



# **Risk Adjustment Update and 3R Consultant Contract Extension**

**(VOTE)**

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Director of Finance**

**Board of Directors Meeting**  
February 28, 2013



# 3R Background

- The Affordable Care Act (ACA) establishes three premium stabilization programs for the small and non-group health insurance market that must go into effect in 2014. They are collectively referred to as the 3"R"s
  - Transitional **R**einsurance (non-group only)
  - Temporary **R**isk Corridor
  - Permanent **R**isk Adjustment
- At the February 23, 2012 Board meeting, we presented our plan to conduct a comprehensive analysis to identify the preferred 3R approach for the Commonwealth of Massachusetts
  - We obtained Board approval to work with Milliman as our 3R consultant
- Today's presentation has three objectives:
  - Provide an update on work completed to date, with a focus on our effort to establish a State-specific risk adjustment program
  - Discuss key next steps for 2013 and 2014
  - Seek a Board vote on a proposed contract extension with Milliman



# 3R Background (cont'd)

	Reinsurance	Risk Adjustment	Risk Corridor
<b>What it Does</b>	Provides revenue protection for issuers' high-cost individuals covered in the non-group market	Redistributes premium according to enrollee acuity	Limits both the losses and gains
<b>Market Segment Affected</b>	Non-grandfathered individual market plans (inside and outside Exchange)	Non-grandfathered small group and individual market plans (inside and outside Exchange)	Qualified Health Plans (QHPs)
<b>Funding Mechanism</b>	Assessment on all insurance issuers and TPAs	Budget-neutral redistribution between issuers	Directs settlements between issuers and HHS
<b>Timeframe</b>	Transitional 2014 - 2016 only	Permanent Starting in 2014	Transitional 2014 - 2016 only
<b>Program Design</b>	HHS reinsurance design is the default but States have the option to develop and administer an alternative approach within certain parameters that achieves federal certification	HHS risk adjustment methodology is the default approach but States have the option to develop and administer an alternative approach that achieves federal certification	Defined by HHS (States not permitted to design a State-specific alternative program)
<b>Program Administration</b>	Reinsurance pool funded by national contribution rate on issuers and administered by HHS; States have flexibility to collect supplemental contributions for a State-specific program	HHS will administer Risk Adjustment in States that do not operate their own federally-certified alternative approach; an Exchange or other entities pursuant to federal regulations may administer a State-specific approach that achieves certification	HHS will administer the program and work directly with issuers of QHPs



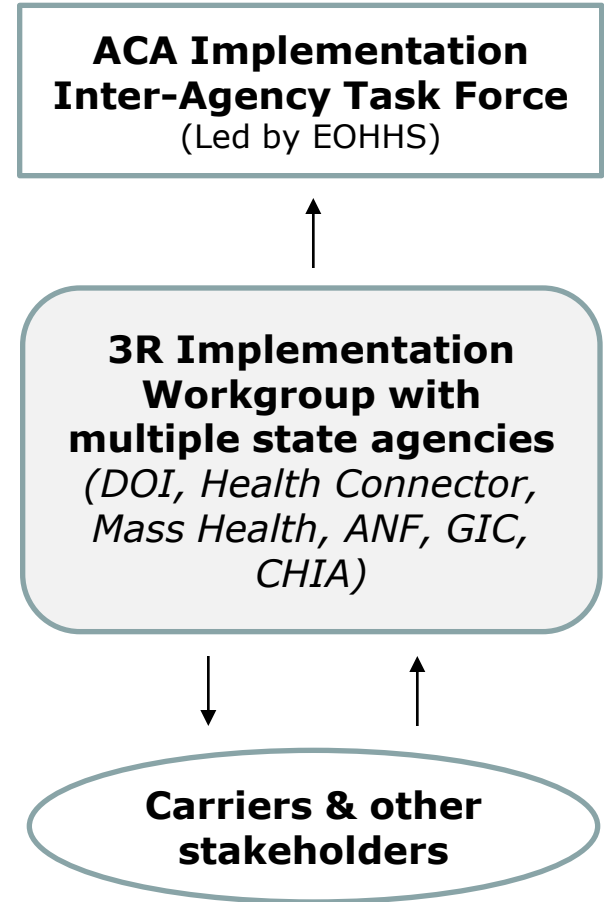
# State Legal Authorization for Risk Adjustment Administration

- Two of the three “R”s, reinsurance and risk adjustment, can be administered at the state level, subject to federal certification of the methodology and operational parameters
  - States that do not elect to operate their own reinsurance or risk adjustment programs would default to the federal programs, which HHS will administer on behalf of the state
- State legislation was passed in July 2012, which authorized the Health Connector as the agency to administer the (small group / non-group) market-wide risk adjustment program in the Commonwealth



# Interagency 3R Workgroup

- An inter-agency “3R workgroup” was established in November 2011 to develop recommendations on the Commonwealth’s preferred approach to 3R implementation
  - Co-chaired by the DOI and the Health Connector
- Key responsibilities of the workgroup include:
  - Develop a comprehensive recommendation for the Massachusetts 3R implementation plan
  - Prepare for and ultimately obtain federal certification of state-based risk adjustment and/or reinsurance programs as required
  - Oversee the development of operational readiness for the launch of the program(s)
  - Manage stakeholder engagement





# Milliman Engagement

- Representing the 3R workgroup, the Health Connector conducted a competitive procurement for a 3R consultant in January 2012. With the Board's approval, the Health Connector entered into a contract with Milliman that ran through December 31<sup>st</sup>, 2012
  - Milliman is a global actuarial and healthcare consulting firm with expertise in risk adjustment and have worked with Commonwealth Care, MassHealth and several commercial plans
- Key outputs of the initial contract included:
  - A recommendation for the Commonwealth to pursue a state-specific risk adjustment program
  - Development of a state-specific risk adjustment methodology and assistance in compiling the application for federal certification
  - Initial planning for risk adjustment operations
  - Milliman also assisted the DOI in its evaluation and development of the transitional reinsurance program
- Milliman's services for 3R support are fully funded by federal grants



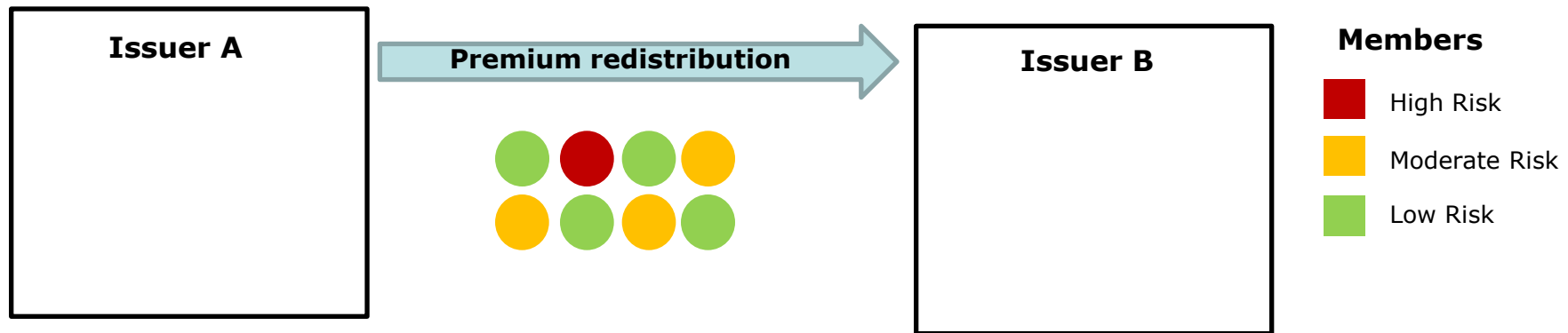
# Summary of Our Proposed Risk Adjustment Program

- Risk Adjustment Introduction
- Why pursue a state-based approach to risk adjustment?
- Key elements of our proposed methodology
- Data Collection through the APCD
- Federal review status



# Risk Adjustment Introduction

- Risk adjustment is a premium revenue redistribution mechanism that moves funds from issuers with lower average actuarial risk (*i.e.*, healthier members) to issuers with higher average actuarial risk (*i.e.*, sicker members)
  - The risk adjustment program is designed to be budget neutral



- Risk adjustment aligns carrier revenue with the risk profiles of their underlying membership, which increases cost predictability from the perspective of carriers, allowing them to price more aggressively





# Why Pursue A State-Specific Program?

There are **key advantages** in having a Massachusetts-specific program



- **Methodology**

By leveraging Massachusetts data, we are able to develop a methodology that is “better performing” in terms of predicting members’ cost - this enhances the potential for premium stabilization

- **Operations**

Our approach enables us to leverage the Commonwealth’s All-Payer Claims Database (APCD) for data collection, which significantly simplifies the administrative process



# Key Elements of Our Proposed Methodology

- Similar to the HHS (federal) methodology in many key aspects:
  - Underlying framework – Hierarchical Condition Categories (HCC)
  - “Plan liability” approach – a separate model for each metallic tier
  - Concurrent (vs. prospective) model
  - Payment and charge calculation based on market average premium
- Key differences
  - Models calibrated using data that reflect the experience of the Massachusetts merged market as well as Commonwealth Care
    - Our model has meaningfully higher statistical performance than the federal model (R-squared which is a measure for predictive accuracy, is 47-53%, compared with that of the HHS model of 29-36%)
  - Based on empirical analysis, incorporated adjustment factors that allow us to accurately account for state-specific policies (e.g., state “wrap” subsidies)



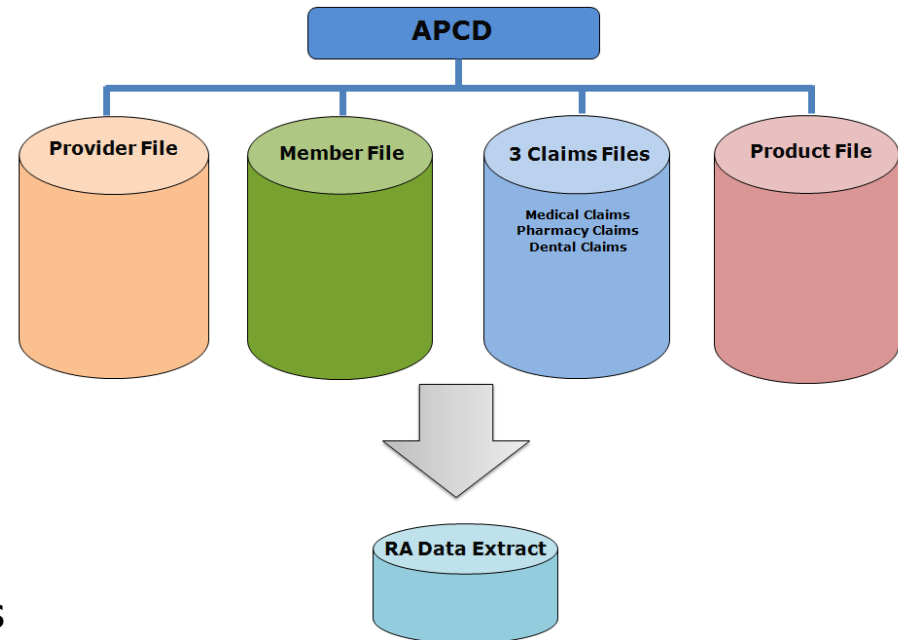
# Key Elements of Our Proposed Methodology (Details)

<b>Maximized Predictive Accuracy</b>	
More Condition Categories	Utilizes a more expansive set of condition categories than the HHS model (162 vs. 127); more condition categories increases predictive accuracy of risk adjustment models
Partial-year eligibility	Adjusts for members' partial year eligibility which improves the predictive accuracy of the model similar to the adjustments used in the risk adjustment programs for Commonwealth Care, MassHealth and the GIC
<b>Reflects Massachusetts Market</b>	
Based on Massachusetts data	Utilizes data from the Commonwealth's APCD and Commonwealth Care program so reflects actual Massachusetts experience
Aligning with "Wrap" coverage	Applies adjustments for for cost-sharing reductions that reflect "wrap" plan models unique to Massachusetts
Geographic Cost Differences	Allows us to calculate geographic cost factors using membership in Gold plans rather than Silver plans (HHS model) given that Silver plans are likely to be less common in Massachusetts; this will provide a credible sample for benchmarking regional premium differences
Reflects how care is delivered	Uses encounters / diagnoses arising from nurse practitioners and physician assistants, long-term care facilities such as skilled nursing facilities and ambulatory surgical centers



# Data Collection Leveraging the APCD

- Under the federal default, issuers would be required to set up new infrastructure to provide data to HHS for risk adjustment calculations
  - Each issuer must set up an “edge server” to supply HHS with risk adjustment data based on specifications provided by HHS
- The APCD already has an established mechanism for collecting member, claims and product information from issuers operating in the small and non-group merged market in Massachusetts
  - The vast majority of the data elements are already being collected by the APCD on a monthly basis
- Leveraging the APCD for data collection would be a far more simplified approach from issuers’ perspectives compared with the default federal option





# Data Collection Leveraging the APCD (cont'd)

- The APCD is an important tool that has the capability to support many policy and analytical efforts across the market
  - Market-wide health care and quality analysis
  - Transition to alternative payment models
  - New health insurance plan design
  - Evidence-based medicine
- Massachusetts is a national leader in the development of an APCD, with an established mechanism for data collection and significant infrastructure already in place
- In order to support risk adjustment some additional work will need to be done
  - Modify data specifications to capture additional elements (*e.g.*, AV, monthly premium)
  - Improve data quality (*e.g.*, identifies inconsistencies and data anomalies on intake)
- The Health Connector has been working closely with the APCD team at the Center for Health Information and Analysis (CHIA), which has dedicated tremendous effort to the risk adjustment program
- We expect that the enhancements to the APCD for risk adjustment program readiness will also benefit other initiatives across state government



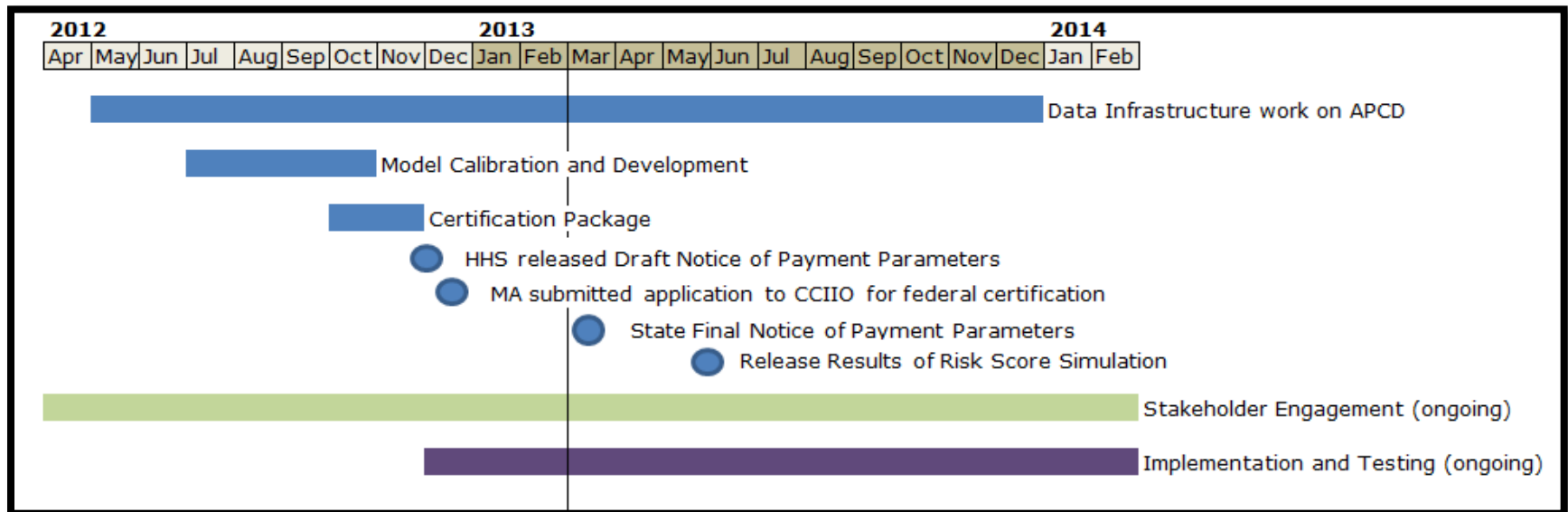
# Federal Review Status

- The Health Connector submitted our application for federal certification of the Massachusetts-specific risk adjustment methodology on January 6<sup>th</sup>
- We have had a series of discussions with HHS about our application. Presently, HHS has not yet made a final decision on whether the approach will receive federal certification
- The discussions with HHS to date have been highly collaborative, and the overall feedback on our proposal and approach has been very positive



# Implementation Timeline

- If the Massachusetts-specific risk adjustment program is federally approved, we will proceed with the next phase of the project, where our focus will shift to operations and data infrastructure readiness
- It will be crucial that we continue to work closely with issuers throughout this implementation phase
  - We are currently working with issuers to conduct a risk score simulation that will assist them in 2014 pricing and product development





# Proposed Contract Renewal with Milliman

- Milliman has provided essential support to our 3R work to date
- Their multi-disciplinary team of national experts in risk adjustment, health care IT, actuarial analysis and regulatory affairs has been instrumental in our ability to develop a robust risk adjustment methodology
- Milliman has also demonstrated exceptional credibility among the issuers in the Massachusetts market – which has been valuable for our carrier engagement
- We anticipate requiring continued technical support throughout the implementation of the risk adjustment program
- Milliman’s high performance in the initial phase of this engagement, combined with the important efficiencies gained as a result of continuity make them a natural partner for this next phase





# Proposed Work Order

<b>Key Deliverables</b>	<ul style="list-style-type: none"> <li>• Support enhancements to APCD data collection efforts; ongoing recommendations for the data collection process; work with CHIA and issuers on an as needed basis</li> <li>• Conduct risk adjustment methodology simulations and “stress test” the operations of the program in 2013</li> <li>• Incorporate necessary adjustments to the risk adjustment methodology as a result of feedback from HHS and/or the ICD-10 conversion</li> <li>• Provide technical support to CHIA and Connector teams to execute the risk adjustment model and calculate payment and charges (<i>i.e.</i>, provide code and develop technical user guides)</li> <li>• Technical assistance in stakeholder communication</li> </ul>
<b>Milliman Consulting Team</b>	<ul style="list-style-type: none"> <li>• Milliman: Actuarial, health care data informatics (IT)</li> </ul>
<b>Timeframe</b>	<ul style="list-style-type: none"> <li>• The extension, if granted, will extend the contract through calendar year 2013</li> <li>• If the Massachusetts approach to Risk Adjustment does not achieve federal certification, we have the contractual flexibility to modify the contract accordingly</li> </ul>
<b>Funding</b>	<ul style="list-style-type: none"> <li>• Level 1A Exchange Establishment Grant (received on September 27, 2012)</li> <li>• The total cost of the contract is capped at \$1.9 million</li> </ul>



# Board Recommendation

- We recommend a contract renewal extension with Milliman to support the implementation and operation of the Massachusetts-specific approach to risk adjustment
- The cost of the services under the contract will be based on existing hourly rates and shall not exceed \$1.9 million for work performed in calendar year 2013
- We seek a Board vote to authorize a proposed contract extension with Milliman