BlueCross BlueShield Association

An Association of Independent Blue Cross and Blue Shield Plans

**A Blue Cross and Blue Shield Association Presentation**

# Health Reform Risk Mitigation Programs: A Health Plan Perspective

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# Agenda

- Importance of Market Stabilizers
- Implementation Issues
- Initial Recommendations

# Reform Entails Significant Market Changes

# Today’s Market vs. 2014 Market

**Today:** Insurers assess risk in voluntary market

- Individual selection into like groups necessitates underwriting
- Rates often vary based on health status
- Rate bands for age reflect actuarial slope in most states

**2014:** Several factors in a newly reformed environment may drive adverse selection

- Insurance reforms
  - Guarantee issue
  - Rating rules
- Strength of incentives to purchase coverage
- Small group self-funding
- Exchanges

# Exchanges  Make it Easier for Consumers to Compare Plans Based on Expected Need

Shop, Compare, and Enroll in Coverage

## Plans Available for Individuals and Families

| Plan | Plan Type | Quality | Deductible | Copayment | Network Size | Price | Compare | Cost after Subsidies |
|---|---|---|---|---|---|---|---|---|
| Plan A | PPO | ★★★★★ | $500 | $0 | Doctors: 85%<br>Hospitals: 90% | $169.28 | ☑ | $69.28 |
| Plan B | PPO | ★★★★★ | $1,000 | $20 | Doctors: 85%<br>Hospitals: 90% | $132.00 | ☑ | $32.00 |
| Plan C | HMO | ★★★★ | $1,000 | $30 | Doctors: 60%<br>Hospitals: 70% | $148.00 | ☑ | $48.00 |
| Plan D | HMO | ★★★★ | $0 | $30 | Doctors: 68%<br>Hospitals: 80% | $167.00 | ☐ | $67.00 |

Select plans to review benefits in detail.

Frequently Asked Questions ▸

# Successful Reform requires Effective Stabilizing Levers

**2014 strategies to manage risk and ensure mix of healthy and less healthy individuals in the insurance pool**

- “Carrots”: Premium and cost-sharing subsidies
- “Sticks”: Individual responsibility requirement, limited enrollment periods
- Risk mitigation programs

# Overview of the New Risk Mitigation Programs

**ACA includes three risk mitigation programs to accompany guaranteed issue and new rating rules**

| | Risk Adjustment (2014+) | Transitional Reinsurance (2014-2016)* | Risk Corridors (2014-2016) |
|---|---|---|---|
| Objective | Encourage competition on efficiency | Mitigate selection risk; subsidize individual market in early years | Promote participation/ competition in the Exchanges in early years |
| How It Works | Insurers pay in/out based on risk of individual and small group enrollees vs. competitors | Amounts payable to insurers in individual market: (1) with high risk enrollees, or (2) based on claims cost corridors | Caps on gains and losses on Exchange plans |
| Who Pays | Redistribution between insurers within a market | $20B** in subsidies to the individual market from ASO, group, and individual markets over 3 years | HHS is liable for excess Exchange plan losses |

* Reinsurance collections from and payments to insurers generally are 2014-2016; however, payments may be permitted in 2017 and 2018 if funds remain

# Methodological Limitations of Risk Mitigation Programs

**The risk mitigation programs can help stabilize markets, but can't address every concern that may arise out of market changes**

| Risk Adjustment | Reinsurance | Risk Corridors |
|---|---|---|
| Over/under-compensation likely:<br>– Existing models under-predict costs for very high-cost individuals<br>– Benchmark for payments (e.g., lowest or average cost plan in area) also impact payment adequacy<br>Can increase pricing risk if not predictable | – Will payments fully compensate for high-risk individuals?<br>– Will timing provide confidence at the front end? | – Risk corridors will not fully compensate insurers for losses |

# Operational Challenges with Risk Adjustment in the Individual and Small Employer Markets

## Medicare and Medicaid had some operational advantages over the private markets in implementing risk adjustment

| | Individual/Small Group Markets (2014) | Medicare/Medicaid |
|---|---|---|
| **Product Differences** | Significant (e.g., 60%-90% actuarial value) | Little |
| **Enrollee Turnover** | Higher | Lower |
| **Member Health/Age Profile** | More variation, more acute conditions (e.g. pregnancy) | More around the middle, more chronic conditions |
| **Payments** | Individuals, employers, HHS and Treasury make payments to and between insurers | HHS and states make adjusted payments to insurers |

# Major issues for risk adjustment

- Prospective or concurrent?
- Integration with rating
- Treatment of family
- Data problems/ lack of data for previously uninsured
- Applied by rating region, state?
- Transition period
- Which model for assessment?
- What is base for transfer payments – average premium, low cost premium, etc?

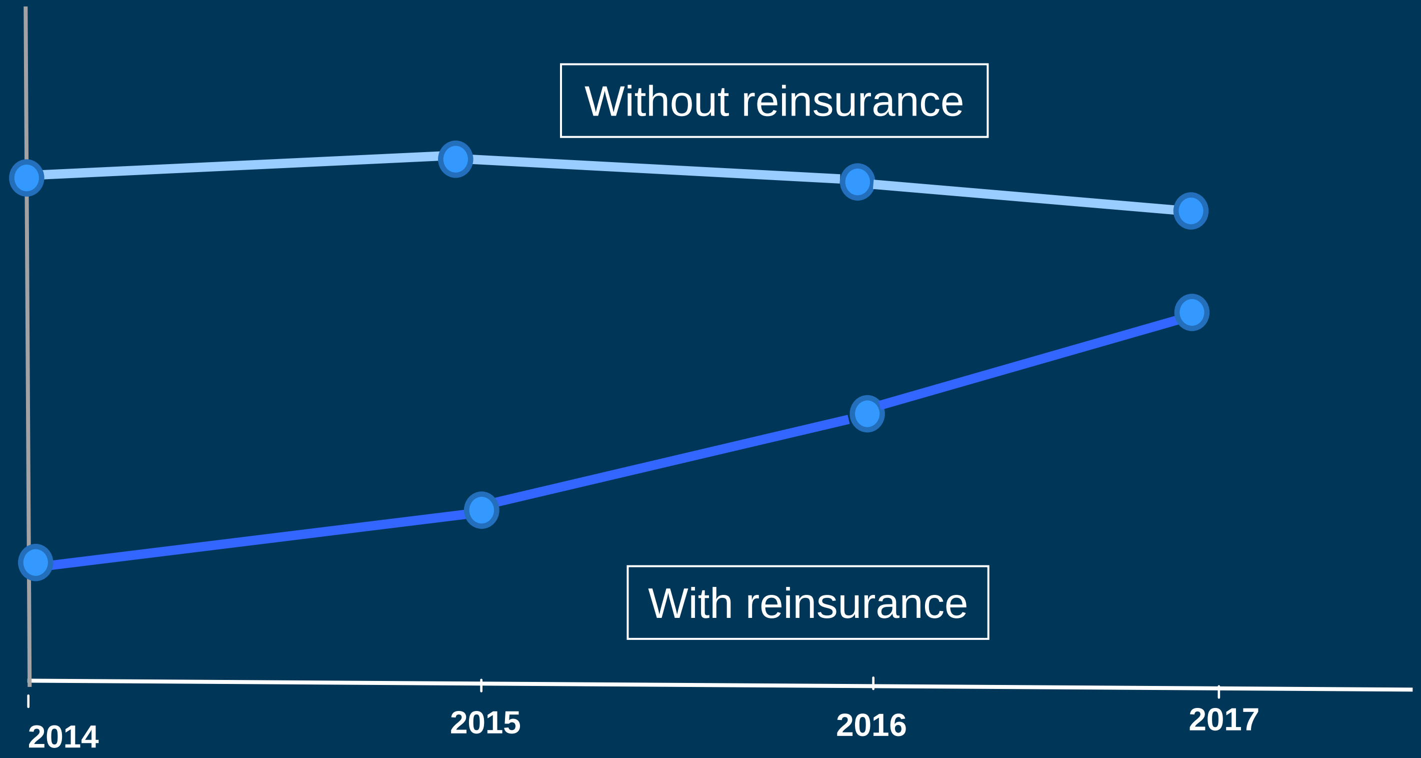
# Risk Adjustment: Additional Observations

- Unlikely to fully compensate for selection
  - Especially at tail of distribution
- Limited experience with Exchanges
  - CA (PacAdvantage), MA Connector, UT Exchange
- Interaction with diversity of plan options

# Reinsurance Intended to Lower Premiums During Initial Transition

**Reinsurance may enable (1) more healthy people to enter pool, (2) a reduction in the number of uninsured, and (3) a more stable pool**

Illustrative Example: Relative premiums with and without reinsurance



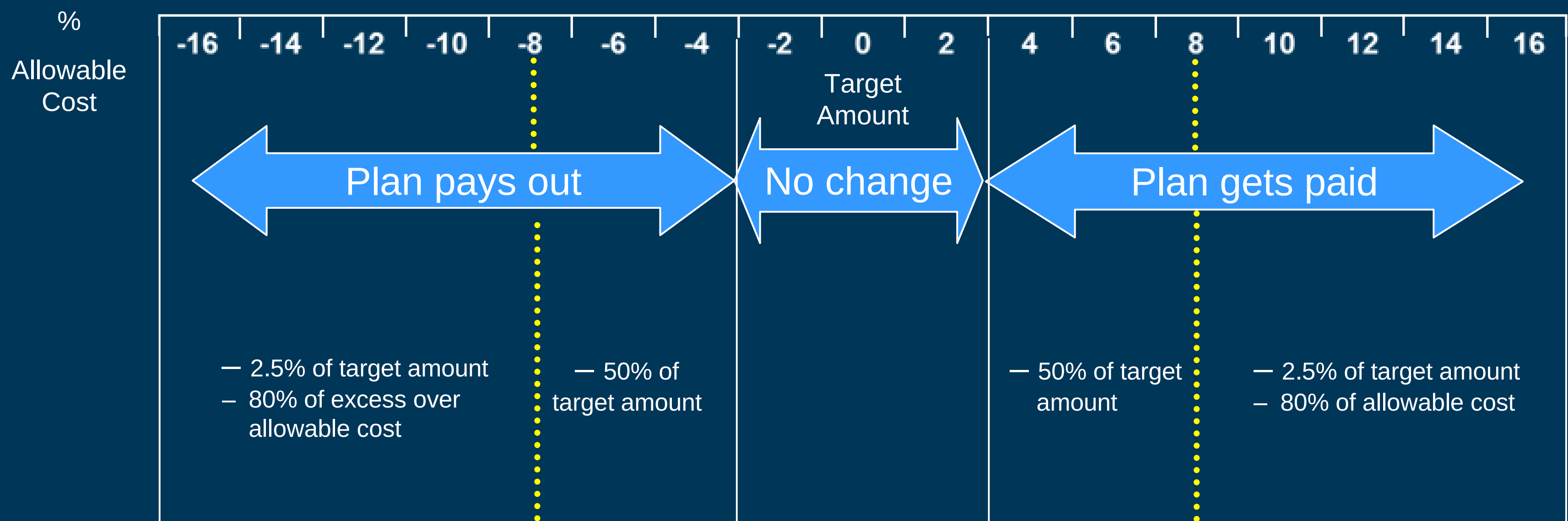

Reinsurance is designed to compensate for 50 – 100 high cost conditions in individual market; but temporary program which raises other issues.

# Reinsurance: Observations

**Reinsurance has a number of downsides:**

- Assessments may prove to be unpopular—entire market subsidizes exchange/individual market
- Timing/design needs to be predictable to positively impact pricing in early years
- Program is temporary, so rates will go up once reinsurance payments are removed

# Risk Corridors Limit Pricing Risk

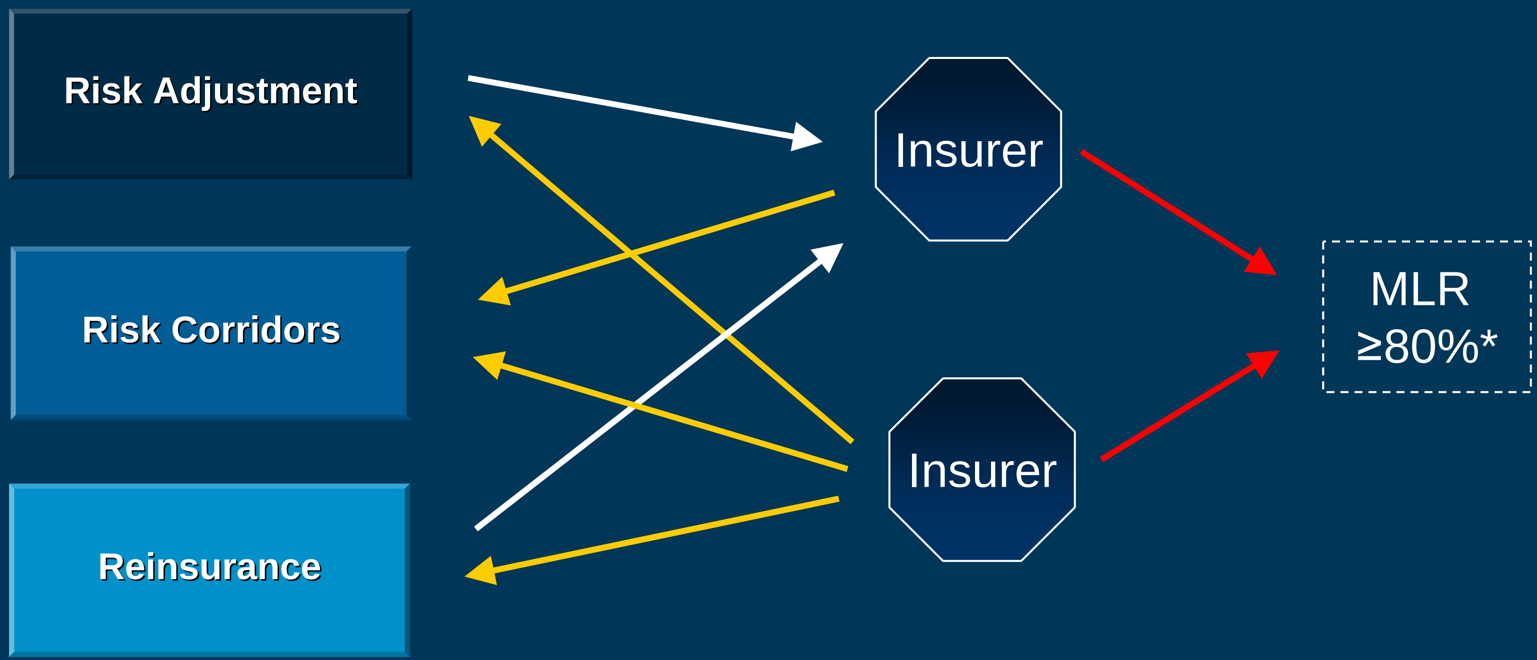



**Risk Corridors raise a number of questions:**

- Bidding with federal government is uncertain for private insurance (whereas Medicare Part D model adjusts payments)
- Can encourage new entrants, but will they be adequately capitalized to assure solvency over the long term?
- Will they encourage risky pricing behavior ?
- How do you match up winners and losers?

# Risk Stabilizers

**Policies must ensure risk stabilizers accomplish goals, are workable, and are coordinated with MLR and other requirements**




* 80% applies to individual and small group markets

# Risk Mitigation Success Factors for Early Reform