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Contact: David Mendes
Phone: 202-384-2075
Email: mendes@actuary.org

Actuaries Release Analysis of ACA Permanent Risk Adjustment Program's First Year

WASHINGTON—The Affordable Care Act's (ACA) permanent risk adjustment program appears to have generally worked as intended in its first year, but with some insurers experiencing variations in results, according to a new analysis released by the American Academy of Actuaries' Health Practice Council that focuses on experience in the individual market. The program is one of three risk-sharing programs designed to mitigate the financial risks faced by insurers participating in the ACA health insurance market.

"The results from the first year provide some evidence that the ACA risk adjustment program operated as it was designed to, but also suggest areas for further research to account for variations among insurers," said Barb Klever, chairperson of the Academy's Risk Sharing Subcommittee, which produced the issue paper, *Insights on the ACA Risk Adjustment Program*. "Health insurers with more costly, higher-risk enrollees generally received payments from insurers with healthier enrollees, helping to reduce the risk of an insurer enrolling a disproportionate share of high-cost enrollees in the then-new and uncertain ACA market."

The subcommittee's analysis of Centers for Medicare and Medicaid Services data from 2014 details how the permanent risk adjustment program helped spread risk among insurers, provides insights into the program's operation, and points to potential areas for further study. Highlights of the analysis include:

- **The pattern in which health insurers made and received risk adjustment payments in 2014 aligns with the program's stated purpose.** The more difficulty an insurer had in covering claims with premiums (as measured by its loss ratio), the more likely it was to receive a risk adjustment payment. This pattern is consistent with the shifting of funds from insurers with low-cost enrollees to insurers with high-cost enrollees.
- **The ACA's transitional reinsurance program reinforced the risk adjustment program's shifting of funds.** The transitional reinsurance program, in effect from 2014 through 2016, compensated plans in the individual market when they had enrollees with especially high claims, reinforcing the flow of funds to insurers with high-cost enrollees.
- **Insurers with smaller market share experienced more variability in the risk adjustment payments they made or received.** Risk adjustment transfers were more variable and likely to be higher, as a percentage of premium, for insurers with a smaller

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market share. This effect is to be expected, as smaller insurer enrollee populations are more likely to be skewed toward either lower-risk or higher-risk individuals.
- **Insurers' premiums need to reflect the risk of the entire market pool, not just the risk of their enrollees.** This was particularly difficult for 2014 given the uncertainty regarding enrollee risk profiles.
- **Operational issues, such as claims processing and medical coding practices, may have affected risk adjustment transfers, but these issues may lessen over time.** Some insurers may have had advantages such as more accurate coding or more effective processes for submitting required CMS enrollment and claims data. These advantages may diminish as insurers gain more experience with risk adjustment.
- **More research is needed to better understand the extent to which different financial outcomes among insurers are due to different premium levels, risk adjustment, or other factors such as the types of plans offered and relative administrative expenses.** It will also be important to monitor risk adjustment experience over time.
- **Modifications to the risk adjustment model and the risk adjustment transfer process may be appropriate to further the program's goals.** For instance, considerations should be made to incorporating pharmacy data, reviewing and updating the model coefficients and metal-tier induced demand factors, incorporating an adjustment for high-cost outliers, adjusting for partial-year enrollees, and basing risk adjustment transfers on the claims-related portion of the state average premium.

Read the paper and learn more at www.actuary.org.

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