WHITE PAPER

Impact of CSR De-funding on Market Stability

Karan Rustagi, FSA, MAAA
720.282.4965 • Karan.Rustagi@wakely.com

Michael Cohen, PhD
202.568.0633 • Michael.Cohen@wakely.com

Al Bingham, Jr., FSA, MAAA
404.799.8306 • Al.Bingham@wakely.com

Executive Summary

The health insurance industry is grappling with the ramifications of the Cost Sharing Reduction subsidies (CSRs) potentially being de-funded. For several issuers, the elimination of CSRs has been viewed as a signal to exit the individual market as they believe the CSRs are key to maintaining large enough enrollment on the exchanges for there to be a business case for the issuers to participate in this market. The response from the states has varied from not doing anything until CSRs are actually de-funded to allowing carriers to file a secondary rate filing alongside the original filing. The secondary rate filing would be applicable if CSRs are de-funded and include some provision in the premiums to offset the CSR revenue loss. Some states have also devised a strategy for mitigating the impact to non-subsidized enrollees of the premium increases. The specific approach to the premium provisions have varied by states. However, a recent publication from CMS and the CBO indicate that most insurance commissioners would allow plans to increase the Silver plan premiums if CSRs are de-funded. CMS has extended the rate filing deadline to allow issuers additional time to factor in the impact of CSR de-funding into their premium development.

Wakely identified a few key considerations that issuers will need to consider in their premium development.

> The incentives for healthy members to buy Bronze and unhealthy members to buy Gold/Platinum may be increased.

Market participation. We expect that members receiving subsidies (premium tax credits and/or CSRs) or members in non-Silver plans will not be adversely affected by the premium changes due to the CSR de-funding. However, members in standard Silver plans and not receiving subsidies may experience a large rate increase if they stay in their current plans in 2018. These members may buy down to Bronze, drop coverage, or purchase a Silver plan off-exchange to the extent that such a Silver plan is available at an affordable cost.

Selection effects. The incentives for subsidized healthy members to buy Bronze and subsidized unhealthy members to buy Gold/Platinum may be increased. Depending on the strength of the financial incentive, there may be member migration across metal tiers. As healthy members migrate to lower cost

Bronze plans, there may be some premium leakage. If unhealthy members migrate to richer plans, the issuer's portion of the claims liability may increase (due to limits on member out-of-pocket costs) by more than the increase in the premiums and the risk transfer amounts.

Changes in competitive positioning. The CSR load may vary by issuer based on their CSR market share and the morbidity of that CSR membership. Some low-cost narrow-network issuers may have a higher market share of the CSR membership. However, to the extent that this membership is healthier than the CSR members in a broader network plan, it will result in marginally less additional claims costs per CSR member. The net effect of these two factors on Silver premiums will likely vary by issuer and may result in a change in their relative competitive positioning leading to member migration across carriers.

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Relative profitability by metal. The proposed changes in risk adjustment, which only impact states where issuers have increased the Silver plan premiums due to the defunding, are expected to make the CSR 87% and 94% plans less profitable and the remaining plans more profitable relative to each other. This relative magnitude of the change in the profitability may impact some carriers' profitability more than others depending on their market share of the CSR membership. Carriers that have no-CSR members could potentially receive a more favorable transfer compared to the current risk adjustment model, all else being equal. Additionally, the impact on CSR 73% will be similar to the standard Silver.

Relative profitability by age in CSR 87% and 94% plans. The CSR 87% and 94% members with no Hierarchical Condition Categories (HCCs) under the age of 50 may become more profitable relative to their counterparts over the age of 50. The magnitude of the change will vary by age. Historically, we have observed that the members above the age of 50 without HCCs were relatively more profitable than their younger counter parts across all plans[1]. Several caveats apply to this conclusion since the risk adjustment model is changing in ways that cannot be modeled accurately and the changes may alter these conclusions. These caveats are noted in more details in the rest of this paper.

Relative profitability by condition. The relative profitability of members with specific conditions may also change and the magnitude of the change will vary depending on the condition. For example, members will HIV/AIDS and Cerebral Palsy in CSR 87% and 94% plans may receive a more favorable

[1] For more information on profitability by age based on 2014 data, see http://www.wakely.com/wp-content/uploads/2016/11/The-Young-and-Healthy-The-Unexpected-Consequences-White-Paper.pdf

treatment in risk transfers due to the CSR change[2]. The relative profitability of members with end stage renal disease may decrease.

Limited and zero cost sharing plans. Issuers with significant membership in these plans may also be impacted in a similar way as the CSR 87% and 94% although to a different level due to differences in the mechanics of the risk adjustment program for these plans.

Magnitude of risk transfer. The magnitude of the dollar risk transfer may increase due to the increase in the state-average premium. The magnitude of the transfers will increase on the CSR 87% and 94% (as well as zero and limited cost sharing plans) due to the change in induced demand factors.

Please note that the risk adjustment model is changing in many ways in 2018 outside of the changes due to the CSR de-funding. One of these changes includes updating the model coefficients to 2018 coefficients. For the analyses referenced in this paper, we have used the 2018 coefficients to isolate the changes driven by the CSR de-funding only. However, there are other proposed changes to the risk adjustment model such as the inclusion of the pharmacy claims in risk scoring. The impact of these additional changes is difficult to determine at this time and we cannot tell with certainty that the conclusions above will hold under once the pharmacy changes are incorporated into the risk adjustment model.

> The relative profitability of members with specific conditions may also change and the magnitude of the change will vary depending on the condition.

Introduction

One of the key affordability provisions of the Affordable Care Act is the requirement for cost-sharing reductions. Issuers offering plans on the Exchange are required to provide for silver plans that have lower deductibles and cost-sharing for low income individuals[3]. The ACA states that Federal government will compensate issuers for the additional costs associated with offering these cost-sharing plan variants. Cost-sharing reduction has had a significant effect on deductibles for low-income individuals. In 2016, the median enrollee in a silver plan without cost-sharing assistance, which represented 12% of the healthcare.gov population, had a deductible of $3,000. Conversely, enrollees in silver plans with high cost-sharing requirements (94% CSR variant), had a median deductible of $0 and accounted for 33% of the healthcare.gov enrollment in 2016. [4] The large proportion of Exchange enrollees and large cost-

[2] For more information on profitability by condition based on 2014 data, see http://www.wakely.com/wp-content/uploads/2016/11/The-Profitable-Conditions-White-Paper.pdf

[3] Individuals that are members of federally recognized tribe may additionally qualify for cost-sharing reductions.

[4] https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-07-12.html

sharing requirements results in significant Federal funding to cover these costs. The CBO estimated that for the 2018 benefit year CSR payments will be approximately $10 billion dollars. [5]

Background of the Issue

In 2014 the House of Representatives sued President Obama over whether he had appropriately implemented the cost-sharing reduction program. The complaint alleged that the President did not have explicit authority to making CSR payments. In 2016, a Federal District Court sided with the House of Representatives by ruling that the government did not have the authority to make CSR payments.[6] The ruling was stayed pending appeal. Following the election, the Trump Administration inherited the case, on the side of the defense. Since inheriting the case, the President and senior officials have repeatedly threatened to end CSR payments. Furthermore, it remains a possibility that without a Congressional appropriation, a court ruling could end CSR payments. The repercussions of eliminating CSR payments would be significant.

If CSR payments were to end, issuers that continue offering plans on the Exchange would be required to continue offering CSR silver plans with the difference being that their own premiums would need cover the expenses associated with the reduced cost-sharing. Kaiser Family Foundation estimated that on average issuers would need to increase exchange silver premiums 19% to cover the additional costs associated with the ending of CSR payments[7] and CBO estimated that increase to be 20%[8].

Various Approaches to Uncertainty by State

Issuers and regulators have taken different approaches to how issuers should modify premium rates and plan offerings, given the uncertainty as to whether CSR payments will continue. One approach[9] that has gained prominence is how Covered California is instructing its issuers for this contingency. This approach incorporates three key components. The first is that California directed its issuers to increase silver plan premiums associated with on-Exchange plans to cover the additional health care costs of non-payment of CSRs (as a plan level adjustment and not a change to the index rate). The second component is that California did not allow other metal level plan premiums to increase due to a CSR load. Finally, California's directed its issuers to offer non-mirrored off-Exchange silver plans that do not include the premium load for the costs of the CSRs.

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[5] https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf

[6] http://healthaffairs.org/blog/2016/05/12/judge-blocks-reimbursement-of-insurers-for-aca-cost-sharing-reduction-payments/

[7] http://files.kff.org/attachment/Issue-Brief-The-Effects-of-Ending-the-Affordable-Care-Acts-Cost-Sharing-Reduction-Payments

[8] https://assets.documentcloud.org/documents/3932871/Read-the-C-B-O-s-Report.pdf

[9] http://board.coveredca.com/meetings/2017/06-15/Background/Covered-CA-CSR%20Supplemental%20Rate%20Filing%20Instructions%206-6-17.pdf

This approach has distinct actuarial and market advantages. For enrollees that are subsidized, the increase in silver plan premium results in greater level of subsidization. The higher subsidy associated with increased silver plan premiums will insulate those enrollees from the effects of higher silver premiums. Secondly, the generation of a similar off-Exchange silver plan without the CSR load minimizes the potential premium increases that non-subsidized consumers would bear since they have the option of purchasing plans that do not include CSR loads. The result of the two directives may be that only individuals who have APTCs might purchase on-Exchange silver plans. From the enrollee perspective, out of pocket expenses would stay constant as the increases would be funded by the Federal government rather than enrollees.[10] Additionally, this method retains the current rating approach that index rates only consider claims, risk adjustment transfers, and administrative expenses.

> CMS noted in a recent bulletin[1] that it expects states to increase Silver plan premiums to account for the loss of CSR revenue.

One other implication under this approach that issuers should consider is the potential for significant member migration. In addition to members who are not eligible for APTCs migrating off-Exchange, the silver premiums and resulting higher premium subsidies on-Exchange could encourage members to enroll in other plans. In particular, on-Exchange silver premiums may be similar to gold plans premiums which may lead some members, even those eligible for CSRs, to choose to enroll in a gold plan. Other members may choose to take their subsidy and buy down to a bronze plan, which may have zero net premium costs for subsidized individuals. With the higher subsidies, many members with APTCs will find that the bronze plans may be available at no premium.

Colorado is requiring issuers to apply the CSR load to all metal levels instead of just the Silver plans. The advantage of this approach is that it spreads the CSR revenue shortfall over a larger base of premiums and thereby reducing the magnitude of premium rate-up required on any individual plan. However, to the extent that an issuers mix of enrollment by metal changes, it could create a disconnect between the actual CSR funding required and what is actually collected via the CSR load in premiums. Since the load is a multiplicative factor, the dollars collected will be higher on high premium plans such as the Platinum plans relative to low premium plans such as the Bronze plans. If the distribution of membership shifts towards the issuer having more Bronze members, then the CSR dollars collected may fall short of what was projected. For members not receiving APTCs, it may become more beneficial to purchase plans off-exchange without the CSR load. Carriers that have fewer non-CSR members will have to spread the CSR load across fewer member base than a carrier that has more non-CSR membership to spread the CSR load over. Additionally, a plan that operates only off-exchange may not change its premiums and may find that their plans are suddenly more competitive than the on-exchange plans after the exchange

[10] Research by HHS concluded that non-payment of CSRs under the plan level adjustment would result in higher federal deficits because of the substitution effect of PTC for CSRs. https://aspe.hhs.gov/system/files/pdf/156571/ASPE_IB_CSRs.pdf

Silver plan premiums increase. These changes in relative positioning of plans may result in member migration and unintended market disruption.

Colorado is requiring issuers to spread their CSR load across all metal levels on- and off-exchange. If issuers offer plans off-exchange only, then they would not have to apply the CSR load. Catastrophic plans were exempted from this rate-up.

New York is largely unaffected by these changes as the populations that would qualify for the CSR 87% and 94% plans are covered under the state's Basic Health Plan. However, the state will need to determine whether the funds appropriated for the Basic Health Plan will be impacted by the de-funding of the CSR payments. If the Basic Health Plan funding is reduced, then the state may end the Basic Health Plan resulting in members migrating to the marketplaces. A large member migration such as this one may result in significant disruption. Minnesota is in a similar boat as New York.

Oregon has proposed to allow all issuers to increase their on- and off-exchange Silver rates by the same 7.1% in the event that CSRs are de-funded. The state is soliciting input from issuers and the final course of action remains to be determined as of this writing. It would be interesting to see the state collect these additional premiums and then re-distribute them to carriers based on the outcomes of CSR claims re-adjudication similar to the CSR reconciliation process that CMS currently goes through.

States, such as Vermont and Massachusetts, have merged individual and small group markets. The impact of CSR de-funding may extend to the small group market in addition to the individual market.

Some states, such as South Dakota, are not making any changes at this time.

Finally, a number of states, such as Ohio and North Dakota, that did not initially require two separate filings recently are re-evaluating the issue of market stabilization under CSR de-funding scenario.

We expect that the approach involving an increase in Silver premiums as described above for California will be adopted by a significant number of states if the CSRs are de-funded.

States are continuing to react to new information. For example, CMS noted in a recent bulletin[11] that it expects states to increase Silver plan premiums to account for the potential loss of CSR revenue.

States may vary in whether they allow the issuers to offer a 'somewhat-similar' Silver plan off-exchange without the CSR load. The goal would be to allow the non-subsidized Silver members to buy a somewhat similar Silver plan as they are currently in without paying the higher premiums with the CSR load built in.

[11] CMS bulletin dated August 10, 2017 titled "Information on Risk Adjustment Methodology and Rate Filing Deadlines"

CMS Response

CMS has extended the rate filing deadline to September 5th.

CMS has also proposed the following changes to risk adjustment formula for individual market benefit year 2018.

- Apply platinum metal tier risk adjustment model coefficients for the 87% and 94% cost sharing reduction plan variants.
- Use 90% actuarial value for the 87% and 94% CSR variants as well as for the limited cost sharing and zero cost sharing variants. Previously, the 87% and 94% CSR variants used 70% as the actuarial value in the risk transfer formula.
- Use the Platinum induced demand factor (1.15) instead of the Silver induced demand factor (1.08) for the 87% and 94% CSRs (and for the limited and zero cost sharing variants).
- Discontinue the CSR adjustment factors (1.12 for the 87% and 94% variants) to the risk score calculations.
- No changes to the 73% CSR variants.

CBO Response

CBO[12] estimated that the Silver premiums may increase by 20% on average to account for the de-funding of CSRs. CBO assumed that issuers would increase Silver premiums only in response to a CSR defunding. CBO's analysis also showed that the methodology similar to one used in California will actually increase the federal liability and may result in lower costs for the members. Similar to CBO, we expect that the approach involving an increase in Silver premiums, as described above for California, will be adopted by a significant number of states if the CSRs are de-funded.

[12] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53009-costsharingreductions.pdf

Key Considerations for Issuers

For the purposes of this discussion, we have assumed that most states will allows issuers to increase Silver premiums to account for CSR de-funding and allow them to offer a Silver plan off-exchange without the CSR load (that is, the California approach outlined above).

Stronger selection effects and member migration

Subsidized populations with significant member premium contributions such as those in the 73% CSR or non-CSR populations receiving APTCs may find greater incentives than those currently present to move into Bronze or Gold depending on their health status.

For example, let us assume that individual has a subsidy such that his premiums would be 9.5% of income or approximately $316.67 monthly. If the second lowest-Silver premium in the market costs $400, then this member would receive $400.00 - 316.67 = $83.33 in subsidies. For this person, the following insurance coverage options would be available. We also show the total out of pocket costs (deductibles, copays, coinsurances) for a healthy member and an unhealthy member.

Plan	Metal	Premium	Subsidy	Member Premium	Member Cost Sharing – Healthy	Member Cost Sharing – Unhealthy	Total OOP – Healthy	Total OOP – Unhealthy
		(1)	(2)	(3)= (1) - (2)	(4)	(5)	(3) + (4)	(3) + (5)
Second Lowest Cost Issuer	Bronze	$330	$83.33	$246.67	$30	$500	$276.67	$746.67
Second Lowest Cost Issuer	Silver	$400	$83.33	$316.67	$20	$300	$336.67	$616.67
Second Lowest Cost Issuer	Gold	$480	$83.33	$396.67	$10	$100	$406.67	$496.67
Lowest Cost Issuer	Bronze	$290	$83.33	$206.67	$30	$500	$236.67	$706.67
Lowest Cost Issuer	Silver	$350	$83.33	$266.67	$20	$300	$286.67	$566.67
Lowest Cost Issuer	Gold	$420	$83.33	$336.67	$10	$100	$346.67	$436.67

The table above shows a situation where healthy members have a financial incentive to reduce their out of pocket costs by buying Bronze ($336.67-$276.67 = $60 monthly or $720 annually) and unhealthy member do the same by purchasing Gold ($616.67-496.67 = $120 monthly or $1,440 annually).

Let us assume that the CSRs are de-funded and all of the carriers increase their Silver rates by 20% each. The new Silver monthly premiums would be $480 (up from $400), the member contribution (tied to income) would remain at $316.67, and the subsidy would increase to $163.33. Here are the insurance coverage options now.

Plan	Metal	Premium	Subsidy	Member Premium	Member Cost Sharing – Healthy	Member Cost Sharing – Unhealthy	Total OOP – Healthy	Total OOP – Unhealthy
		(1)	(2)	(3)= (1) - (2)	(4)	(5)	(3) + (4)	(3) + (5)
Second Lowest Cost Issuer	Bronze	$330	$163.33	$166.67	$30	$500	$196.67	$666.67
Second Lowest Cost Issuer	Silver	$480	$163.33	$316.67	$20	$300	$336.67	$616.67
Second Lowest Cost Issuer	Gold	$480	$163.33	$316.67	$10	$100	$326.67	$416.67
Lowest Cost Issuer	Bronze	$290	$163.33	$126.67	$30	$500	$156.67	$626.67
Lowest Cost Issuer	Silver	$420	$163.33	$256.67	$20	$300	$276.67	$556.67
Lowest Cost Issuer	Gold	$420	$163.33	$256.67	$10	$100	$266.67	$356.67

The table above shows that the total OOP cost goes down at the Bronze and Gold levels. The total OOP cost stays the same in the second lowest cost Silver plan but goes down for the lowest cost Silver plan[13]. The healthy members who do not expect to hit their deductibles now have a stronger incentive to reduce their total healthcare expenditures by staying in or switching to Bronze ($336.67-$196.67 = $140 monthly or $1,680 annually). Those previously on the fence about whether a Bronze was a good deal for them may now switch to Bronze. Similarly, the unhealthy members would be incentivized to buy Gold ($616.67-$416.67 = $200 monthly or $2,400 annually). When members select plans in such a way to produce an advantage for themselves the insurer typically expects to be disadvantaged due to a revenue loss and an increased claims expense.

In addition to increased incentives for members to migrate across metal tiers, members may also be incentivized to migrate across carriers resulting in significant market disruption. For example, we expect carriers to be calculating the CSR load by estimating the additional CSR related claims costs as a percentage of Silver premiums. CSR payments depend on two key factors.

1. Percentage of Silver plan membership that is CSR eligible
2. Morbidity of the CSR membership which impacts the experience actuarial value

Low cost carriers tend to get a disproportionate share of CSR membership as this membership is highly price sensitive and tends to gravitate towards lower cost plans. However, the selection effects result in unhealthy CSR members preferring broader network plans (typically higher

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[13] The reduction in total OOP cost in the lowest cost Silver is higher than second lowest Silver because the increase in the subsidy is based on the second lowest Silver. The subsidy increases by more than the premiums on a dollar basis (by $10 PMPM).

cost) while healthier members prefer narrow network plans (typically lower cost). Therefore, we generally see that the narrow network plans experience a relatively lower actuarial value on their CSR membership (and hence, lower CSR related claims cost per member) than broad network plans on their own CSR membership.

Increased risk adjustment transfers

CMS has proposed changing the risk adjustment transfer methodology for states where the issuers are increasing the Silver premiums to include CSR loads in the event of CSR de-funding. The proposed methodology would treat CSR plans with 87% and 94% actuarial value the same way as it treats Platinum plans. The CSR 73% AV plan would continue to be treated the same way as a standard Silver plan.

Issuers and states should also be aware of Open Enrollment outreach and plan cross-walking.

Low cost carriers that tend to attract a disproportionate share of low-income individuals in the CSR 87% and 94% AV plans have historically experience favorable margins on these CSR members relative to other ACA populations. Wakely's analysis has shown that this relative profitability was likely driven by a specific favorable treatment of CSR plans in the risk adjustment formula (a higher risk score relative to standard Silver). With the proposed change by CMS, this favorable treatment of CSRs in the risk adjustment formula will be eliminated resulting in the CSR membership profitability declining relative to the non-CSR members. We expect this change to adversely the impact carriers with a disproportionate share of the CSR membership.

Additionally, the magnitude of transfers will likely increase due to an increase in the market average premiums. Since Silver plans tend to be the most popular plans in the individual market, an increase in these premiums to compensate for CSR de-funding will result in an increase in the market average premiums. The risk transfer payments on the Bronze and Gold plans will increase relative to their respective premiums.

More technical details on the impact of risk adjustment changes for CSR de-funding can be found in appendix A.

Additional Considerations

While the approach described for California has actuarial appeal since enrollees' out-of-pocket cost increases would be potentially minimized, context, as always, matters. First, issuers should be aware of not only their population but also that of their entire states' markets. Kaiser Family Foundation noted that in states that did not expand Medicaid, the rate increases needed to compensate for non-payment is 6 percentage points higher than for states that did. Issuers should review any new information since they submitted rates, whether it be their CSR reconciliation data or CMS-released enrollment figures.

Similarly, issuers should also evaluate if their non-income based (limited and no cost-sharing)[14] CSR enrollment could significantly affect costs. Secondly, in states that do not allow the California type reaction to CSR non-payments, issuers should consider outreach strategies to non-subsidized enrollees to maximize re-enrollment given rate increases.

Issuers should also be carefully attuned to second order effects. Issuers and states should also be aware of Open Enrollment outreach and plan cross-walking. Ensuring that enrollees are matched to the most suitable plan and that the appropriate message matches the appropriate enrollees may be key for maximizing re-enrollment rates. If unsubsidized standard Silver members move to off-exchange only issuers (to avoid the CSR premium load), it may impact exchange funding.

If unsubsidized standard Silver members move to off-exchange only issuers (to avoid the CSR premium load), it may impact exchange funding.

To discuss the rating complexities in additional detail or better understand those laid out here, please reach out to Karan Rustagi. For more information on the regulatory landscape and impact on exchange enrollment, please reach out to Michael Cohen or Al Bingham.

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[14] Members of federally recognized tribes are eligible for limited and no cost-sharing CSR variants.

Appendix A

Technical Details for Actuaries to Better Understand the Impact of Risk Adjustment Changes

To understand how CSR risk scores will be impacted, we need to understand all the moving pieces.

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

Where:
$\boldsymbol{T_i}$ = Transfer for issuer i
$\overline{\boldsymbol{P_s}}$ = State Average Premium
$\boldsymbol{PLRS_i}$ = Issuer i's plan liability risk score
$\boldsymbol{IDF_i}$ = Issuer i's induced demand factor
$\boldsymbol{ARF_i}$ = Issuer i's allowable rating factor
$\boldsymbol{AV_i}$ = Issuer i's metal level actuarial value
$\boldsymbol{GCF_i}$ = Issuer i's geographic cost factor
$\boldsymbol{s_i}$ = Issuer i's share of State enrollment, and the denominator is summed across all issuers in the risk pool in the market + state

The proposed change impacts three of the above components: PLRS, AV, and IDF. Of these three, PLRS and AV impact a plan's measure of risk relative to the market. The change in IDF acts as a magnifying effect that changes the amount of risk adjustment transfer dollars similar to the change in market average premiums.

When we speak of 'change', we look at the change in these factors in a relative way:

- How much does the plan PLRS change relative to the market average PLRS (numerator vs denominator on the left hand side of the equation).
- How much the plan AV changes relative to the market average AV (numerator vs denominator on the left hand side of the equation).
- How much does the PLRS change relative to the AV (left hand side vs. the right hand side of the equation).

If the plan PLRS increases by more than the market average, then the plan's measure of the risk relative to the market increases resulting in a favorable change to the risk transfer payment. If the plan AV increases by more than the market average, then the plan's risk transfers are unfavorably impact. A plan's PLRS and AV may increase by more than the market if the plan has a higher proportion of the CSR members than the market. If the PLRS increases by more than the AV, then the plan will experience a favorable movement in the risk transfers. The PLRS may increase by more than the AV if the plan has a mix of member demographics and conditions that is different than the market in certain ways.

The impact on PLRS depends on the difference in HHS weights between Silver and Platinum. When CMS switches to the Platinum weights from the Silver weights for CSR 87 and 94% plans, the increase in weights varies by demographic and condition categories. The table below shows the impact on PLRS of such a change on demographic categories and a sample of condition categories.

	2018 HHS Weights (Adult)					Impact on PLRS	
Demographic / Condition Categories	**Platinum**	**Standard Silver**	**CSR 73%**	**CSR 87%**	**CSR 94%**	**CSR 73%**	**CSR 87% and 94%**
Age 21-24, Male	0.178	0.098	0.098	0.110	0.110	0%	62%
Age 25-29, Male	0.157	0.078	0.078	0.087	0.087	0%	80%
Age 30-34, Male	0.201	0.100	0.100	0.112	0.112	0%	79%
Age 35-39, Male	0.264	0.143	0.143	0.160	0.160	0%	65%
Age 40-44, Male	0.334	0.193	0.193	0.216	0.216	0%	55%
Age 45-49, Male	0.405	0.245	0.245	0.274	0.274	0%	48%
Age 50-54, Male	0.531	0.343	0.343	0.384	0.384	0%	38%
Age 55-59, Male	0.607	0.396	0.396	0.444	0.444	0%	37%
Age 60+, Male	0.695	0.453	0.453	0.507	0.507	0%	37%
Age 21-24, Female	0.301	0.175	0.175	0.196	0.196	0%	54%
Age 25-29, Female	0.344	0.200	0.200	0.224	0.224	0%	54%
Age 30-34, Female	0.474	0.300	0.300	0.336	0.336	0%	41%
Age 35-39, Female	0.564	0.374	0.374	0.419	0.419	0%	35%
Age 40-44, Female	0.631	0.422	0.422	0.473	0.473	0%	34%
Age 45-49, Female	0.642	0.424	0.424	0.475	0.475	0%	35%
Age 50-54, Female	0.726	0.488	0.488	0.547	0.547	0%	33%
Age 55-59, Female	0.723	0.477	0.477	0.534	0.534	0%	35%
Age 60+, Female	0.759	0.493	0.493	0.552	0.552	0%	37%
HIV/AIDS	0.490	0.330	0.330	0.370	0.370	0%	33%
Cerebral Palsy, Except Quadriplegic	0.204	0.067	0.067	0.075	0.075	0%	172%
End Stage Renal Disease	33.271	32.937	32.937	36.889	36.889	0%	-10%
Diabetes	0.659	0.525	0.525	0.588	0.588	0%	12%
Asthma and Chronic Obstructive Pulmonary Disease	0.896	0.719	0.719	0.805	0.805	0%	11%

The CSR 73% experiences no change in PLRS. The CSR 87 and 94% increases will vary depending on a member's age and conditions. For example, the PLRS on younger members will be impacted more than the older ages. The PLRS on HIV/AIDS will increase by more than Diabetes or Asthma and the PLRS of ESRD will actually decrease. To the extent that some plans have a different mix of demographics and conditions, their PLRS will change differently from the market.

The change in AV will be a change from using 70% in the risk transfer formula to 90% which is an increase of 28.6% for both the 87% and the 94% plans. This will likely impact all members in the CSR 87 and 94% plans the same way.

The net impact of the PLRS and AV will be that members with no HCCs under the age of 50 in the CSR 97 and 94% plans may become more profitable relative to their counterparts over the age of 50. Members will HIV/AIDS and Cerebral Palsy in CSR 87 and 94 plans may receive a more favorable treatment in risk transfers due to the CSR change. The relative profitability of members with end stage renal disease may decrease.

The risk transfers on zero cost plans and limited cost sharing plans will change similar to the CSR 87 and 94% plans but to different extents, because CMS uses different weights and AVs for some of those plans than the CSR plans.