Considerations for Calculating Cost-Sharing Reduction Load Factors

Presentation at the National Association of Insurance Commissioners (NAIC) Affordable Care Act (ACA) State Rate Review Discussion Meeting

November 16, 2022

Speakers:
Joyce Bohl, MAAA, ASA—Chairperson, Individual and Small Group Markets Committee
Jason Karcher, MAAA, FSA—Chairperson, Risk Sharing Subcommittee
Donna Novak, MAAA, ASA, FCA—Vice Chairperson, Individual and Small Group Markets Committee
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.
Housekeeping

• The presenters’ statements and opinions are their own and do not necessarily represent the official statements or opinions of the Actuarial Board for Counseling and Discipline (ABCD), Actuarial Standards Board (ASB), any boards or committees of the American Academy of Actuaries, or any other actuarial organization, nor do they necessarily express the opinions of their employers.

• The Academy operates in compliance with the requirements of applicable law, including federal antitrust laws. The Academy’s antitrust policy is available online at https://www.actuary.org/content/academy-antitrust-policy.

• Academy members and other individuals who serve as members or interested parties of any of its boards, councils, committees, etc., are required to annually acknowledge the Academy’s Conflict of Interest Policy, available online at https://www.actuary.org/content/conflict-interest-policy-1.
Summary

• An actuarially sound load is one that is adequate to cover cost-sharing reduction (CSR) costs, but is not excessive.
• Using experience data and the actual distribution of enrollees across silver plan variants is more likely to produce actuarially sound CSR loads than basing loads on statutorily set actuarial values (AVs).
• CSR silver plan variants are not separate plans; they reflect a separate member-facing plan design.
• Using experience data to calculate CSR loads can be consistent with ACA single risk pool requirements.
Background
ACA Premium and Cost-Sharing Subsidies

• ACA premium tax credits (PTCs) limit the share of income that households contribute toward the benchmark silver plan premium.
  » Lower-income individuals are expected to contribute a smaller share of income toward premiums.
  » Individuals can use their PTCs to purchase any plan on the exchanges, including non-silver plans.

• ACA CSRs are provided through silver plan variants with reduced cost-sharing requirements relative to standard silver plans
  » CSRs lower financial barriers to care coverage
  » CSR silver plan variants are not separate plans; they reflect a separate member-facing plan design
## Cost-Sharing Reduction Plan Variants

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Silver Plan Variant Actuarial Values (AV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater than 250% FPL*</td>
<td>Standard Silver Plan—70% AV</td>
</tr>
<tr>
<td>200%-250% FPL</td>
<td>73% AV</td>
</tr>
<tr>
<td>150%-200% FPL</td>
<td>87% AV</td>
</tr>
<tr>
<td>100%-150% FPL</td>
<td>94% AV</td>
</tr>
</tbody>
</table>

*Federal Poverty Level
CSR Funding Has Changed Over Time
Most insurers now have several years experience with CSR loading

2014
Federal government reimburses health insurers for CSR costs

2017
Federal government ceases CSR reimbursements; CSRs still required

2018
Insurers increase premiums to reflect defunding of CSRs (CSR load)

Currently, most states allow or require insurers to increase the premiums for silver plans only and often specify on-Exchange silver plans only.
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.
Calculation of the CSR Load
Calculation of an Actuarially Sound CSR load

- An actuarially sound CSR load:
  - Is adequate to cover CSR costs, but not excessive
  - Reflects the distribution of enrollees across silver plan variants, based on state or insurer experience
  - Reflects the expected cost sharing of the population
## Allocation of CSR Enrollees Across Silver Plans Varies by State

<table>
<thead>
<tr>
<th>State</th>
<th>Florida</th>
<th>Ohio</th>
<th>Minnesota</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expanded Medicaid?</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Basic Health Plan (BHP)?</strong></td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Silver Plan Variation</strong></td>
<td>% of Silver Membership</td>
<td>% of Silver Membership</td>
<td>% of Silver Membership</td>
</tr>
<tr>
<td>Standard (70% AV)</td>
<td>2.7%</td>
<td>28.0%</td>
<td>91.5%</td>
</tr>
<tr>
<td>73% CSR Plan Variant</td>
<td>4.2%</td>
<td>19.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>87% CSR Plan Variant</td>
<td>18.7%</td>
<td>29.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>94% CSR Plan Variant</td>
<td>74.3%</td>
<td>23.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Membership-Weighted Plan Liability</strong></td>
<td>91.2%</td>
<td>81.2%</td>
<td>70.3%</td>
</tr>
</tbody>
</table>

**Source:** 2022 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 56% in 2022.
- Nevertheless, significant percentages of enrollees continue to enroll in standard or 73% CSR silver plans.
- Failure to recognize 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
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

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

Source: American Academy of Actuaries, [Letter to CCIIO](https://example.com), Sept. 8, 2022.
Other Options Are Available 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.

<table>
<thead>
<tr>
<th></th>
<th>Pricing Model Benefit Relativities</th>
<th>Statutory Actuarial Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilization</td>
<td>Utilization of enrollees in the single risk pool</td>
<td>Utilization of a standard population</td>
</tr>
<tr>
<td>Provider reimbursement rates</td>
<td>Insurer provider reimbursement rates</td>
<td>Standardized provider reimbursement rates</td>
</tr>
</tbody>
</table>

• The pricing model relativity-based CSR load can also use aggregate experience data to better calibrate the resulting load factor to the insurer’s specific anticipated single risk pool.
Using Federal Statutory AV Levels Is Unlikely to Result in an Actuarially Sound CSR Load

- Even if CSR load is determined reflecting the distribution of enrollees across silver plans, other factors need to be considered.
- Using federal statutory AV levels don’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
Allocation of the CSR Load and Meeting the Single Risk Pool Requirements
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?
  » Insurers must follow the state requirements
  » Actuarial Standard of Practice (ASOP) No. 8 requires actuaries to document any aggregate excess or deficiency and indicate that it is due to regulatory requirements
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.
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.
Premium Alignment
How to Measure Premium Alignment

• In the absence of CSRs, using statutory AVs would suggest that premiums for a silver plan (70% AV) would be 16% higher than bronze plan (60% AV) premiums. Likewise, gold plan (80% AV) premiums would be 14% higher than silver plan premiums.

• However, statutory AVs do not reflect actual utilization and provider reimbursement rates. Therefore, premiums won’t necessarily align with statutory AVs.
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
  » Applying the 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 via an artificially high silver load.
Questions?
For more information contact:

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