

# Considerations for Calculating Cost-Sharing Reduction Load Factors

Cori E. Uccello, MAAA, FSA, FCA, MPP  
Senior Health Fellow, American Academy of Actuaries

SOA Virtual Health Meeting Session 3C  
July 12, 2023

# About the Academy



- The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

[www.actuary.org](http://www.actuary.org)

# AGENDA

## Background

American Academy of Actuaries Public Statements  
Related Issues

# ACA Premium and Cost-Sharing Subsidies

- Premium tax credits (PTCs) limit the share of income that eligible households contribute toward the benchmark silver plan premium.
  - Individuals can use their PTCs to purchase any plan on the exchanges, including non-silver plans.
  - BUT—If a person is eligible for a CSR, they must purchase a silver plan to receive the CSR.
- Cost-Sharing Reductions (CSRs) are provided through silver plan variants with reduced cost-sharing requirements relative to standard silver plans
  - CSR silver plan variants are *not* separate plans; they reflect a separate member-facing plan design
  - Compliance with CSR plan variant designs is determined using the federal actuarial value (AV) calculator

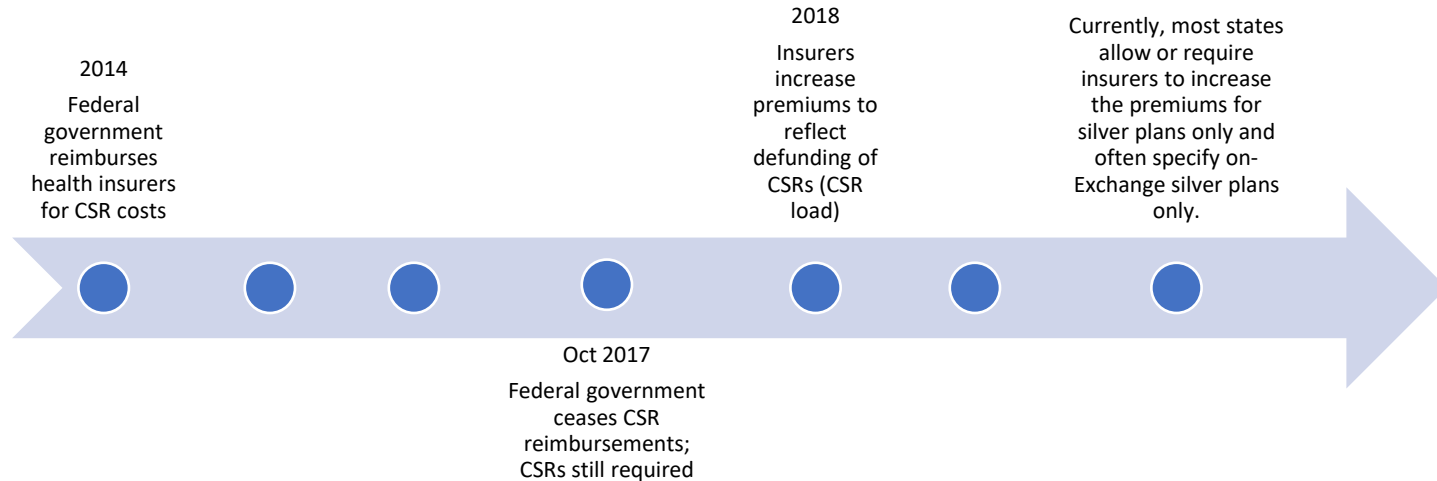
# CSR Plan Variants

Household Income	Silver Plan Variant Actuarial Values (AV)
Greater than 250% FPL*	Standard Silver Plan—70% AV
200%-250% FPL	73% AV
150%-200% FPL	87% AV
100%-150% FPL	94% AV

\*Federal poverty level

# CSR Funding Has Changed Over Time

Most insurers now have several years experience with CSR loading



# Impact of CSR Loads on ACA Federal PTCs

- CSR loads increase federal payments for PTCs, depending on the amount of the load and how it is allocated
- PTCs increase the most if the CSR load is allocated over on-exchange silver plans only
- Individuals can use increased PTCs to purchase more generous gold or platinum plans or to purchase low-cost or even zero-premium bronze plans
  - CSRs can be accessed only through silver plans

# ACA Requires Insurers to Abide by the Single Risk Pool Requirement

- Aggregate premiums reflect overall health status of enrolled population in the particular market
- Premiums for particular plans (including any plan variants) may not reflect health status of individuals enrolled in that plan
- Premiums for an ACA market are based on the expected experience of the market including actual cost sharing
- CSR silver variants are not separate plans and are not priced as separate plans



# Public Statements from CMS Regarding CSR Loads

- [CMS Bulletin](#) (Aug. 8, 2018)
  - “A plan-level variation for the actuarial value and cost-sharing design of a plan is permitted under 45 CFR §156.80(d)(2)(i). A health insurance issuer that offers a QHP may vary premium rates for the QHP based on the impact of the loss of anticipated federal funding for CSR payments.”
- Discussions at: (1) NAIC Health Actuarial (B) Task Force March 2023 Meeting ([draft minutes](#)); (2) Academy [webinar](#) on the 2024 Final Marketplace Rules (May 2023)
  - Federal guidelines for CSRs are not detailed
  - Insurers can and should load for CSR amounts the federal government will not reimburse
  - Insurers can spread load over all plans or apply only to plans generating CSR deficiencies
  - Total amount of the load should be actuarially justified and reasonable (as determined by state regulators)
  - Total amount of the load should recover any deficiencies

# AGENDA

Background

**American Academy of Actuaries Public Statements**

Related Issues

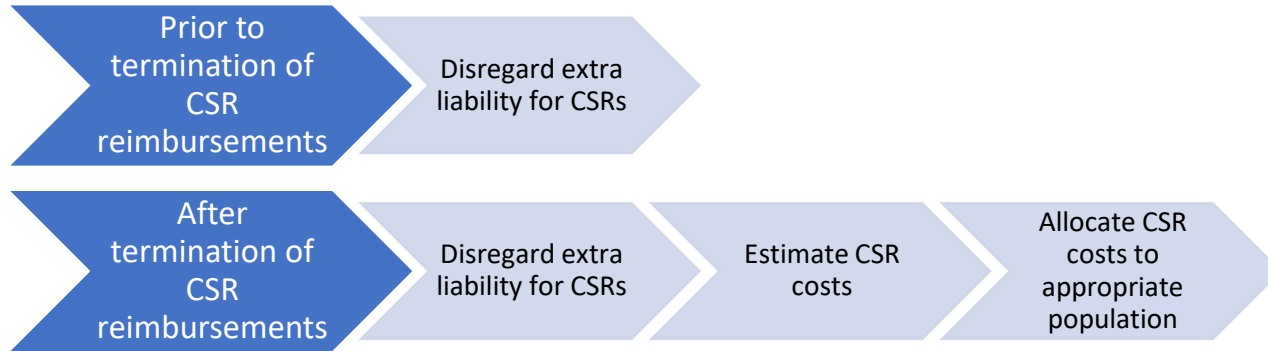
# Why the American Academy of Actuaries Became Involved With the Issue

- Several states were looking into how to standardize CSR premium load calculations
- Differences among states and within states
- Different calculation methods could affect actuarial soundness differently
- Academy sought to provide insights on various considerations
- Comment letter to Center for Consumer Information and Insurance Oversight (CCIIO) (Sept. 2022)  
[https://www.actuary.org/sites/default/files/2022-09/Academy\\_CSR\\_Load\\_Letter\\_09.08.22.pdf](https://www.actuary.org/sites/default/files/2022-09/Academy_CSR_Load_Letter_09.08.22.pdf)
- Article posted on *Health Affairs Forefront* (Dec. 2022)  
<https://www.healthaffairs.org/content/forefront/paying-aca-cost-sharing-reductions-premiums-too-low-too-high>
- Frequently Asked Questions (forthcoming)
- Academy statements explore calculating loads using experience data and using federal statutory AV levels

# Calculation of an Actuarially Sound CSR Load

- An actuarially sound CSR load:
  - Is adequate to cover the cost differential for CSRs provided to members, but not excessive
  - Reflects the distribution of enrollees across silver plan variants, based on state or insurer experience
  - Reflects the expected cost-sharing levels of the population and the plan variations in which they are enrolled

# An Actuarial Approach to Calculating Plan Level CSR Load Adjustments in the Absence of CSR Funding



- CSR costs—the difference between the cost-sharing under the standard silver plan and the reduced cost-sharing under the CSR variant
- Remainder of discussion assumes CSR costs are allocated solely to on-exchange silver plans

# Illustrative, Sample Calculation of CSR Load Using Experience Data

Plan Variation	Projected Base Silver Adjudicated Claims	Projected CSR Plan Variation Adjudicated Claims	Projected Unfunded CSR Subsidy	Projected % of Silver Membership
Base Silver	\$370.00	\$370.00	\$0.00	10%
73% CSR Variant	\$360.00	\$369.70	\$9.70	10%
87% CSR Variant	\$350.00	\$398.50	\$48.50	20%
94% CSR Variant	\$345.00	\$412.90	\$67.90	60%
Base Plan Composite	\$350.00			A
Unfunded CSR Subsidy Composite	\$51.41			B
Final CSR Load	14.7%			=B/A

Source: American Academy of Actuaries, [Letter to CCIIO](#), Sept. 8, 2022.

# Allocation of CSR Enrollees Across Silver Plans Varies by State

State	Florida	Ohio	Minnesota
Expanded Medicaid? Basic Health Plan (BHP)?	No No	Yes No	Yes Yes
Silver Plan Variation	% of Silver Membership	% of Silver Membership	% of Silver Membership
Standard (70% AV)	3%	23%	76%
73% CSR Plan Variant	3%	15%	24%
87% CSR Plan Variant	17%	27%	0.0%
94% CSR Plan Variant	77%	35%	0.0%
Membership-Weighted Plan Liability	91%	83%	71%

Source: 2023 OEP\* State-Level Public Use Files  
Notes: Membership reflects on-exchange enrollment only. Data for Minnesota include the total number of CSR enrollees, but not enrollee distribution across CSR plan variants. Because Minnesota's BHP covers individuals up to 205% FPL, all CSR enrollees in Minnesota are assumed to be in a 73% CSR plan variant.

\* Open Enrollment Period

# Enrollment in Silver Plans Continues, Even for Individuals With No or Low CSRs

- It can make financial sense for individuals with no or low CSRs to use any premium subsidies to obtain bronze or gold coverage
- The share of marketplace enrollees choosing silver plans has decreased from 71% in 2017 to 54% in 2023
- Nevertheless, significant percentages of enrollees continue to enroll in standard or 73% CSR silver plans
- Not recognizing these distributions can lead to an under- or overstatement of the CSR load factor relative to CSRs that an issuer expects



# Using Experience Data Is More Likely to Produce Actuarially Sound CSR Loads

- Insurers with large, credible blocks of business can estimate their CSR costs directly using their pooled historical experience.
- Historical CSR costs can be adjusted for:
  - effects of expected trend
  - changes in enrollment
  - updated plan designs
  - other relevant factors
- If insurer does not have credible experience data, the value of CSR subsidies can be estimated by using the pricing model benefit relativities of the plan and a projection of the membership distribution among the silver variants.

# Using Experience Data to Calculate CSR Load Can Be Consistent With Single Risk Pool Requirements

- The overall revenue produced through an actuarially sound CSR load is the anticipated single risk pool-wide value of CSRs expected to be provided across all plan enrollees.
- The use of an aggregate cost-based load based on experience data is consistent with the single risk pool, assuming that the load is then spread at the plan level in a method approved by regulatory authorities.

# Using Federal Statutory AV Levels Is Less Likely to Result in an Actuarially Sound CSR Load

- Under this approach,  
CSR Load = 
$$\frac{\text{weighted avg CSR AV} - \text{weighted avg standard AV}}{\text{weighted avg standard AV}}$$
- Even if CSR loads are determined reflecting the distribution of enrollees across silver plans, other factors need to be considered.
- Using federal statutory AV levels wouldn't consider:
  - Actual utilization, which could differ from utilization in AV calculator
  - Actual provider reimbursement rates, which could vary from those in the AV calculator
  - Socioeconomic factors—Centers for Medicare & Medicaid Services (CMS) analysis shows that income-based CSR enrollees use considerably less care on a risk-adjusted basis than individuals in standard silver plans
  - AV de minimis ranges
- The AV calculator was not developed for pricing purposes. (CMS, [AV Calculator Methodology](#))

# State CSR Requirements

- A few states prescribe the CSR load and others are considering doing so
  - Advantage: Creates uniformity
  - Disadvantage: One size doesn't necessarily fit all
- What if the state-required CSR load is not actuarially sound?
  - Actuarial standards and the Code of Professional Conduct require actuaries to follow the law

# AGENDA

Background

American Academy of Actuaries Public Statements

**Related Issues**

# Premium Alignment

- The ACA's five allowable plan-level rating factors can produce wide variations in rates
  - Issuer pricing models typically show more variation than the de minimis range for AV-compliant plans
  - Plan-level variation also exists for network differences and other allowable rating factors
- Expecting plan AV relationships to align with AV calculator outputs (i.e. the statutory AV slope) ignores key elements of the AV calculator.
  - The AV calculator is not a pricing tool.
  - Current AV calculator uses different populations by metal tier, which incorporates morbidity into the AV calculator.  
(See Academy [letter](#) to CMS, Jan. 12, 2023)
- Plans are required to comply with the single risk pool requirement, and actuarial certification of this compliance is part of the filing.

# Risk Adjustment and CSRs

- CSR enrollees are treated as standard silver enrollees from an allowable premium perspective and receive an additional risk score adjustment relative to standard silver enrollees.
- A CMS [technical paper](#) suggests the current risk score model's CSR adjustments are a relatively accurate predictor of plan liability for CSR enrollees.
  - CSR enrollees use significantly less care on a risk-adjusted basis than standard plan enrollees, but the higher plan liability for CSRs offsets this reduction

# Implications of CSR Risk Adjustment Outcomes for Premium Alignment

- Applying the U.S. Department of Health and Human Services (HHS) risk adjuster to an insurer's own experience would likely produce silver premiums that more closely mirror the statutory rate slope than rate slope expectations based on silver loading.
- Risk adjustment could be modified to align with silver loading expectations.
- Risk adjustment modifications may be preferable to forcing silver premiums to meet specific expectations for premium alignment via an artificially high silver load.



# Thank You—Questions?

For more information contact:

Matthew Williams, JD, MA  
Senior Policy Analyst, Health  
American Academy of Actuaries  
Email: [williams@actuary.org](mailto:williams@actuary.org)