

Considerations for Calculating Cost-Sharing Reduction Load Factors

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Summary

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- An actuarially sound load is one that is adequate to cover cost-sharing reduction (CSR) costs, but is not excessive.
- Using experience data and the actual distribution of enrollees across silver plan variants is more likely to produce actuarially sound CSR loads than basing loads on statutorily set actuarial values (AVs).
- CSR silver plan variants are *not* separate plans; they reflect a separate member-facing plan design.
- Using experience data to calculate CSR loads can be consistent with ACA single risk pool requirements.

Background

ACA Premium and Cost-Sharing Subsidies

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- ACA premium tax credits (PTCs) limit the share of income that households contribute toward the benchmark silver plan premium.
 - » Lower-income individuals are expected to contribute a smaller share of income toward premiums.
 - » Individuals can use their PTCs to purchase any plan on the exchanges, including non-silver plans.
- ACA CSRs are provided through silver plan variants with reduced cost-sharing requirements relative to standard silver plans
 - » CSRs lower financial barriers to care coverage
 - » CSR silver plan variants are *not* separate plans; they reflect a separate member-facing plan design

Cost-Sharing Reduction Plan Variants

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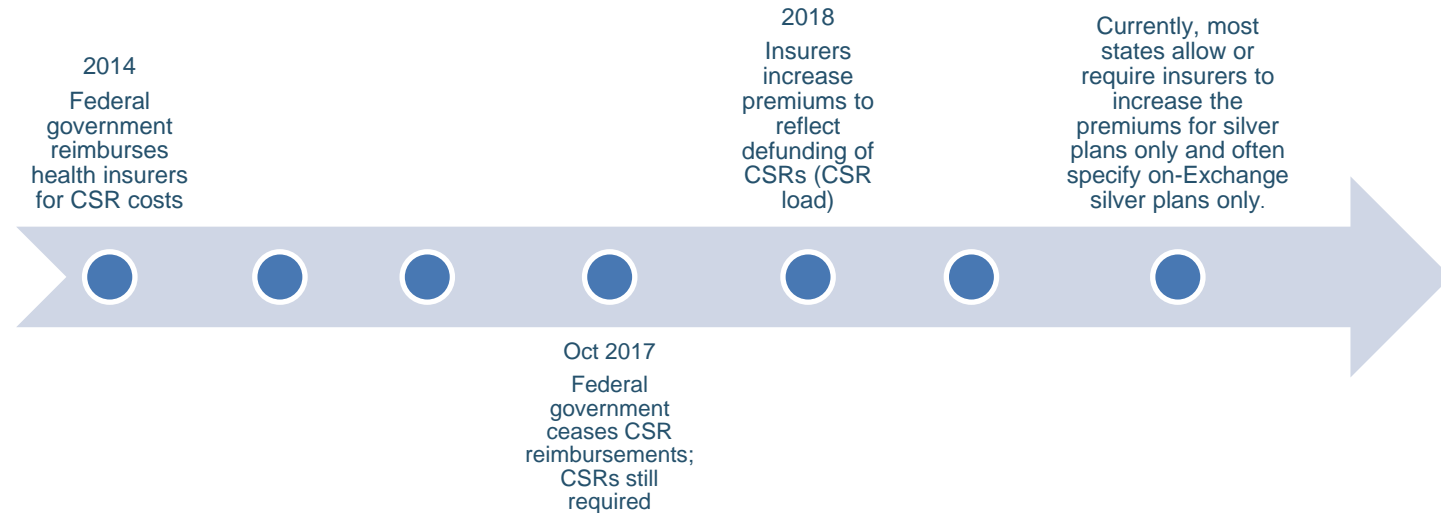
Household Income	Silver Plan Variant Actuarial Values (AV)
Greater than 250% FPL*	Standard Silver Plan—70% AV
200%-250% FPL	73% AV
150%-200% FPL	87% AV
100%-150% FPL	94% AV

*Federal Poverty Level

CSR Funding Has Changed Over Time

Most insurers now have several years experience with CSR loading

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Impact of CSR Loads on ACA Federal PTCs

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- CSR loads increase federal payments for PTCs, depending on the amount of the load and how it is allocated
- PTCs increase the most if the CSR load is allocated over on-exchange silver plans only
- Individuals can use increased PTCs to purchase more generous gold or platinum plans or to purchase low-cost or even zero-premium bronze plans
 - » CSRs can be accessed only through silver plans

Calculation of the CSR Load

Calculation of an Actuarially Sound CSR load

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- An actuarially sound CSR load:
 - » Is adequate to cover CSR costs, but not excessive
 - » Reflects the distribution of enrollees across silver plan variants, based on state or insurer experience
 - » Reflects the expected cost sharing of the population

Allocation of CSR Enrollees Across Silver Plans Varies by State

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State	Florida	Ohio	Minnesota
Expanded Medicaid? Basic Health Plan (BHP)?	No No	Yes No	Yes Yes
Silver Plan Variation	% of Silver Membership	% of Silver Membership	% of Silver Membership
Standard (70% AV)	2.7%	28.0%	91.5%
73% CSR Plan Variant	4.2%	19.0%	8.5%
87% CSR Plan Variant	18.7%	29.4%	0.0%
94% CSR Plan Variant	74.3%	23.5%	0.0%
Membership-Weighted Plan Liability	91.2%	81.2%	70.3%

Source: 2022 OEP* State-Level Public Use Files
Notes: Membership reflects on-exchange enrollment only. Data for Minnesota include the total number of CSR enrollees, but not enrollee distribution across CSR plan variants. Because Minnesota's BHP covers individuals up to 205% FPL, all CSR enrollees in Minnesota are assumed to be in a 73% CSR plan variant.

* Open Enrollment Period

Enrollment in Silver Plans Continues, Even for Individuals With No or Low CSRs

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- It can make financial sense for individuals with no or low CSRs to use any premium subsidies to obtain bronze or gold coverage
- The share of marketplace enrollees choosing silver plans has decreased from 71% in 2017 to 56% in 2022
- Nevertheless, significant percentages of enrollees continue to enroll in standard or 73% CSR silver plans
- Failure to recognize these distributions can lead to an under- or overstatement of the CSR load factor relative to CSRs that an issuer expects

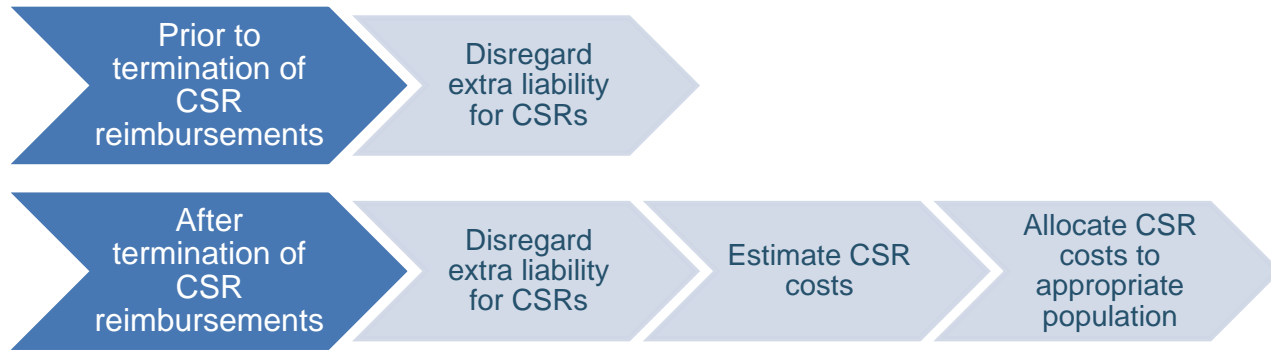
Using Experience Data Is More Likely to Produce Actuarially Sound CSR Loads

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- Insurers with large, credible blocks of business can estimate their CSR costs directly using their pooled historical experience.
- Historical CSR costs can be adjusted for:
 - » effects of expected trend
 - » changes in enrollment
 - » updated plan designs
 - » other relevant factors

An actuarial approach to calculating plan level CSR load adjustments in the absence of CSR funding

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- CSR costs—the difference between the cost sharing under the standard silver plan and the reduced cost-sharing under the CSR variant
- Remainder of discussion assumes CSR costs are allocated solely to on-exchange silver plans

Illustrative, Sample Calculation of CSR Load Using Experience Data

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Plan Variation	Projected Base Silver Adjudicated Claims	Projected CSR Plan Variation Adjudicated Claims	Projected Unfunded CSR Subsidy	Projected % of Silver Membership
Base Silver	\$370.00	\$370.00	\$0.00	10%
73% CSR Variant	\$360.00	\$369.70	\$9.70	10%
87% CSR Variant	\$350.00	\$398.50	\$48.50	20%
94% CSR Variant	\$345.00	\$412.90	\$67.90	60%
Base Plan Composite	\$350.00			A
Unfunded CSR Subsidy Composite	\$51.41			B
Final CSR Load	14.7%			=B/A

Source: American Academy of Actuaries, [Letter to CCIIO](#), Sept. 8, 2022.

Other Options Are Available If Insurer Does Not Have Credible Experience Data

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- The value of CSR subsidies can be estimated by using the pricing model benefit relativities of the plan and a projection of the membership distribution among the silver variants.

	Pricing Model Benefit Relativities	Statutory Actuarial Values
Utilization	Utilization of enrollees in the single risk pool	Utilization of a standard population
Provider reimbursement rates	Insurer provider reimbursement rates	Standardized provider reimbursement rates

- The pricing model relativity-based CSR load can also use aggregate experience data to better calibrate the resulting load factor to the insurer's specific anticipated single risk pool.

Using Federal Statutory AV Levels Is Unlikely to Result in an Actuarially Sound CSR Load

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- Even if CSR load is determined reflecting the distribution of enrollees across silver plans, other factors need to be considered.
- Using federal statutory AV levels don't consider:
 - » Actual utilization, which could differ from utilization in AV calculator
 - » Actual provider reimbursement rates, which could vary from those in the AV calculator
 - » Socioeconomic factors—Centers for Medicare & Medicaid Services (CMS) analysis shows that income-based CSR enrollees use considerably less care on a risk-adjusted basis than individuals in standard silver plans
 - » AV de minimis ranges

Allocation of the CSR Load and Meeting the Single Risk Pool Requirements

State CSR Requirements

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- A few states prescribe the CSR load and others are considering doing so
 - » Advantage: Creates uniformity
 - » Disadvantage: One size doesn't necessarily fit all
- What if the state-required CSR load is not actuarially sound?
 - » Insurers must follow the state requirements
 - » Actuarial Standard of Practice (ASOP) No. 8 requires actuaries to document any aggregate excess or deficiency and indicate that it is due to regulatory requirements

ACA Requires Insurers to Abide by the Single Risk Pool Requirement

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- Aggregate premiums reflect overall health status of enrolled population in the particular market
- Premiums for particular plans (including any plan variants) may not reflect health status of individuals enrolled in that plan

Using Experience Data to Calculate CSR Load Can Be Consistent With Single Risk Pool Requirements 22

- The overall revenue produced through an actuarially sound CSR load is the anticipated single risk pool-wide value of CSRs expected to be provided across all plan enrollees.
- The use of an aggregate cost-based load based on experience data is consistent with the single risk pool, assuming that the load is then spread at the plan level in a method approved by regulatory authorities.

Premium Alignment

How to Measure Premium Alignment

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- In the absence of CSRs, using statutory AVs would suggest that premiums for a silver plan (70% AV) would be 16% higher than bronze plan (60% AV) premiums. Likewise, gold plan (80% AV) premiums would be 14% higher than silver plan premiums.
- However, statutory AVs do not reflect actual utilization and provider reimbursement rates. Therefore, premiums won't necessarily align with statutory AVs.

Risk Adjustment and CSRs

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- CSR enrollees are treated as standard silver enrollees from an allowable premium perspective and receive an additional risk score adjustment relative to standard silver enrollees.
- A CMS technical paper suggests the current risk score model's CSR adjustments are a relatively accurate predictor of plan liability for CSR enrollees.
 - » CSR enrollees use significantly less care on a risk-adjusted basis than standard plan enrollees, but the higher plan liability for CSRs offsets this reduction
 - » Applying the Department of Health and Human Services (HHS) risk adjuster to an insurer's own experience would likely produce silver premiums that more closely mirror the statutory rate slope than rate slope expectations based on silver loading.
- Risk adjustment could be modified to align with silver loading expectations
- Risk adjustment modifications may be preferable to forcing silver premiums to meet specific expectations via an artificially high silver load.

Questions?

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