



AMERICAN ACADEMY of ACTUARIES

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May 8, 2015

Center for Consumer Information & Insurance Oversight (CCIIO)  
Centers for Medicare & Medicaid Services (CMS)  
200 Independence Ave., SW  
Washington, DC 20201

Re: Evaluation of EDGE Data Submissions and Processes for Data Quantity and Sufficiency

To Whom It May Concern,

On behalf of a subgroup of the American Academy of Actuaries'<sup>1</sup> Risk Sharing Work Group,<sup>2</sup> I appreciate the opportunity to provide feedback on the methodology CCIIO has proposed to use to evaluate the sufficiency of EDGE server data.<sup>3</sup> In summary, the process for evaluating data sufficiency includes 10 metrics—five key metrics and five secondary metrics—and describes the process for identifying outliers. The outlier identification is based on a national distribution of the 10 metrics for two issuer groups based on enrollment size (i.e., over and under 10,000 enrollees). A CMS technical committee will establish the outlier thresholds based on that distribution. Issuers with outliers will be required to submit explanations and the CMS technical committee and external review panel will determine if the explanation is sufficient. If the explanation is deemed insufficient, CMS will assess the default risk adjustment charge and the issuer will forfeit reinsurance payments.

The risk adjustment and reinsurance programs are important to the success and stability of the Affordable Care Act (ACA) compliant marketplaces, and the success of those programs is dependent on having complete and accurate data from all issuers in these markets. As such, we commend CCIIO's efforts to ensure the integrity of the data supporting these programs.

We would like to offer specific comments on four components of the proposed process—use of statistics, reinsurance data evaluation, timing, and penalties—however, we also want to outline several concerns that apply more broadly. Specifically, it is important to understand that an issuer, under this process, may submit complete and accurate data and still be identified as an

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<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

<sup>2</sup> The primary drafters of these comments, based on conversations with and documents provided by CCIIO, include Barbara Klever, MAAA, FSA; Stephen Butz, MAAA, FSA; Mick Diede, MAAA, FSA; Kevin Mahoney, MAAA, FSA; and Geoff Sandler, MAAA, FSA.

<sup>3</sup> This includes the April 24, 2015 bulletin on the evaluation of EDGE data submissions and a memo to the American Academy of Actuaries and the Society of Actuaries on the processes for EDGE data quantity and sufficiency. <http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/EDGE-guidance-42415-final.pdf>

outlier. There are a lot of reasons this may be the case, including geographic variations in provider availability, issuers, product designs, and networks (all of which affect costs), as well as insured purchasing preferences and issuer competition. The purpose of the risk adjustment and reinsurance programs is to protect issuers that attract risk different than average and high-cost members. The data sufficiency process should ensure that issuers with complete and accurate data receive risk adjustment payments/charges based on their risk and receive reinsurance payments, even if they are statistical outliers.

#### Statistic-based process

Population databases, small or large, will demonstrate data that concentrates in certain areas and becomes more scattered and less concentrated in the tails. Statistics, such as those proposed by CCIIO, may be developed from these population databases. These statistics will illustrate cases in which the data are concentrated and those in which the data are sparse and far from the mean. Typically, being too far from the mean defines an outlier; however, the existence of outliers in a population does not necessarily mean that any of the data is incorrect or missing. In fact, as noted, we would expect wide variations in the national population data, further variations by state, and even more so by issuer, but explaining these variations may be difficult for issuers given that they don't have access to competitors' data or national data.

We support the need for issuers to submit complete and accurate data to uphold the integrity of the risk mitigation programs. It should be recognized that for a variety of reasons, however, certain issuers will attract more or less healthy individuals. As a result, an issuer may exhibit lower or higher risk scores, submit fewer or more claims for reinsurance, or experience other deviations from other issuers, even if their data is complete and accurate.

#### Reinsurance data evaluation

In cases in which an issuer is submitting data that is accurate, but materially incomplete, only that issuer is being disadvantaged with respect to reinsurance claims. Additionally, it is unclear what explanation would be acceptable for an issuer that is an outlier on the percent of individual market enrollees with reinsurance payments or average reinsurance payment per enrollee. Targeted audits allowed by 153.410(d) might be a better way to check for inaccurate data issues on reinsurance.

#### Timing

The April bulletin from CCIIO was the first indication for issuers that outlier statistics were being developed. As many issuers work to complete their first-ever data submissions, they are tasked with identifying and reconciling data discrepancies within a 15-day window following the final submission date. Now, under this process, issuers may be tasked with also explaining why certain aspects of their data are deemed to be outliers even if that data may be substantially complete and accurate.

This type of outlier analysis could help issuers identify data problems or signal that some aspects of their data are outside typical ranges; however, since this process is being introduced so close to the end of the data submission window, issuers may not be prepared or have the resources to do the investigations, especially within the 10-calendar-day window specified for the final risk adjustment and reinsurance run.

Penalties

Although the goal is to identify issuers with data integrity problems, there is no guarantee that the outlier analysis identifies issuers with incomplete or inaccurate data. An issuer with incomplete or inaccurate data may fall within “normal” ranges, while some issuers with complete and accurate data could be flagged as an outlier and subject to penalties. The process should ensure that issuers with accurate data are not subject to the penalties of losing reinsurance payments and/or being assessed the default risk adjustment charge even if they are identified as an outlier.

Reliance on the audit process

Given that it may be difficult for issuers to determine why they are outliers in some or all statistical categories, and it is not clear what would be an acceptable explanation, it may be more appropriate for CCIIO to use this process to point out the outliers, request an attestation from each issuer that their data submission is complete and accurate, and instruct issuers to be prepared to explain the outlier data in the targeted audits allowed by 153.410(d) and 153.620(c). If material deficiencies are found during the audit, the issuer should be subject to other penalties. Prior to that, it is recommended that issuers’ risk adjustment and reinsurance transfer payments should be calculated based on the data submitted and attested to as being complete and accurate.

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We appreciate the opportunity to provide comments on the EDGE data submissions and sufficiency analysis. If you have any questions or would like to discuss these comments further, please contact Heather Jerbi, the Academy’s assistant director of public policy, at 202.785.7869 or [jerbi@actuary.org](mailto:jerbi@actuary.org).

Sincerely,

Barbara W. Klever, MAAA, FSA  
Chairperson, Risk Sharing Work Group  
American Academy of Actuaries