulty in designing a bronze plan AV. The leanest possible ACA-compliant plan design[6] produced by the 2023 AV Calculator has an actuarial value of 59.86%, which is above the lowest de minimis value of 58% for bronze. This is an improvement over the 2021 AV Calculator, where the leanest compliant plan design had an AV of 61.35% for an $8,550 MOOP. We appreciate the change CMS made to the high outlier trimming to address the issue for the 2023 Calculator, but we expect this to be an ongoing issue. This seems to be driven at least in part by the disconnect between the claims trend applied to the AV Calculator and the use of the premium adjustment percentage (which reflects other factors and has been significantly lower than the aggregate claims trend used to update the AV Calculator in recent years).

Other Concerns Regarding the AV Calculator

We note that the discrete component continuance tables in the AV Calculator do not typically align with the composite claims in the cumulative table. For example, consider the silver combined continuance table. For claims capped at $2,000, the silver population spent $1,102.64 on average. Meanwhile, component costs for those members (the sum of all service-specific continuance tables) is only $593.93. The model's calculation logic makes an assumption that the total $1,102.64 is essentially allocated similarly to the component services underlying the

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[4] Sec. 1302(d)(2): Under regulations issued by the Secretary, the level of coverage of a plan shall be determined on the basis that the essential health benefits described in subsection (b) shall be provided to a standard population (and without regard to the population the plan may actually provide benefits to).

[5] http://www.actuarialstandardsboard.org/wp-content/uploads/2015/10/asop050_182.pdf.

[6] Plan design with an $9,100 deductible and MOOP and 100% coinsurance.

$593.93. However, differences in service mix at the various utilization levels may potentially drive actuarial value differences in the standard population relative to that implied by the model.

Along this line, we appreciate that CMS has corrected longstanding issues in basic continuance table construction whereby the “Avg. Cost per Enrollee (Max’d)” and “Avg. Cost per Enrollee (Bucket)” were inconsistent in various metal tiers, as well as issues wherein the “Avg. Cost per Enrollee (Max’d)” occasionally decreases as the cost threshold increased.

We also note that the AV Calculator, by default, accumulates copays paid prior to the deductible toward the deductible, which is not standard practice for many health plans. While this can in theory be addressed through post hoc adjustments to the actuarial values in accordance with regulations and ASOP No. 50, it may be appropriate for CMS to consider updates to the calculator to permit a more standard insurer practice wherein copays do not accumulate toward the deductible, or to permit the user to select between the two methodologies.

Minimum Value Calculator

We recommend that CMS work with the Department of the Treasury to update the Minimum Value (MV) Calculator, which has never been updated since first launched, to reflect more current, large group data and to incorporate appropriate model changes that have been made to the AV Calculator. Going forward, we further recommend the MV Calculator be updated regularly and in a manner consistent with improvements that are made to the AV Calculator, including MOOP limits, fixes to underlying logic, and trend. As the current MV Calculator reflects 2014 plan year experience and plan limits, the calculator cannot accommodate many compliant plan designs, and results are increasingly unlikely to provide an accurate representation of the generosity of plan designs in 2023 and beyond. Assuming a 5% cost trend from 2014 through 2023, total cost levels for 2023 plans would be over 55% higher than suggested by the current MV Calculator. This increased level of costs means the current MV Calculator most likely underestimates the generosity of a given plan design when that plan design can even be entered into the calculator. Given the differences in the underlying population used for the MV Calculator and for the AV Calculator, it is not appropriate to use the AV Calculator to demonstrate compliance with the MV requirement. Of concern to us is that actuaries working with large employers could increasingly be left without uniform usable federal guidance as to how to assess whether a given plan design complies with the minimum value requirement.

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We welcome the opportunity to speak with you in more detail and answer any questions you have regarding these comments. If you have any questions or to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Joyce E. Bohl, MAAA, ASA
Chairperson, Individual & Small Group Markets Committee
American Academy of Actuaries

CC:
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