AMERICAN ACADEMY of ACTUARIES

NEWS RELEASE

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Academy: Affordable Care Act Risk-Corridor Program Is Two-Sided, Limiting Both Gains and Losses

WASHINGTON – The Affordable Care Act's (ACA) risk-corridor program cuts both ways for all concerned — taxpayers, purchasers of health insurance, and insurers — the American Academy of Actuaries explained in congressional testimony submitted on Feb. 4. Under the program, insurers would receive a payment if their losses exceeded a certain threshold, but they would have to make a payment if their gains exceeded a specified threshold.

"Risk corridors are used to mitigate the pricing risk that insurers face when their data on health spending for potential enrollees are limited," Academy Senior Health Fellow Cori Uccello said in the testimony submitted ahead of the U.S. House Committee on Oversight and Government Reform's Feb. 5 hearing on the ACA's risk-corridor program. "The temporary risk-corridor program reduces losses to insurers that underestimate plan costs and reduces gains for insurers that overestimate plan costs."

The Congressional Budget Office (CBO) estimates that the ACA risk-corridor program will result in net payments from insurers to the government of $8 billion for the 2015 to 2017 period.

The reason that insurers could end up paying instead of being paid by the federal government under the risk-corridor program, Uccello explained, is that, as in the Medicare Part D program, the risk corridors are "symmetric" — that is, the risk-sharing formula applies the same way to gains as to losses. She illustrated as follows: "If actual claims are within 3 percent of expected, insurers either keep the gains or bear the losses. If actual claims exceed expected claims by more than 3 percent, the federal government reimburses the insurer for 50 percent of the losses between 3 and 8 percent, and 80 percent of the losses exceeding 8 percent. If actual claims fall below expected claims by more than 3 percent, the insurer pays the federal government for 50 percent of the gains between 3 and 8 percent, and 80 percent of the gains exceeding 8 percent."

(MORE)

A fact sheet developed by the Academy's Health Practice Council explains the ACA's risk-sharing mechanisms, including the risk-corridor formula, in detail.

Read the fact sheet and learn more about the American Academy of Actuaries at www.actuary.org.

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