Risk Distribution in Merged Market

October 23, 2020

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Policy Options

September 23, 2020

- Examine cost drivers
- Examine options available in the merged market

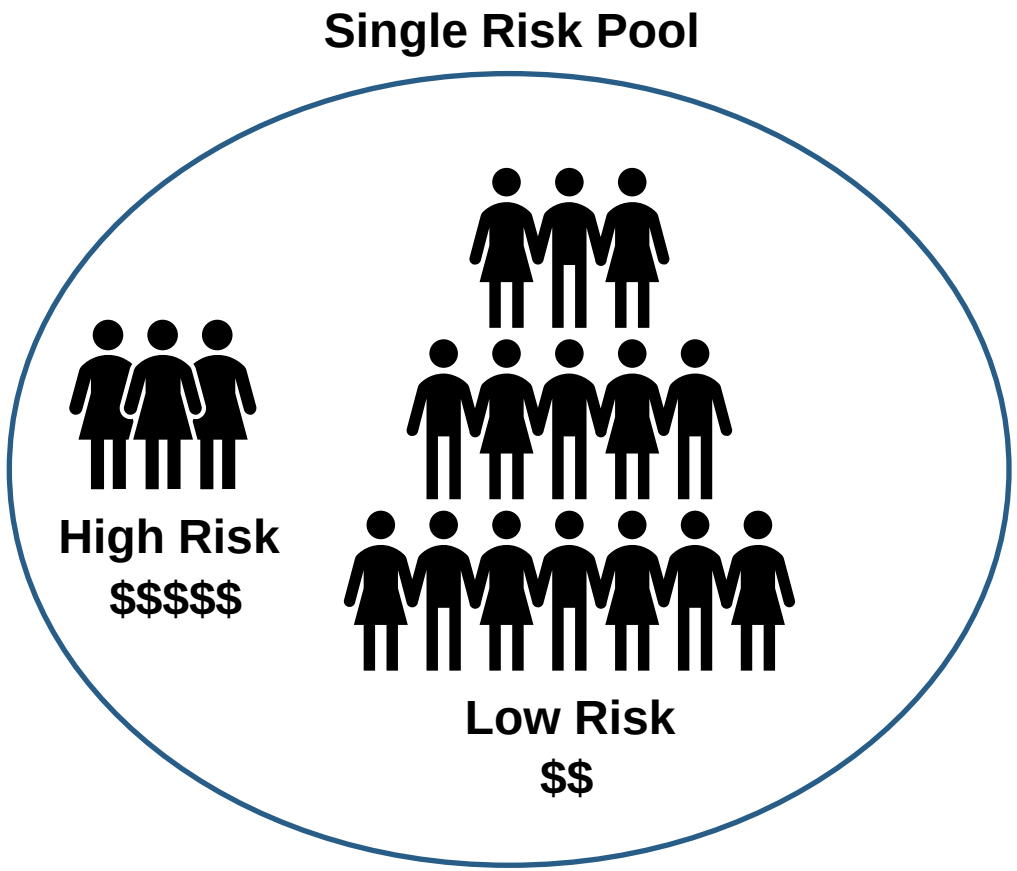
October 7, 2020

- Examine options outside the merged market
  - Professional Employer Organizations (PEOs)
  - Association Health Plans (AHPs)
  - Healthcare Sharing Ministries
  - Self-Funding with Stop-Loss Reinsurance

October 23, 2020 – November 17, 2020

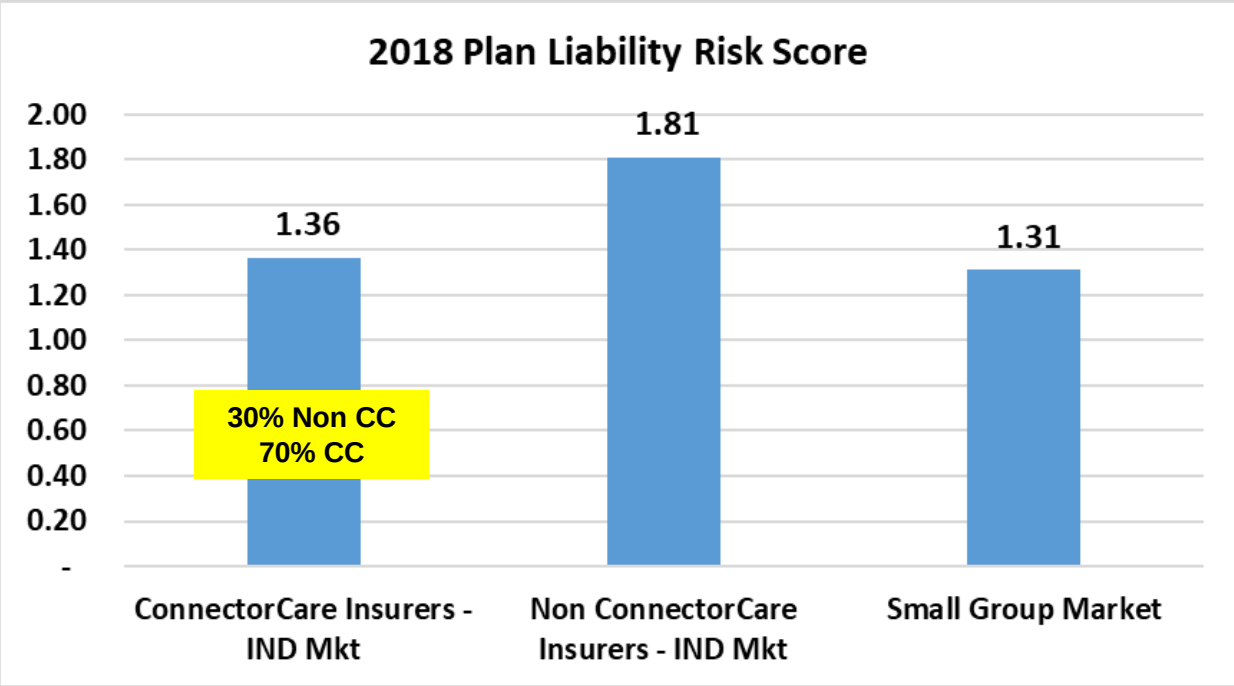
- Examine policies to re-distribute medical costs of high-risk individuals to provide premium relief in the individual and small group markets

Risk Distribution Within Each Insurer



- The insurance company pools the risk of all policyholders and establishes a base premium rate by examining all the health care costs for the pool.
- 80/20 Rule: Approximately 80% of costs are incurred by 20% of the people.
- In the merged market, within each insurer, high risk enrollees (high utilizers & high costs) are subsidized by lower risk enrollees (low utilizers & low costs).
- If an insurer has a higher proportion of high-risk enrollees, their premiums will be higher than the market.

Risk Scores Serve as a Proxy for High Cost Enrollees



Allways
BMCHP
Fallon
HNE
THPP

BCBSMA
HPHC
THP
United

Plan Liability Risk Score: This is the average risk score, which reflects morbidity differences, age demographic differences, and plan cost-sharing differences.

ConnectorCare and small group risks are similar.

Non-ConnectorCare individual market has the highest relative risk score. Insurers that have the greatest number of members in this market segment appear to have an unequal distribution of high cost enrollees.

*Small Group may include sole props

Premium Rate Differences Among Insurers

- ***Providers:*** If one insurer's enrollees use more expensive providers compared to the average, the premium rates will be higher

- ***Utilization:*** If one insurer's enrollees use more health care services compared to the average, the premium rates will be higher

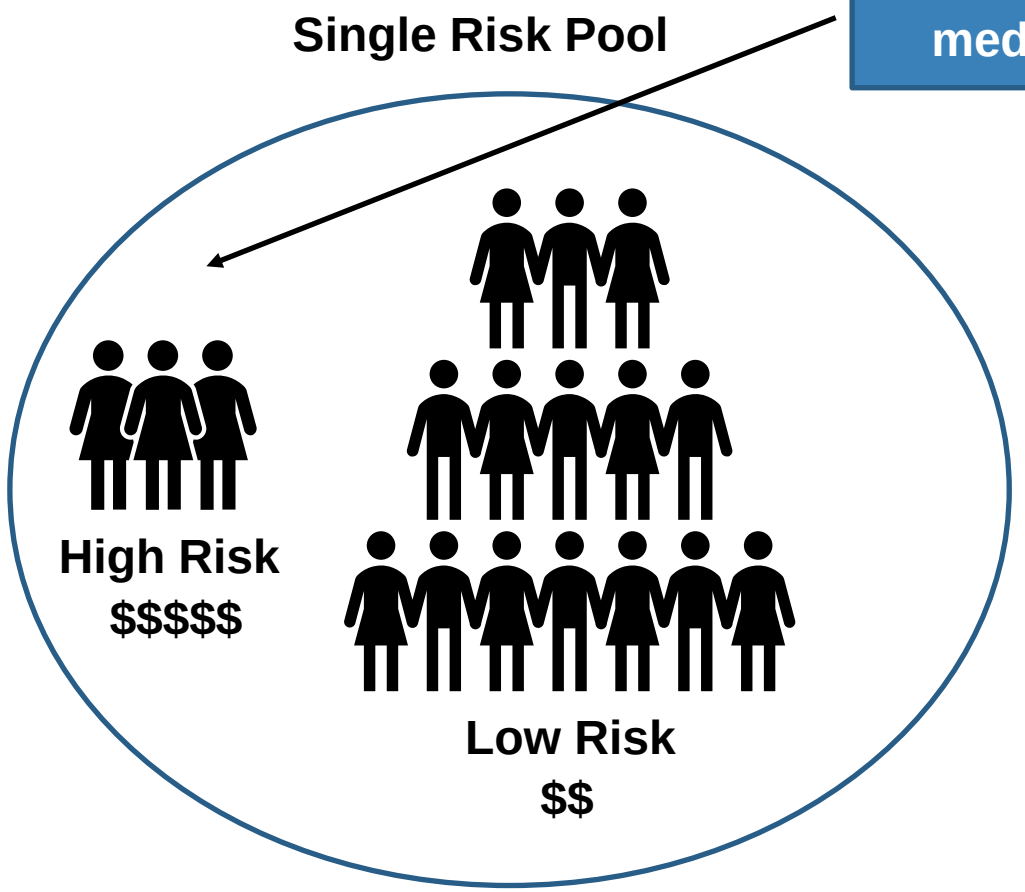
- ***Morbidity:*** If one insurer's enrollees have a higher concentration of higher severity patients compared to the average, the premium rates will be higher

Current Policies to Promote Equitable Risk Distribution Across Insurers: Merged Market

- **Guaranteed Issue:** Each insurer required to accept all enrollees regardless of their risk profile.
- **Product Offerings:** Each insurer required to make all products available to all eligible individuals and employer groups.
- **Standardization of Rating Factors**: 2 to 1 age band, limits on geographic variation in rates.
- **ACA Risk Adjustment Program:** Funds shift from insurers with lower risk to insurers with higher risk.
- No one policy is perfect, additional market rules may be established to more equitably distribute high-risk enrollees.
  - Helps stabilize the market
  - May create better access
  - May result in lower premiums

Reinsurance Programs

- **Reinsurance reimburses insurers that enroll higher risk members with high medical costs.**



- Reinsurance Program can be grouped into two main buckets categories:
  - **Prospective Reinsurance** (Maine, Alaska, Massachusetts 1996 to 2007)
  - **Retrospective Reinsurance** (ACA Temporary Program, High Cost Risk Pool within Risk Adjustment Program, Rhode Island, Minnesota, Maryland)

Prospective Reinsurance Program

- Enrollees are identified as high risk **prior** to the start of the plan year and “cedes” the enrollee to the reinsurance program “behind the scenes”. This is seamless to the enrollee.

- Two ways to identify high risk enrollees
  - 1. List of predetermined conditions such as cancer, hepatitis, cystic fibrosis
  - 2. Insurer makes a determination based on analyzing historical claims or an enrollee’s completion of a health questionnaire.
  - Insurers may be reimbursed for all or a portion of medical expenses for these enrollees.

- Funding
  - General state funds, Section 1332 federal funds, and/or assessments
  - Insurers charged a premium for each enrollee they identify as high risk.
  - Some combination of the above

Retrospective Reinsurance Program

- Enrollees are identified as high risk (high cost) **after** the plan year
- Medical expenditures are generally reviewed six months after the plan year ends to ensure all services in that plan year are captured.
- Insurers may be reimbursed for all or a portion of medical expenses for high cost members
- Funding
  - General state funds, 1332 federal funding, or assessments

Pros/Cons of Both Programs

	Prospective Reinsurance Program	Retrospective Reinsurance Program
PROS:	Potential to put insurer's "skin in the game" if charged a premium to cede enrollees to the reinsurance program.	Equitable treatment of all insurers (i.e. not dependent on ability to identify high cost members in advance of the plan year).
	Additional funding may be available if insurer is charged additional premiums.	Able to target all high cost enrollees -- there is no guesswork.
CONS:	Insurers may need to invest in health underwriting unit.	Depending on structure of the program insurers may not be as engaged to manage costs.
	Not all insurers may be treated fairly (those insurers with deep pockets can make more investments in the the health underwriting unit).	
	Persons predetermined as high risk may not be high cost at year end and those that are high cost at year end may not be identified as high risk prior to the start of the plan year.	

Reinsurance Program Possible Scenarios in the Merged Market

- Prospective or Retrospective?

- Merged Market (will impact merged market premiums)
  - Individual and Sole Props
  - Small Group Market
  - All of Merged Market

- Demerged Market (will impact the premiums of the market with the reinsurance program)
  - Individual and Sole Props
  - Small Group Market
  - Two Programs: one for each market.

Risk Adjustment

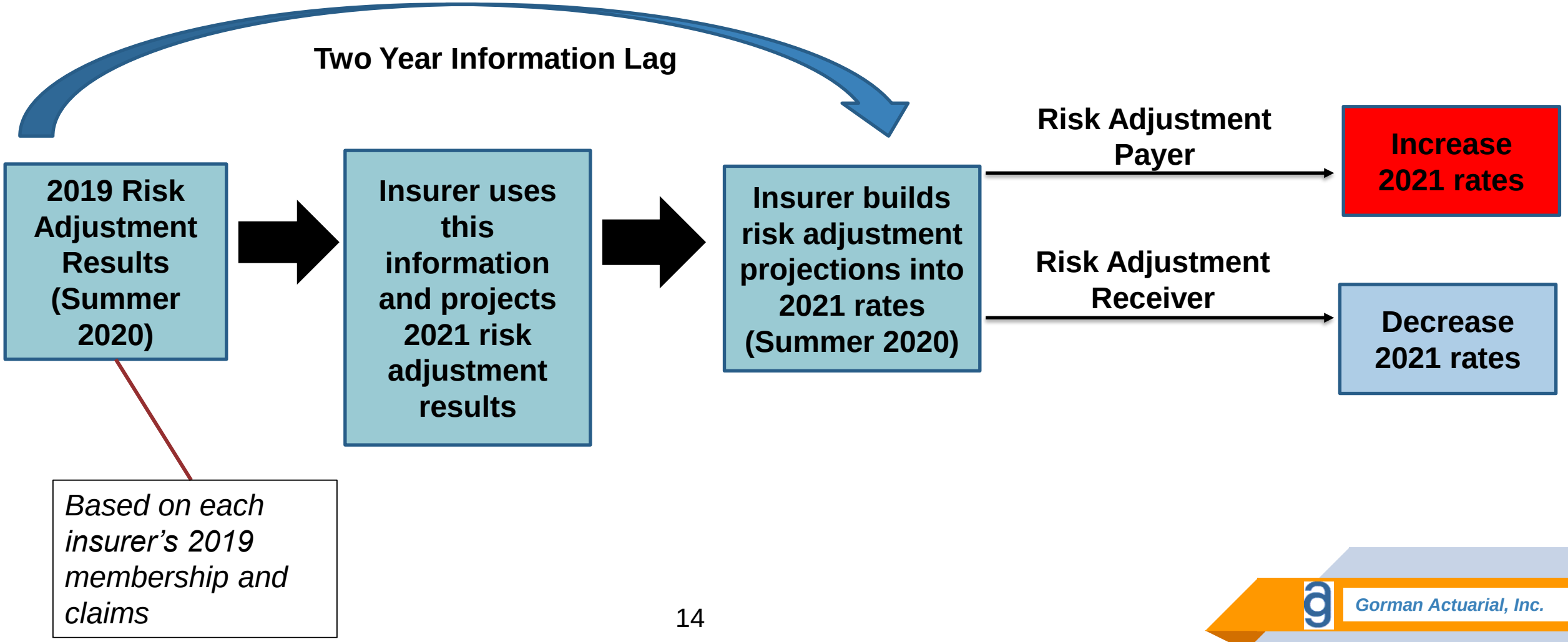
Risk Adjustment Tries to Promote Equity in the Market.

- The ACA introduced the risk adjustment program to the individual and small group markets. Massachusetts applies this program to the merged market.

- Risk adjustment shifts funds from insurers that enroll low risk/low utilizers to insurers that enroll high risk/high utilizers and discourages insurers from targeting healthier risk.

- Insurers submit annual claims data to the federal government (CMS)
  - CMS assesses relative risk (i.e., each insurer's risk pool is compared to the market average).
  - CMS calculates payments and receipts at the end of each year.

Risk Adjustment in Premium Rates



Massachusetts Merged Market Risk Adjustment Results

Risk Adjustment Results	2018 Risk Adjustment Dollars	2019 Risk Adjustment Dollars
Allways	$55,007,378	$50,979,924
BCBSMA	$12,500,608	$47,533,655
BMCHP	-$37,948,809	-$16,745,783
Connecticare	$527,550	$552,385
Fallon HMO	$1,236,839	$4,089,551
HNE	-$3,348,914	-$4,341,170
HPHC	$33,116,998	$18,011,718
TAHMO	$5,187,094	-$1,498,533
THPP	-$62,005,322	-$89,438,269
United	-$4,273,421	-$9,143,478
Total	$0	$0
Dollars that Transfer	$107,576,467	$119,668,699
Total Merged Market Premium	$4,356,000,000	$4,517,719,000
% of Premium that transfers	2.5%	2.6%

From CMS reports

- In 2018 and 2019 ~$108M to $120M was transferred across the market or ~2.5% of merged market premiums.
- Numbers highlighted in red are payers, and numbers highlighted in black are receivers.
- Insurers that receive money will generally reduce future merged market rates as they will assume future receipts.
- Insurers that pay money will generally increase future merged market rates as they will assume future payments.
- Due to this volatility, it is difficult for insurers to predict the amount of future receipts and payments to build into the premiums.

Flexibility within the Federal Risk Adjustment Program

- Beginning in 2020, CMS provides states with flexibility to request a reduction in the applicable risk adjustment transfers of up to 50 percent.
- This option is the only state flexibility allowed within the risk adjustment program.
- States required to provide supporting evidence and analysis that show the state-specific rules or market dynamics warrant an adjustment.
- New York reduced the risk adjustment transfers in 2016.
  - However, a federal appeals court in New York recently found that because New York did not receive approval from CMS, the state's changes were not permissible

How does Risk Adjustment Impact Massachusetts Merged Market?

- Risk adjustment forces a cross subsidization between high-risk/high-utilizers and low-risk/low utilizers enrollees.
  - Cross subsidization **within** each insurer as high-risk enrollees are subsidized by low risk enrollees. If an insurer has a high-risk individual market and a low-risk small group market, the small group market subsidizes the individual market through risk adjustment.
  - Cross subsidization **among** insurers as high-risk insurers are subsidized by low risk insurers. If Insurer A has high-risk enrollees and Insurer B has low-risk enrollees, Insurer B subsidizes Insurer A through risk adjustment.

Risk Adjustment Analysis

- Collected from each insurer “risk adjustment reports” (TPIR) that CMS provides.
- Each report includes detail information by plan offering.
- Grouped the data by individual market and small group market for each insurer and then aggregate.
- Results for each insurer can not be shown due to confidentiality, however, I provide an illustrative example on what is happening in the MA merged market and the risk adjustment program.
- In order to illustrate these concepts, I have assumed that insurers can price perfectly for risk adjustment.

Risk Adjustment Cross Subsidization – Illustrative Example

	Merged Market Risk Adjustment						
	Individual	Small Group	Merged Market	Individual Market Enrollment	Small Group Market Enrollment	Individual Market	Small Group Market
Insurer A	$50,000,000	-$35,000,000	$15,000,000	50%	50%	$7,500,000	$7,500,000
Insurer B	$35,000,000	-$10,000,000	$25,000,000	20%	80%	$5,000,000	$20,000,000
Insurer C	-$30,000,000	-$5,000,000	-$35,000,000	90%	10%	-$31,500,000	-$3,500,000
Insurer D	-$20,000,000	$15,000,000	-$5,000,000	95%	5%	-$4,750,000	-$250,000
Total			$0			-$23,750,000	$23,750,000

- Negative red indicates risk adjustment payer.
- Black positive indicates risk adjustment receiver.

Risk Adjustment Cross Subsidization – Illustrative Example

Cross Subsidization Within Each Insurer

- Table on slide 18 shows hypothetical risk adjustment dollars for a merged market. As shown, Insurer A's individual market is expected to receive $50M, however, its small group market is expected to pay $35M. The net receipt for Insurer A is $15M. In this example, Insurer A's own small group market is subsidizing Insurer A's individual market.

Cross Subsidization Among Insurers

- Insurer A will now receive $15M and since we are a merged market, the receivable is spread across all of Insurer A's merged market members where 50% are enrolled in the individual market and 50% are enrolled in the small group market.

- As shown, when the merged market risk adjustment distributions are spread across each insurer's market, the results show that the individual market pays $23.8M and the small group market ends up receiving $23.8M.

Cross Subsidization among insurers in MA Merged Market

		2019 Imputed Enrollment*		2019 Risk Adjustment Dollars	
	2019 Risk Adjustment Dollars	Individual and Sole Prop Enrollment	Small Group Enrollment	Individual and Sole Prop Enrollment	Small Group Enrollment
Allways	$50,979,924	50.6%	49.4%	25,813,040	25,166,884
BCBSMA	$47,533,655	15.1%	84.9%	7,187,636	40,346,018
BMCHP	**-$16,745,783**	99.5%	0.5%	(16,670,163)	(75,620)
Connecticare	$552,385	0.0%	100.0%	-	552,385
Fallon HMO	$4,089,551	61.6%	38.4%	2,518,097	1,571,453
HNE	**-$4,341,170**	33.6%	66.4%	(1,460,481)	(2,880,689)
HPHC	$18,011,718	24.0%	76.0%	4,325,929	13,685,789
TAHMO	**-$1,498,533**	28.4%	71.6%	(425,089)	(1,073,444)
THPP	**-$89,438,269**	90.3%	9.7%	(80,756,510)	(8,681,759)
United	**-$9,143,478**	3.8%	96.2%	(347,917)	(8,795,561)
Total				(59,815,458)	59,815,458

- The risk adjustment receipts and payments impact each insurance company's merged market rates.
- Risk adjustment payments and receipts are evenly distributed across each insurer's individual / sole prop, and small group markets through premium rates.

* Imputed Distributions based on 2018, 2019 TPIR reports and the MA DOI special data request

Cross Subsidization among insurers in MA Merged Market

- Insurers that are big risk adjustment payers have over 90% of their merged market enrollment in the individual market.
- Insurers that are big risk adjustment receivers have more than 50% of their merged market enrollment in the small group market.
- Insurers that have low-risk/low utilizing enrollees are subsidizing insurers with high-risk/high utilizing enrollees.
- Insurers that have high-risk/high utilizing individual market enrollees happen to have a significant small group market share. Because we are a merged market, the small groups of these insurers benefit.
- Any limiting of payments or receivables has the potential to adversely impact the small group market.

Summary

- The federal risk adjustment program creates a cross subsidy where low-risk/low utilizing members are subsidizing high-risk/high utilizing members.
- Two forms of subsidization occur within the Merged Market
  - Cross subsidy within each insurer
  - Cross subsidy among insurers
- Any policy to limit payments and receivables will limit payments to insurers that have a large individual market presence and limit receivables for insurers that have a large small group market presence, which may be detrimental to the small group market.
- Further investigation is warranted to investigate this further and to understand the volatility in risk adjustment payments from year to year.