Health Reform Risk Mitigation Programs: A Health Plan Perspective

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National Congress on Health Insurance Reform
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Agenda

• Importance of Market Stabilizers

• Implementation Issues

• Initial Recommendations
Reform Entails Significant Market Changes

- Risk Adjustment/Reinsurance
- Private Market Reforms
- Exchanges
- Individual/Employer Mandates
- Delivery System Reforms
- Tax Changes
- Subsidies
- Medicaid Expansion
- Comprehensive Reform

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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

Plans Available for Individuals and Families

<table>
<thead>
<tr>
<th>Plan</th>
<th>Plan Type</th>
<th>Quality</th>
<th>Deductible</th>
<th>Copayment</th>
<th>Network Size</th>
<th>Price</th>
<th>Compare</th>
<th>Cost after Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan A</td>
<td>PPO</td>
<td>★★★★★</td>
<td>$500</td>
<td>$0</td>
<td>Doctors: 85% Hospitals: 96%</td>
<td>$169.28</td>
<td>✔️</td>
<td>$99.28</td>
</tr>
<tr>
<td>Plan B</td>
<td>PPO</td>
<td>★★★★★</td>
<td>$1,000</td>
<td>$20</td>
<td>Doctors: 85% Hospitals: 96%</td>
<td>$132.00</td>
<td>✔️</td>
<td>$32.00</td>
</tr>
<tr>
<td>Plan C</td>
<td>HMO</td>
<td>★★★★</td>
<td>$1,000</td>
<td>$30</td>
<td>Doctors: 60% Hospitals: 70%</td>
<td>$148.00</td>
<td>✔️</td>
<td>$48.00</td>
</tr>
<tr>
<td>Plan D</td>
<td>HMO</td>
<td>★★★★</td>
<td>$0</td>
<td>$30</td>
<td>Doctors: 68% Hospitals: 80%</td>
<td>$167.00</td>
<td>✗</td>
<td>$67.00</td>
</tr>
</tbody>
</table>

Select plans to review benefits in detail.
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.

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

* 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.

<table>
<thead>
<tr>
<th>Risk Adjustment</th>
<th>Reinsurance</th>
<th>Risk Corridors</th>
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</thead>
<tbody>
<tr>
<td>Over/under-compensation likely:</td>
<td>- Will payments fully compensate for high-risk individuals?</td>
<td>- Risk corridors will not fully compensate insurers for losses</td>
</tr>
<tr>
<td>- Existing models under-predict costs for very high-cost individuals</td>
<td>- Will timing provide confidence at the front end?</td>
<td></td>
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<tr>
<td>- Benchmark for payments (e.g., lowest or average cost plan in area) also impact payment adequacy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Can increase pricing risk if not predictable</td>
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Medicare and Medicaid had some operational advantages over the private markets in implementing risk adjustment

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

- Overall Reforms
  - Effective exchange design
  - Minimize cost drivers
  - Treats all insurers the same
  - Easy to implement/not cumbersome
- Mandate Effective
- Effective methodology
- Adequate Funding

Successful Risk Mitigation

Treats all insurers the same
Easy to implement/not cumbersome
Adequate Funding
Mandate Effective
Effective methodology
Pricing flexibility/coordination with rating