

# Reinsurance, Risk Corridors, and Risk Adjustment Final Rule

- Center for Consumer Information and Insurance Oversight.
- Centers for Medicare & Medicaid Services.
- Department of Health and Human Services.



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# Background

- The Affordable Care Act establishes State-based reinsurance and risk adjustment programs, and a Federal risk corridors program.
- The overall goal of these programs is to provide certainty and protect against adverse selection in the market while stabilizing premiums in the individual and small group markets as market reforms and Exchange begin in 2014.
- The Premium Stabilization final rule establishes standards to ensure effective program implementation while providing significant State flexibility and imposing minimal burden on States and issuers.

# Overview of Risk Adjustment Program

- Section 1343 of the Affordable Care Act provides for a permanent risk adjustment program.
  - Applies to non-grandfathered individual and small group plans inside and outside Exchanges.
- Provides payments to health insurance issuers that disproportionately attract higher-risk populations (such as individuals with chronic conditions).
- Transfers funds from plans with relatively lower risk enrollees to plans with relatively higher risk enrollees to protect against adverse selection.

# Overview of Risk Adjustment Program (cont.)

- States that are approved to operate a State-based Exchange are eligible to establish a risk adjustment program:
  - States operating a risk adjustment program may have an entity other than the Exchange perform this function.
  - HHS will operate a risk adjustment program for each State that does not operate risk adjustment.

# Overview of Risk Adjustment Program (cont.)

- HHS will develop, publish, take comment, and finalize a risk adjustment methodology for use when operating risk adjustment on behalf of a State.
- A State operating risk adjustment may use the Federal methodology or propose alternate risk adjustment methodologies for certification by HHS.
  - Any federally certified risk adjustment methodology can be used by a State operating risk adjustment.

# Overview of Risk Adjustment Program: The Methodology

- The final rule defines a risk adjustment methodology as:
  - Risk adjustment model.
  - Calculation of plan average actuarial risk.
    - Includes removing rating variation for age, geography, tobacco use and family status.
  - Calculation of payments and charges.
  - Data collection approach.
  - Schedule for implementation.

# Overview of Risk Adjustment Program: Data Collection Approach

- States operating risk adjustment may adopt data collection approach that best suits their program's needs provided that they collect only information that is reasonably necessary for their risk adjustment methodology.
- States must develop privacy and security standards, and must ensure annual validation of risk adjustment data.
- HHS will use a distributed approach when operating risk adjustment on behalf of a State – data needed to operate risk adjustment will reside with the issuer.



# Notices of Benefit and Payment Parameters

- HHS will publish a draft HHS notice of benefit and payment parameters in the Fall of 2012 for the benefit year 2014.
- There will be a 30 day comment period, and a final notice will be published in January 2013.
- State notices of benefit and payment parameters must be published by March 1, 2013:
  - State must publish a notice if it establishes a reinsurance program and plans to modify the Federal parameters, or if it plans to operate a risk adjustment program.

# Next Steps

- Ongoing HHS Technical Support for States and Issuers.
- Draft HHS payment notice in Fall 2012.
- Final HHS payment notice in January 2013.