



June 5, 2020

Re: Estimated 2021 Reinsurance Parameters and Proposed Hybrid Dampening Approach

Summary of Comments

We received comments from both insurers participating in the individual market.

One carrier commented that if a dampening factor is going to be applied, the carrier agrees with the concept of a hybrid dampening factor that attempts to account for both risk and claims levels. The carrier suggested that, because Cohort 4 in the hybrid approach is a relatively low percentage of total membership with higher than average expected risk, claims for this cohort could be volatile although higher than average under any scenario and therefore an analysis using multiple years of experience may be appropriate. In addition, the carrier suggested that, given the changes being implemented in the risk adjustment model for 2021, further analysis should be performed to understand the impact of these improvements on the dampening factor.

Another carrier commented that they prefer the risk-based approach to calculating the dampening factor as the most effective in accounting for the interaction between the federal risk adjustment program and the state reinsurance program. However, the carrier stated that they support the proposed "hybrid" dampening approach as an that will also improve the approach to managing that interaction.

Response

We thank the commenters for reviewing the proposed hybrid approach. We appreciate the point made by one carrier about the potential volatility of cohort 4. If the results from the 2021 dampening factor analysis are significantly different from the 2020 results shared for public comment, we will consider working with our actuarial consultants to take a closer look at potential sources of the difference (e.g., changes in the RA model vs changes in claims distribution) and how best to approach the issue.

We acknowledge the changes to the 2021 risk adjustment model, and our actuarial consultants will use the 2019 carrier EDGE files to perform a new 2021 analysis that incorporates these updates. We will share that analysis publicly and the MHBE Board and MIA will use it as a reference when finalizing the 2021 program parameters, including the dampening factor.

