



Procurement for Consulting Assistance in Reinsurance, Risk Adjustment and Risk Corridor ("3R") Planning

(VOTE)

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**Board of Directors Meeting
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Agenda

- Background on reinsurance, risk adjustment and risk corridors (“3R”s) under the Affordable Care Act
- The Inter-Agency 3R Workgroup
- Procurement for an actuarial consultant to support the 3R Workgroup’s planning and implementation efforts
- Request for a Board vote to enter into a contract with the recommended actuarial consultant selected through this competitive procurement



"3R"s Under the ACA

- Pursuant to Sections 1341, 1342 and 1343 of the Affordable Care Act, three risk mitigation programs – collectively referred to as the "3R"s – must be implemented in the post-reform small and non-group health insurance market
 - Transitional Reinsurance
 - Permanent Risk Adjustment
 - Temporary Risk Corridor
- According to the ACA and proposed federal rules released to date, the 3R programs must be launched as of the 2014 benefit year



"3R"s Under the ACA (cont'd)

	Reinsurance	Risk Adjustment	Risk Corridor
What it Does	Provides revenue protection for carriers that cover high-cost individuals	Redistributes premium according to enrollee acuity	Limits issuer loss (and gain)
Market Segment Affected <i>(excludes grandfathered and self-funded plans)</i>	Individual market plans (inside and outside the Exchange)	Individual and small-group market plans (inside and outside the Exchange)	Qualified Health Plans (QHP)
Funding Mechanism	Assessment on all insurance issuers and TPAs	Budget-neutral revenue redistribution	Direct settlement between carriers and HHS
Timeframe	Transitional 2014-2016 only	Permanent Starting in 2014	Transitional 2014-2016 only
Program Design	Defined by HHS; although states have the option to develop and administer an alternative approach that achieves federal certification	Defined by HHS; although states have the option to develop and administer an alternative approach that achieves federal certification	Defined by HHS
Program Administration	State-level by a governmental agency or an "applicable not-for-profit reinsurance entity"	An Exchange or certain other entities defined pursuant to federal regulations	HHS will administer the program and work directly with issuers of QHPs

Note: all information presented herein is pending issuance of final federal regulations and additional guidance



"3R"s Under the ACA (cont'd)

Robust 3R programs are a critical component of the overall success of ACA implementation



- The primary objective of the 3Rs is to stabilize premiums in the post-reform small and non-group market
 - Preserve market competitiveness by mitigating the impact of risk selection, both inside and outside the Exchange
 - Moderate potential premium “shock” as a result of the insurance market changes, including the expansion of subsidized products
- Effective 3R programs are essential to both the initial success and long-term sustainability of a state or federal Exchange by ensuring confidence and a “level-playing field” among carriers



"3R"s Under the ACA (cont'd)

Key considerations for 3R planning:

- For both reinsurance and risk adjustment, a "federal model" will be defined by HHS, with specific parameters that presumably will allow states to "plug and play"
- A state that operates a certified Exchange has the option to 1) adopt the federal model or 2) develop its own model and obtain federal certification
 - Federal guidance available to date suggests that states have considerable flexibility to design their reinsurance and risk adjustment programs
- The timing of the release of the federal model presents a potential challenge
 - The final federal ruling may not be available until the fall of 2012; yet...
 - Federal certification of state methodologies are required to be complete by the end of 2012, which provides limited time for states to make decisions after the federal models are released



"3R"s Under the ACA (cont'd)

Key considerations for 3R planning (cont'd):

- It is an open question whether or not the federal models, that will likely be designed to "fit" a wide range of state conditions, will ultimately provide the best options for Massachusetts
- While it will be important to fully leverage federal guidance, Massachusetts may be uniquely positioned to define and pursue its own approach to 3R implementation that best fits our market
 - Market structure and population mix that are likely materially different from other states
 - Lowest rate of uninsured in the nation
 - A guaranteed issue state for over a decade
 - Substantial experience developing and administering similar programs
 - The Health Connector currently administers all of the 3Rs for its Commonwealth Care program
 - The DOI has experience and expertise administering reinsurance programs
 - Both the GIC and MassHealth operate DxCG-based risk adjustment for their programs



"3R"s Under the ACA (cont'd)

Key considerations for 3R planning (cont'd):

- The focus of state planning is reinsurance and risk adjustment
 - Based on the ACA, the risk corridor program will be carried out as a direct settlement between HHS and carriers; therefore, a state-based program is not envisioned
- For reinsurance and risk adjustment, detailed methodologies, parameters and business processes will need to be defined in order to implement the programs

Reinsurance (non-exhaustive list)	Risk Adjustment (non-exhaustive list)
<ul style="list-style-type: none">• Attachment point, coinsurance rate, reinsurance ceiling• Assessment algorithm• Frequency of reinsurance cycle• Administration of program	<ul style="list-style-type: none">• Model selection and maintenance• Risk score calculation methodology• Interactions with rating methodology• Data collection• Payment and charge process



The Inter-Agency 3R Workgroup

An Inter-Agency Workgroup has been charged with developing the 3R implementation strategy for Massachusetts

ACA Implementation Inter-Agency Task Force

3R Inter-Agency Workgroup

Executive Office for Administration & Finance

Division of Insurance (*co-chair*)

The Health Connector (*co-chair*)

Division of Health Care Finance and Policy

Group Insurance Commission

MassHealth

Key Responsibilities of the 3R Workgroup

- Leveraging consulting assistance, develop a comprehensive recommendation on the state's 3R implementation plan
- Prepare for and ultimately obtain federal certification of a state-based 3R methodology if required
- Oversee the development of operational readiness for 3R launch
- Manage appropriate carrier and other stakeholder engagement



Stakeholder Engagement

The Inter-Agency Workgroup acts as the contact point for communicating with carriers and other key stakeholders

- The first of many stakeholder engagement meetings took place on January 18, 2012 at DOI
- The meeting was primarily a question-and-answer session to gain input from carriers and other interested parties
- The general consensus among the attendees was that the Commonwealth should explore an approach that best meets the needs of the Massachusetts market



Procurement for Actuarial Support for 3R Planning

- An early milestone of the 3R Workgroup is to engage a consultant to conduct a comprehensive analysis of the state's 3R implementation options and identify a preferred strategy
- To that end, the Health Connector issued an RFP for a consultant to assist the 3R Workgroup in this effort
 - We expect that this engagement will be funded by the Level 1 Exchange Establishment Grant, for which the Health Connector has submitted an application to CCIIO
- The RFP sought a 10-week engagement to complete an initial analysis, with the option for additional implementation support work at the discretion of the Health Connector



Procurement for Actuarial Support for 3R Planning (cont'd)

- Specific deliverables targeted for the engagement include:
 - Identify the full range of 3R implementation options available to the Commonwealth
 - Model the impact of reinsurance, risk adjustment and risk corridor mechanisms, and simulate the effect of different 3R methodologies
 - Develop a concrete recommendation for 3R implementation based on what is in the best interests of the Commonwealth
 - Develop an implementation roadmap, including required steps to achieve operational readiness for program launch by 2014
 - (Beyond the initial phase) potentially provide ongoing support for program implementation and carrier engagement



Procurement Process

- A Procurement Management Team (PMT) was formed with representation from multiple agencies that participate in the 3R Inter-Agency Workgroup
- Scoring of bids consisted of a technical component and a financial component
 - On the technical side, specific parameters for evaluation included:
 - Leadership in 3R strategy development
 - Expertise in large-scale actuarial simulation analysis
 - Experience in developing implementation roadmaps
 - Knowledge of the Massachusetts market and experience working with key stakeholders



Scoring Results

- The PMT received and evaluated four bids
- Two finalists were invited to provide an oral presentation and submit “Best and Final Offers”
- Of the two finalists, the PMT proposes engaging Milliman, Inc., with support from Mintz Levin LLC.

	Technical Response (out of 55)	Oral Presentation & References (out of 15)	Financial Proposal (out of 30)	Total Score (out of 100)	Total Cost (Not-to-exceed amount)
Recommended Milliman, Inc. & Mintz Levin LLC.	47	15	25	87	\$267,000
Bidder 2 (finalist)	44	15	17	76	\$329,000
Bidder 3	24	N/A	20	44	\$200,000
Bidder 4	28	N/A	5	33	\$498,000



Why Milliman?

There were several reasons why the PMT concluded that Milliman offered the best value to the Commonwealth

- Milliman provided the highest scoring technical proposal and the second lowest cost proposal overall
- Milliman has carried out 3R simulations for other states and can leverage their propriety dataset and analytical tool - "Healthcare Reform Financing Model (HCRFM)" - to model the likely effects of different 3R program options in Massachusetts
- Finally, Milliman and its partner Mintz Levin have considerable experience working with Massachusetts stakeholders, including nearly all of the major carriers in the commercial space



Recommendation and Request for Board Vote

- The Health Connector, on behalf of the PMT and the 3R Workgroup, recommends that a contract be awarded to Milliman, Inc. for assisting the 3R Workgroup in its reinsurance, risk adjustment and risk corridor implementation planning
- The contract award is subject to:
 - The parties reaching agreement on contractual language
 - Health Connector's receipt of sufficient funding to support the engagement from the pending Level 1 Exchange Establishment Grant
- If approved, the engagement will begin on or about February 28, 2012