WHITE PAPER

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2016 RADV
Market Average Error Rates

Executive Summary

Through the Wakely National Risk Adjustment Reporting (WNRAR) project, Wakely collected WNRAR participants' 2016 Risk Adjustment Data Validation (RADV) results files ("issuer_metrics.csv") as issued by CMS[1]. Using these results files, Wakely calculated market-level error rates by weighting issuers' 2016 RADV error rates with their estimated 2017 total risk[2]. Based on our survey sample of 61 markets[3], we estimated 47 markets to have a non-zero market error rate. These 47 markets would have had their 2017[4] risk transfers adjusted if the 2016 RADV program was implemented. It is important to understand that even if an issuer has a 0% error rate in their RADV results, their risk transfer would still be adjusted if other issuers in their market have non-zero error rates. This paper presents national level results of our analysis.

Background

CMS released final details on the RADV program, including the calculation details for determining the issuer error rate, in the 2019 Notice of Benefit and Payment Parameters (NBPP)[5]. Subsequently, CMS issued 2016 RADV results and issuer files on July 18, 2018 using the methodology finalized in the 2019 NBPP. The RADV results files contain only issuer-specific error rates, but it did not include any market average error rates. Simply put, issuers were unable to estimate how much their risk adjustment transfers would be affected by the RADV program.

Additionally, it is important to note that 2016 RADV was a pilot year study. CMS stated in its release of results that the 2016 RADV results will likely not be indicative of future program years.

[1] Participation in the 2016 RADV results survey was optional for WNRAR participants. Wakely only provided market results to participants who voluntarily submitted their RADV results.
[2] Total risk = billable member months * PLRS. PLRS and billable member months are obtained using issuers' 2017 RATEE file.
[3] 35 small group markets and 26 individual markets.
[4] RADV audits for a year affect transfers in the subsequent year.
[5] https://www.gpo.gov/fdsys/pkg/FR-2018-04-17/pdf/2018-07355.pdf

October 2018

Methodology

Wakely compiled 2016 RADV error rates from participating issuers by collecting their 2016 RADV results files ("issuer_metrics.csv") as issued by CMS on July 13, 2018. Market average error rates were then estimated by weighting 2016 RADV issuer results by their 2017 total risk in each market. 2017 total risk was calculated using issuer's 2017 RATEE total billable member months times their respective plan liability risk scores (PLRS). However, we did not include all submitted HIOS IDs in our market error rate calculation. HIOS IDs that were submitted by issuers, but which were excluded in the market error rate include:

1. 2016 HIOS IDs that are no longer present in the 2017 ACA marketplace.
2. HIOS IDs exempted from participating in the 2016 RADV study due to having $15,000,000 or less in premiums.

In addition, CMS identified 77 HIOS IDs as outliers[6] in the 2016 RADV program and did not include them in their national results released July 13, 2018. Nevertheless, these issuers still received an issuer RADV results file with their error rates. For these HIOS IDs, Wakely collected their results and included them in the market calculations in order to capture the full market. These outliers' results may change significantly in the future if they are included in the determination of national HCC group failure rates. Using the definition of outliers provided by CMS (see footnote #6), we identified 52 outliers in the data submitted by participating issuers. Note that issuers with negative failure rates are not identified as outliers based on this definition. In the results section below, we provided results of our analysis both including and excluding outliers found in our data.

In some markets, we did not have full participation as there are issuers who did not participate in the survey. We established our participation threshold to be at least 75% of the estimated member months in the market. We estimated the percentage of market by comparing our collected total billable member months by survey participants to the total billable member months reported by CMS in the 2017 risk adjustment report[7]. In most markets, we have over 90% participation, including a few markets with 100% participation.

Please review the caveats and limitations tab for additional information and important data notes.

Results and Observations

We had sufficient participation to report back estimated market average error rates in 61 markets, which includes 26 individual markets and 35 small group markets. We did not include catastrophic market results in this analysis. In the analysis which we included outliers, we found that 47 markets had non-zero average error rates. This means that at least one issuer in each of these 47 markets are supposed

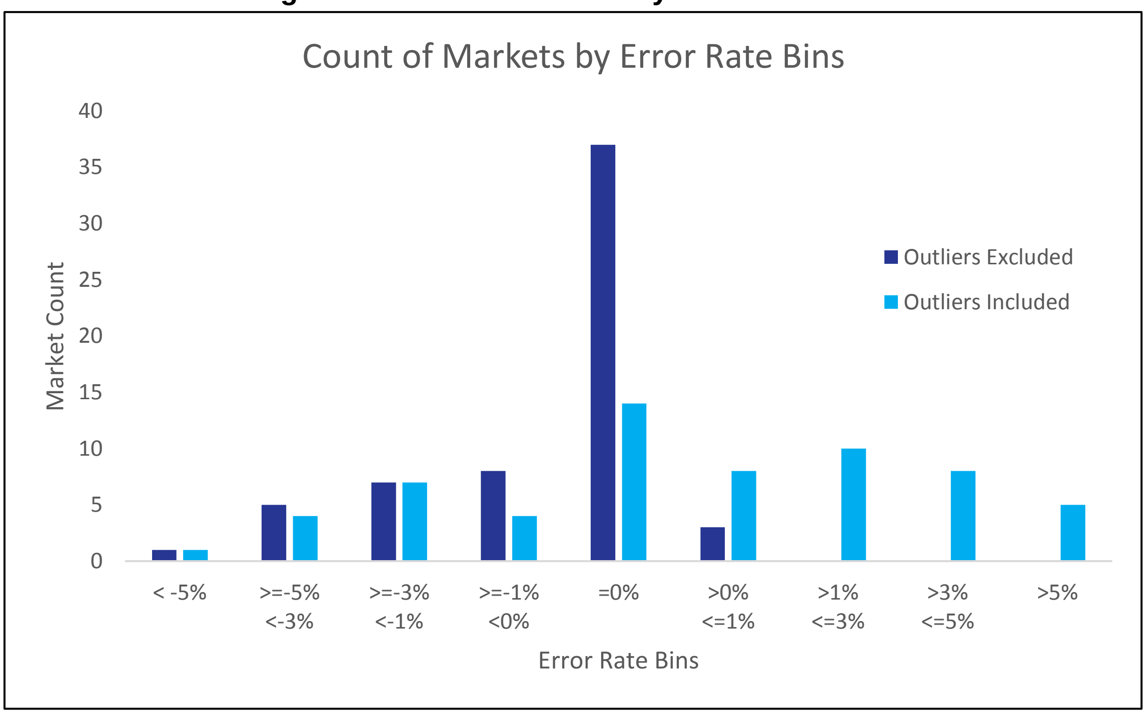
[6] These issuers have exceptionally high HCC group failure rates (i.e. HCC group failure rates over 60% for the high HCC group, 50% for the medium HCC group and 40% for the low HCC group). They are excluded to limit the influence of their exceptionally high HCC group failure rates on other issuers' results, yielding national HCC group failure rate means and confidence interval thresholds that are directionally closer to what CMS expects in a non-pilot audit year with full issuer participation.
[7] https://downloads.cms.gov/cciio/Summary-Report-Risk-Adjustment-2017.pdf

to have their 2017 risk scores adjusted based on the results of 2016 RADV. Out of the 47 markets with non-zero average error rates, 16 markets are expected to have negative error rates. When we excluded outliers, we observed that the number of markets with zero error rate increased to 37, with only three markets having a positive error rate but 21 markets (an increase from 16) with a negative error rate. Table 1 summarizes our findings nationally.

Table 1: Summary Statistics

Data Element	Outliers Included	Outliers Excluded
HIOS ID Count[8]	273	221
Market Count	61	61
Count of Markets with Zero Error Rate	14	37
Count of Markets with Positive Error Rate	31	3
Count of Markets with Negative Error Rate	16	21
Max Estimated Market Error Rate	11.47%	0.99%
Min Estimated Market Error Rate	-6.27%	-6.27%

Figure 2: Count of Markets by Error Rate Bins



[8] Count only includes HIOS IDs used in calculating market rates. All submitted RADV data was used in calculating market rates.

A negative market average error rate indicates that the market average risk scores are expected to increase. For example, if an issuer's RADV results shows that they have a zero error rate but the market average error rate is negative, the issuer's risk score will remain the same while the market average risk score is expected the increase. This will result in a lower risk transfer receivable or a higher risk transfer payable for that issuer as their relative risk has now decreased. Figure 1 above shows the distribution of market average error rates from our analysis.

Disclosures and Limitations

The data included in this report and produced by the Wakely National Risk Adjustment Reporting (WNRAR) project are inherently uncertain and relies upon data provided by WNRAR participants. Users of this whitepaper should be qualified to use it and understand the results and the inherent uncertainty. Wakely makes no warranties regarding the results. We strongly recommend that Wakely review the results of any modeling and the appropriateness of applications that use the summaries contained herein.

We performed reasonability checks on the data where possible, but did not audit the data. RADV results from issuers not participating in this optional survey may change the results provided in this whitepaper. Other uncertainty in the estimates contained in this workbook include but are not limited to the following:

1. The calculated market average error rates are based on our understanding of the RADV program. CMS has not released any official guidance on how the RADV error rates will be applied to the ACA risk adjustment program. Our interpretation of the available methodology may be flawed or inconsistent with the actual approach that will be used.
2. This results presented in this whitepaper are based on 2016 RADV results which was a pilot year. CMS explicitly states in the July 13, 2018 release that they do not believe the 2016 results will be indicative of future RADV years.
3. Wakely used 2016 RADV error rates weighted by 2017 total risk (as reported in issuers' 2017 RATEE files) to estimate market average error rates. 2017 market membership and total risk may not be representative of future market membership. If an issuer with a large RADV error rate gains or loses significant market share in future years, the results may be significantly impacted.
4. CMS identified 77 HIOS IDs as outliers in 2016 and excluded them in the national results released on July 13, 2018. We made the assumption that these issuers with outliers will be included in future years. Therefore, we have included these issuers in the calculation of the market average error rates. We do not know if CMS will continue to exclude outliers in future program years.
5. We did not consider regulatory changes currently being considered or which may be developed and enacted after the release of this report.

Wakely is not a legal or audit firm. Please consult your accounting, legal and actuarial experts in developing your internal estimates.

Please contact Matt Sauter at MattS@wakely.com or Chia Yi Chin at ChiaC@wakely.com with any questions or to discuss these estimates