WHITE PAPER

Review of CMS Proposed 2018 Risk Adjustment Changes to CSR Plans

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Wakely reviewed CMS' proposed 2018 risk adjustment changes to cost-sharing reduction (CSR) plans and modeled the impact of the changes based on collected 2016 data. Our modeling with national data shows that relative risk will decrease around 10% for the 87% and 94% CSR plans while all other plans' relative risk will increase at varying levels to offset the changes to CSR plans.

Background

Many state insurance departments have permitted issuers to file additional 2018 rates to account for uncompensated liability in the event that cost-sharing reduction (CSR) payments are discontinued. On August 10, 2017, CMS released a FAQ in which it announced its intention to propose changes to the risk adjustment model to account for CSR payment related instability.

Wakely provides risk adjustment reporting services for the individual and small group health insurance markets to over 70 organizations covering over 35 states[1]. As part of this work, we have provided information and estimates related to changes in the risk adjustment model and methodology, including state specific changes, overall changes in risk weights and mappings, the ICD-10 conversion, and others. We have provided detailed reporting to participating companies related to this specific change to risk adjustment parameters for 87% and 94% CSR as well as limited and zero cost-sharing plans (referenced herein as "impacted CSR plans") members. This whitepaper summarizes observations from this work.

Observations

The proposed changes can be broken into two major components. The first component is to remove the CSR induced demand adjustments from the impacted CSR plans and the second component is to treat these impacted CSR plans as Platinum plans. In order to understand these changes, we should first look at the components that would be changing in the HHS risk adjustment transfer formula (shown in Figure 1 below).

Figure 1. HHS Transfer Formula

HHS Transfer formula: $T_i = \left[\frac{PLRS_i \times IDF_i \times GCF_i}{\sum_i (s_i \times PLRS_i \times IDF_i \times GCF_i)} - \frac{AV_i \times ARF_i \times IDF_i \times GCF_i}{\sum_i (s_i \times AV_i \times ARF_i \times IDF_i \times GCF_i)}\right] \overline{P_s}$

Where:
TT_{ii} = Transfer for issuer ii
P_{ss} = State Average Premium
$PPPPPPPP_{ii}$ = Issuer ii's plan liability risk score
$IIIIII_{ii}$ = Issuer ii's induced demand factor
$AAPPII_{ii}$ = Issuer ii's allowable rating factor
$AAAA_{ii}$ = Issuer ii's metal level actuarial value
$GGGGII_{ii}$ = Issuer ii's geographic cost factor
ss_{ii} = Issuer ii's share of State enrollment, and the denominator is summed across all issuers in the risk pool in the market + state

[1] http://www.wakelyriskreporting.com

The most straightforward part of the change to understand is the removal of the CSR induced demand adjustment. The CSR induced demand adjustment currently only impacts the calculation of plan liability risk score (PLRS). Currently, this CSR adjustment to the existing model moves money towards (increased risk scores of) silver 87% and 94% plans. Therefore, removing this factor decreases the risk score for 87% and 94% CSR members and moves money away from them towards members in other metal plan categories. The change of these plans from silver to platinum parameters is less straightforward and does not have a clear, intuitive directional impact.

The following table shows an overly simplified approach to estimating the impact of removing the CSR induced demand adjustment, as it ignores other moving parts within the methodology:

Table 1. Simplified Estimate for Impact of Removing CSR Adjustment[2]

Plan Metal Tier and CSR	% of Total Billable Member Months[3]	CSR Adj. under Current RA Model	CSR Adj. under Proposed Changes	Change in Relative Risk[4]
Platinum	3%	1.00	1.00	+3.8%
Gold	10%	1.00	1.00	+3.8%
Silver no CSR	20%	1.00	1.00	+3.8%
Silver 73% CSR	6%	1.00	1.00	+3.8%
Silver 87% CSR	13%	1.12	1.00	-7.7%
Silver 94% CSR	21%	1.12	1.00	-7.7%
Bronze	27%	1.00	1.00	+3.8%
Total	100%	1.04	1.00	

As shown above, without considering the impact of using platinum parameters on the 87% and 94% CSR plans, differences in overall weighting, and other complex adjustments and calculations that happen within the formula, the 87% and 94% CSR plans relative risk would be expected to decrease about 7.8% and the other plans' factors would be expected to increase about 3.8%.

We modeled the changes with 2016 data collected nationally from the Wakely National Risk Adjustment Reporting (WNRAR) project. We used the 2016 risk adjustment model for purposes of estimating the impact of the proposed changes. Our modeling shows some differences from these simplified calculations, most notably that the relative risk[5] of the 87% and 94% CSR plans decreased around 10% (when modeling includes the impact of recalculating impacted CSR plans using platinum parameters). The other metal levels (including the 73% CSR) relative risks increase to offset at different levels, except for the platinum metal level, which does not incur a significant change after the impacted CSR plans are incorporated. Relative risk for platinum plans shows a small decrease due to some of the algebraic components of the risk adjustment formula. However, our modeling

[2] Our simplified modeling excludes zero and limited cost-sharing plans as their membership is relatively smaller and have minimal impact to overall results. The CSR adjustment for zero and limited cost-sharing plans will depend on the metal tier (1.15 for Bronze plans, 1.12 for Silver plans, and 1.07 for Gold plans).

[3] Based on member months collected nationally through the Wakely National Risk Adjustment Reporting (WNRAR) project.

[4] Relative Risk in Table 1 only accounts for changes in PLRS if CSR adjustment is removed per CMS proposed changes.

[5] Relative Risk is essentially a re-statement of the risk transfer. Plan liability risk scores (PLRS) by themselves can potentially be misleading, as other rating factors such as demographics or metal mix can, for example, result in an issuer making a payment even if an issuer has a higher risk score. The totality of risk scores and other risk transfer formula components (AV, ARF, IDF and GCF) is intended to be captured in the Relative Risk referenced in our actual modeling.

shows that the removal of the induced demand factor likely drives much of the change which is what we expected.

The overall change in relative risk is consistent with required changes to balance out profitability across metal levels as seen in our other work[6]. While the specific impacts we have seen do not line up exactly with profitability gaps nationally, they are directionally correct except for platinum plan impacts.

Disclosures and Limitations

We have developed the impact of CMS' proposed changes based on our understanding of the released memo. Actual implementation may differ, causing results of this analysis to change significantly as well. Given available information and data, we used 2016 submitted data and the 2016 risk adjustment parameters to model the impact of changes to the 2018 methodology which introduces additional uncertainty into our estimates. We also have not included the impact of other changes such as changing membership and therefore risk pool, premium increases and other changes in the risk adjustment transfer formula (14% admin cost and high cost claims pooling) beginning in 2018. In addition, details on how CSR plans will be rolled up in the final risk adjustment calculation were not available. The current calculation rolls up members at each plan ID and rating area. In these instances, the AV and IDF have been consistent (silver AV and IDF for the CSR plans). For simplicity, we assumed that the impacted CSR members will be rolled up separately in the final risk adjustment transfer calculations. We also did not adjust for any changes in the premiums/methodology that could impact the final calculations for geographic cost factors (GCF).

We will be releasing 2017 results to WNRAR project participants using both the 2017 model and our estimate of the 2018 model, including the changes to the 87% and 94% parameters, and other 2018 model changes (for example, pharmacy data and categories, and revised risk weights).

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

Please contact Chia Yi Chin at ChiaC@wakely.com or (720) 226-9819 with any questions or comments.

[6] Wakely collected 2014 and 2015 EDGE data from carriers nationally to identify profitability drivers in the ACA market. Based on our 2014 and 2015 study, we observed that 87% and 94% CSR plans are typically more profitable than other metal tiers.