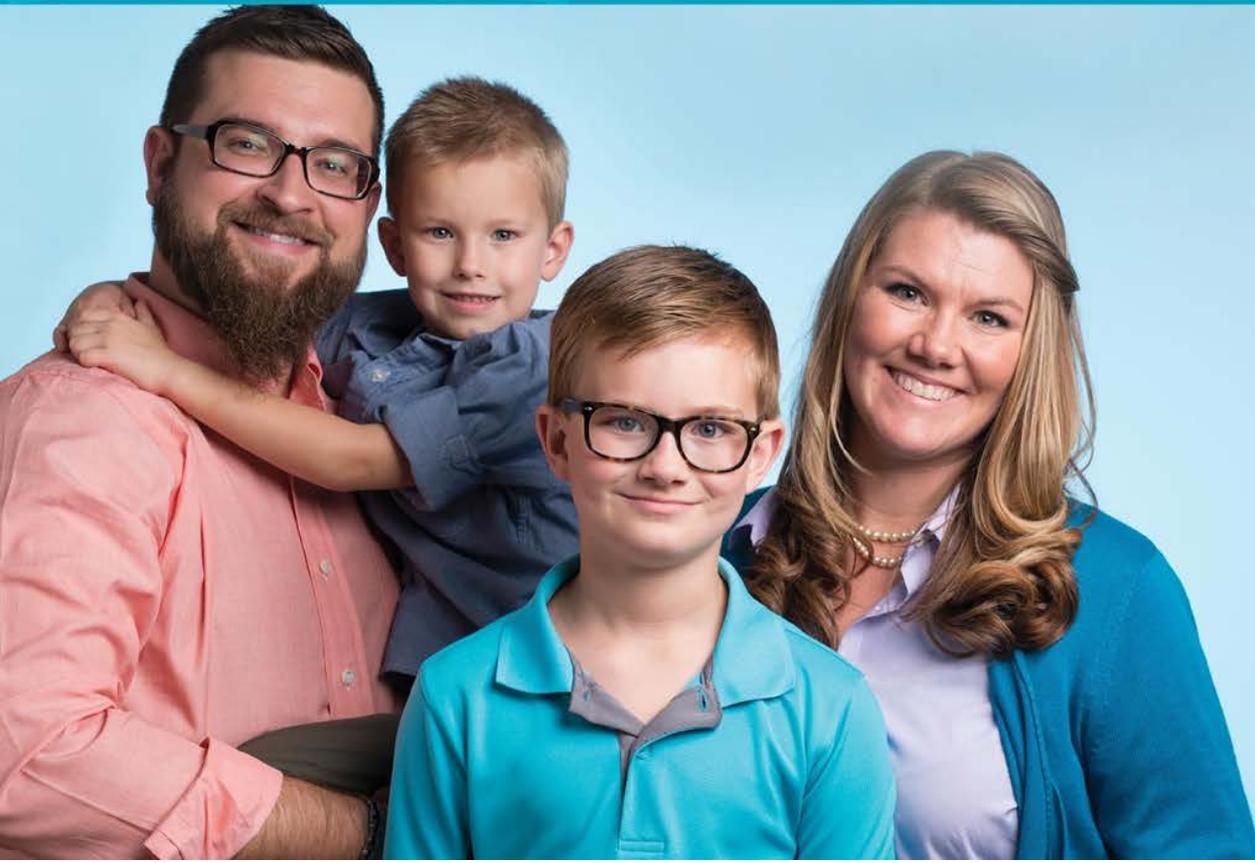


Risk Adjustment and State Reinsurance Program Interaction: Analysis from Wakely Consulting Group - July 16, 2018



Background

- On May 31, 2018, MHBE submitted a State Innovation Waiver Application to implement a State Reinsurance Program (“SRP”) in Maryland.
- The SRP was modeled to result in a 30% premium offset for 2019 and 2020. The estimated size of the SRP is \$462 million and \$459 million, respectively.
- During the public comment period stakeholders expressed concern over potential duplicative payments issuers might receive under the risk adjustment and reinsurance programs.
- At the May board meeting, the MHBE Board of Trustees authorized MHBE to commission the Wakely Consulting Group to perform analysis on this potential program interaction for Plan Years 2019 and 2020. The Board also resolved to potentially take regulatory action based upon the outcome of the Wakely analysis.

Background

- The federal risk adjustment program operates by transferring funds from plans with lower-risk enrollees to plans with higher-risk enrollees, thereby encouraging insurers to compete based on the value and efficiency of their plans rather than by attracting healthier enrollees. The risk adjustment program is federally administered but transfers are budget neutral to state markets.
- The State Reinsurance Program will operate by transferring funds to plans with high claim enrollees to exert downward pressure on premiums.
- The 2019 risk adjustment program is estimated to transfer +/- \$132 million across issuers in the individual market, and the SRP is estimated to pay out \$462 million in reinsurance payments.
- Total premiums for the individual market in 2019 are estimated at approximately \$1.1 billion.

Assumptions & Methods

- Wakely’s assumptions for its analysis matched those included in the waiver as closely as possible (e.g., premium increases, etc.).
- Wakely leveraged the most recently available data (2017) from the EDGE server, a repository where carrier enrollee data used to determine risk adjustment program payments are stored and analyzed.
- Wakely then grouped the enrollee data into six “buckets,” according to their 2017 claims experience. After the enrollees were grouped, Wakely adjusted the enrollee data to estimate the 2019 experience (Table 1).

Table 1 – Risk Adjustment/Reinsurance Analysis Categories – 2019 Estimates

Category	Claims Range (2017)*	Population Estimate	Distribution
No claims	--	17,990	10%
1 st Quartile	less than \$184.50	27,896	16%
2 nd Quartile	\$184.50 - \$659.00	34,444	20%
3 rd Quartile	\$659.00 - \$2,028.90	38,073	22%
4 th Quartile	\$2,028.90 - \$20,000	45,384	26%
Some Reinsurance	above \$20,000	10,772	6%
TOTAL	--	174,560	100%

Assumptions & Methods

After data for 2019 was estimated, Wakely then identified three scenarios for analysis:

- 2019 Risk Adjustment only;
- 2019 Risk Adjustment and State Reinsurance Program; and
- Dampened 2019 Risk Adjustment and State Reinsurance Program.

Analysis – Claims to Premium Ratios

- In order to determine the degree of overlap between the risk adjustment and reinsurance programs, Wakely leveraged the claims-to-premiums ratio, also known as the “Medical Loss Ratio” or MLR.

$$MLR = \frac{\text{Claims}}{\text{Premiums}}, \quad \text{Average MLR} = .80$$

- Incorporation of premium stabilization programs, however, modifies the equation:

$$MLR = \frac{\text{Claims} - (RA + RI)}{\text{Premium}}$$

Analytical Framework:

- If $MLR > .80$, then it can be assumed the issuer is eating into its allowable administrative margin.
- If $MLR < .80$, then it can be assumed the issuer is increasing its margin by the difference between the MLR and .80.

Example:

- An MLR of .70 indicates that the issuer is collecting an additional 10% of premiums above the administrative load that is not attributable to claims.

Report Outcomes

Table 2 - MLRs for RA, RA + RI, and RA with dampening + RI.*

Category	RA-only	RA + RI	RA (-30%) + RI	RA (-40%) +RI
No claims	.91	.84	.59	.50
1 st Quartile	.77	.77	.54	.47
2 nd Quartile	.86	.86	.63	.56
3 rd Quartile	.8	.83	.66	.60
4 th Quartile	.66	1.01	1.03	1.03
Some reinsurance	1.05	-1.57	.20	.79
Total	.79	.71	.71	.71

* MLRs assume a 15% premium increase from 2018 to 2019.

Report Outcomes

- With an MLR of -1.57, payments received by issuers for enrollees above \$20,000 in claims under the risk adjustment and reinsurance programs would result in issuers receiving payments greater than the costs incurred by claims.
- Under normal medical loss ratio distributions for issuers, enrollees with lower claims would subsidize losses experienced by enrollees with higher claims. The interaction between the risk adjustment and reinsurance programs, when applied without any calibration, distorts this experience, and results in enrollees with higher claims subsidizing enrollees with lower claims.
- Wakely modeled scenarios for a dampening of risk adjustment program payments to calibrate for the degree of overlap (column RA (-30%) + RI).
- Wakely determined that a 30% reduction in the Risk Adjustment payment would result in bringing this population to a non-negative MLR.

MIA Insights on Risk Adjustment and Reinsurance Interactions

- Todd Switzer, Chief Actuary, and Bradley Boban, Sr. Actuary

RA/RI Interaction - INM ACA Market - MIA/OCA

1. A guiding principle in measuring achievement of the state's goal of the RI program is the principle expressed in HHS' white paper of 2016 regarding RA. That is, the result should be that insurers compete based on "benefits, quality, efficiency, and value" and not "risk selection." Members also self-select making RA necessary to prevent risk selection.
2. Analysis has led to the conclusion that an appreciable amount of interaction is expected, warranting an adjustment. Quantitatively, 2019 estimates of interaction range from \$26M to \$44M. Preliminary estimates of 2019 RA and RI are +/- \$158M and +\$460M, respectively. Therefore, the interaction as a percentage of RA ranges from 17% to 28% (6% and 10% of RI).
3. For the two remaining insurers, the \$26M scenario would impact CFI and KP premiums by ~+2% (HMO & PPO) and -12%, respectively. The \$44M scenario would have impacts of +4% and -20%.
4. For the first time CMS will allow states to submit by 08/01/18 for 2020 a "scalar" to mute the impact of RA. The volatility of our estimates thus far is ~+/-20%. Therefore the leaning is to utilize RI to adjust for RA interaction for both 2019 and 2020.
5. Two methods were examined to measure the "interaction." To start, members were split into six categories of rising annual claims costs from \$0 claims to \$20K+ (i.e., \$0 claims, four quartiles, then reinsured claims > \$20K). These six categories could be further bifurcated into "paying RA transfers/healthy" and "receiving RA transfers/unhealthy." The first method sought to minimize the volatility of loss ratios in the six categories. It had the "pro" of having none of the six categories with subsidies greater than claims. It had the "con" that the "payers/healthy" were transformed from unprofitable to very profitable and the converse for "receivers/unhealthy." The second method sought to make the profitability exactly equal for payers and receivers. The "pro" is that this is consistent with the ACA RA objective, and insurers would be indifferent to the morbidity of the insured. The "con" is that the loss ratio volatility, while reduced, is greater than the first method and for the reinsured members, subsidies exceed claims.
6. It is maintained that the RI coinsurance of 80% is sufficient motivation for an insurer to actively manage care towards appropriate cost containment.
7. In practical terms the RI process would have two steps: 1) the paid claim amounts corresponding to the program's parameters would be calculated, and 2) the RI dampening factor would be applied at the legal entity level to determine the final payment to insurers. First, this would be estimated prospectively in rate filings in, for example, September 2018 for calendar 2019 rates. Finally this would be done again retrospectively in May 2020 for calendar 2019 to compute actual payments. As with Federal transitional reinsurance from 2014-2016, there will inevitably be a variance from the estimate to actual.

RA/RI Interaction – Federal RA and RI Impact

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
1) Undampened RA, w/o RI																
	PMPY		Average			Raw					RA					
	Claims		Annual	2019		Paid		Raw	Raw		Scalar/			Adj.		
	Amt.		Paid	Members	%	Claims	%	Income	Loss Ratio	Δ	Dampening	RA	RI	Ratio	Δ	
1	No Claims	\$0	\$0	17,990	10%	\$0	0%	\$129,174,406	0%		n/a	(\$117,572,393)	\$0	91%		
2	1st Quartile	\$1-\$185	\$8	27,896	16%	\$2,793,683	0%	\$223,063,978	1%		n/a	(\$168,716,111)	\$0	77%		
3	2nd Quartile	\$186-\$659	\$46	34,444	20%	\$19,200,122	2%	\$256,197,839	7%		n/a	(\$201,585,036)	\$0	86%		
4	3rd Quartile	\$660-\$2029	\$137	38,073	22%	\$62,380,534	5%	\$329,395,962	19%		n/a	(\$201,175,094)	\$0	80%		
5	4th Quartile	\$2030-\$19999	\$641	45,384	26%	\$349,210,399	28%	\$487,380,500	72%		n/a	\$26,301,159	\$0	66%		
6	Some Reinsurance	\$20000+	\$6,219	10,772	6%	\$803,871,083	65%	\$133,401,855	603%		n/a	\$662,747,475	\$0	106%		
7	Total SRP		\$591	174,560	100%	\$1,237,455,821	100%	\$1,558,614,540	79%		n/a	\$0	\$0	79%		
8																
9	No Claims + Quartiles 1-3	RA Payers	Healthy	\$59	118,403	68%	\$84,374,339	7%	\$937,832,185	9%	n/a	(\$689,048,634)	\$0	82%		
10	4th Quartile/Reinsured	RA Receivers	Unhealthy	\$1,711	56,156	32%	\$1,153,081,482	93%	\$620,782,355	186%	177%	n/a	\$689,048,634	\$0	75%	-8%
11	Total SRP		\$591	174,559	100%	\$1,237,455,821		\$1,558,614,540	79%		n/a	\$0	\$0	79%		
12																
13	2) Undampened RA, w/ RI															
14			Average			Raw					RA					
15	PMPY		Annual	2019		Paid		Raw	Raw		Scalar/			Adj.		
16	Claims		Paid	Members	%	Claims	%	Income	Loss Ratio	Δ	Dampening	RA	RI	Ratio	Δ	
17	Amt.		Claim													
18	No Claims	\$0	\$0	17,990	10%	\$0	0%	\$99,125,376	0%		1.000	(\$82,901,685)	\$0	84%		
19	1st Quartile	\$1-\$185	\$8	27,896	16%	\$2,793,683	0%	\$159,012,330	2%		1.000	(\$118,963,725)	\$0	77%		
20	2nd Quartile	\$186-\$659	\$46	34,444	20%	\$19,200,122	2%	\$188,090,189	10%		1.000	(\$142,139,993)	\$0	86%		
21	3rd Quartile	\$660-\$2029	\$137	38,073	22%	\$62,380,534	5%	\$246,401,845	25%		1.000	(\$141,850,937)	\$0	83%		
22	4th Quartile	\$2030-\$19999	\$641	45,384	26%	\$349,210,399	28%	\$327,407,230	107%		1.000	\$18,545,258	\$0	101%		
23	Some Reinsurance	\$20000+	\$6,219	10,772	6%	\$803,871,083	65%	\$78,960,571	1018%		1.000	\$467,311,082	\$459,616,999	-156%		
24	Total SRP		\$591	174,560	100%	\$1,237,455,821	100%	\$1,098,997,541	113%		1.000	\$0	\$459,616,999	71%		
25																
26	No Claims + Quartiles 1-3	RA Payers	Healthy	\$59	118,403	68%	\$84,374,339	7%	\$692,629,740	12%	0.705	(\$485,856,340)	\$0	82%		
27	4th Quartile/Reinsured	RA Receivers	Unhealthy	\$1,711	56,156	32%	\$1,153,081,482	93%	\$406,367,801	284%	272%	0.705	\$485,856,340	\$459,616,999	51%	-31%
28	Total SRP		\$591	174,559	100%	\$1,237,455,821		\$1,098,997,541	113%		0.705	\$0	\$459,616,999	71%		

Please note that the 71% & 79% loss ratios do not reflect 1) NAIC MLR adjustments, 2) operating expenses, and 3) final approved rates. The filed NAIC MLR for 2019 is ~82%.

RA/RI Interaction – Options Toward State Objective

30	3) Dampened RA (Thru RI), WAKELY Approach (Get Loss Ratios of 6 Categories as Close as Possible, No Subsidies > Claims, Remove All "Interaction \$s", Healthy More Profitable)										
31		1	2	3	4	5	11	12	13	14	15
32				Average			RA				
33		PMPY		Annual			Scalar/			Adj.	
34		Claims		Paid	2019		Factor/			Loss	
35		Amt.		Claim	Members	%	Dampening	RA	RI	Ratio	Δ
36		No Claims		\$0	17,990	13%	0.720	(\$59,689,213)	\$0	60%	
37		1st Quartile		\$1-\$185	27,896	19%	0.720	(\$85,653,882)	\$0	56%	
38		2nd Quartile		\$186-\$659	34,444	20%	0.720	(\$102,340,795)	\$0	65%	
39		3rd Quartile		\$660-\$2029	38,073	21%	0.720	(\$102,132,675)	\$0	67%	
40		4th Quartile		\$2030-\$19999	45,384	22%	0.720	\$13,352,586	\$0	103%	
41		Some Reinsurance		\$20000+	10,772	5%	0.720	\$336,463,979	\$459,616,999	10%	
42		Total SRP		\$591	174,560	100%	0.720	\$0	\$459,616,999	71%	
43											
44		No Claims + Quartiles 1-3	RA Payers	Healthy	\$59	68%	0.720	(\$349,816,565)	\$0	63%	
45		4th Quartile/Reinsured	RA Receivers	Unhealthy	\$1,711	32%	0.720	\$349,816,565	\$459,616,999	85%	22%
46		Total SRP			\$591	174,559	100%	0.720	\$0	\$459,616,999	71%
47											
48	4) Dampened RA (Thru RI), OCA1 Approach (Get Loss Ratios of 2 Categories as Close as Possible (Healthy & Unhealthy), Healthy & Unhealthy Equally Profitable, Some Subsidies > Claims)										
49											
54		No Claims		\$0	17,990	13%	0.834	(\$69,140,005)	\$0	70%	
55		1st Quartile		\$1-\$185	27,896	19%	0.834	(\$99,215,747)	\$0	64%	
56		2nd Quartile		\$186-\$659	34,444	20%	0.834	(\$118,544,754)	\$0	73%	
57		3rd Quartile		\$660-\$2029	38,073	21%	0.834	(\$118,303,681)	\$0	73%	
58		4th Quartile		\$2030-\$19999	45,384	22%	0.834	\$15,466,745	\$0	102%	
59		Some Reinsurance		\$20000+	10,772	5%	0.834	\$389,737,442	\$459,616,999	-58%	
60		Total SRP		\$591	174,560	100%	0.834	\$0	\$459,616,999	71%	
61											
62		No Claims + Quartiles 1-3	RA Payers	Healthy	\$59	68%	0.834	(\$405,204,188)	\$0	71%	
63		4th Quartile/Reinsured	RA Receivers	Unhealthy	\$1,711	32%	0.834	\$405,204,188	\$459,616,999	71%	0%
64		Total SRP			\$591	174,559	100%	0.834	\$0	\$459,616,999	71%

RA/RI Interaction - Premium Impact

	1	2	5	6	7	9	10
			Actual		Filed	RI	Δ/ Premium
1		Legal	Members		Insurer	Premium	Impact/ "Dampening"
2	Insurer	Entity	03/31/18	%	Renewal	Impact	
3						No Dampening	
4	CF	BC	123,188	58%	18.5%	-28%	n/a
5	CF	GHMSI	5,666	3%	91.4%	-46%	n/a
6	CF	CFMI	9,215	4%	91.4%	-46%	n/a
7	Kaiser	KP	73,704	35%	37.4%	-30%	n/a
8	TOTAL		211,773	100%	30.2%	-30%	n/a
9							
10						Wakely (0.720, +/- \$44M)	
15	CF	BC				-25%	3%
16	CF	GHMSI				-34%	12%
17	CF	CFMI				-34%	12%
18	Kaiser	KP				-50%	-20%
19						-30%	0%
20							
21						OCA 1 (0.834, +/- \$26M)	
26	CF	BC				-26%	2%
27	CF	GHMSI				-39%	7%
28	CF	CFMI				-39%	7%
29	Kaiser	KP				-42%	-12%
30						-30%	0%

MHBE Staff Recommendation

MHBE Staff Recommendation:

MHBE staff take action, as necessary, to structure through regulation the State Reinsurance Program to account and adjust for any potential duplication in payment from both risk adjustment and reinsurance as independently analyzed by the Maryland Insurance Administration and by the Wakely Consulting Group model provided to MHBE on June 30, 2018.