

# State Flexibility and Risk Adjustment Implementation

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# CONTEXT

The contents of this presentation represent preliminary information with the purpose of soliciting stakeholder feedback. Proposed policies for the risk adjustment program will be announced in the draft HHS notice of benefit and payment parameters, which will be subject to comment before finalized. More information on the HHS proposed operational approach when operating risk adjustment on behalf of non-electing States can be found in the Risk Adjustment Bulletin at <http://cciio.cms.gov/resources/files/ppfm-risk-adj-bul.pdf>.

# Issues Covered

- Background
- State Flexibility and Leverage
- Important Questions for States to Consider for Operating Risk Adjustment
- Administration of Risk Adjustment Program
- Process for Proposing an Alternate Risk Adjustment Methodology
- State Flexibility in Proposing an Alternate Risk Adjustment Methodology
- Risk Adjustment Data Collection
- State Notice Requirements in Premium Stabilization Final Rule
- Major Milestones for Risk Adjustment for 2012-2013

# Background

- States that are approved to operate a State-based Exchange may also choose to operate their own risk adjustment program.
- The process that States will need to undertake to set up a risk adjustment program includes:
  1. **State Exchange Approval:** States will notify HHS about their plans to operate a State-based Exchange and risk adjustment program.
  2. **Development of Risk Adjustment Methodology:** States can work with HHS to develop a methodology to be approved by HHS or States can choose any Federally certified methodology.

# State Flexibility and Leverage

- States have flexibility when designing their risk adjustment programs to:
  - Propose certain components of the risk adjustment methodology to tailor the program to their needs and to local market conditions; and
  - Leverage existing State-wide data sources and data collection tools
- States will have the opportunity to collaborate with HHS upfront and build off of existing HHS systems and processes if they so choose.
- HHS will work one-on-one with States on an ongoing basis to ensure that their risk adjustment programs operate smoothly or are phased-in appropriately if States opt not to operate risk adjustment in 2014.

# Important Questions for States to Consider for Operating Risk Adjustment

## 1) Operating Risk Adjustment:

Does the State plan to operate risk adjustment?



## 2) Administration of Risk Adjustment Program:

What is the State's legal authority to operate risk adjustment? What government agency or other entity will be overseeing the risk adjustment program?



## 3) Implementation of Risk Adjustment Program:

Has the State considered the data collection approach that will be used or necessary system changes associated with accessing complete data? What is the schedule for implementation?

# Administration of Risk Adjustment Program

- **Eligible Entity**: Any entity that meets the requirements to serve as an Exchange including those that relate to the entity's governing board structure and governance principles as specified in 45 CFR 155.110.
- Examples of eligible entities:
  - **State Medicaid Agency**
  - **Department of Insurance**
  - **Any Entity, except for health insurance issuers**, that has demonstrated experience on a State or regional basis in the individual and small group health insurance markets and in benefits coverage.

# Process for Proposing an Alternate Risk Adjustment Methodology

- Within 30 days of release of the draft HHS payment notice, States must submit to HHS:
  - Risk adjustment model description
  - Calculation of plan average actuarial risk
  - Data collection approach
  - Schedule for implementation
  - Schedule for recalibration
- HHS will consider alternate methodologies based on criteria established in 45 CFR 153.330 (i.e. uses data that is complete, high quality, and available in a timely fashion) and detailed in the draft HHS payment notice
- HHS will publish the list of approved methodologies in the final HHS payment notice
- States can choose any Federally certified methodology when operating risk adjustment. The State must notify issuers and the public in the State Notice of Benefit and Payment Parameters



# State Flexibility in Proposing an Alternate Risk Adjustment Methodology

- States can modify:
  - Risk adjustment model
  - Calculation of plan average actuarial risk
  - Calibration data
  - Data collection approach
  - Schedule for implementation
- For example, a State could propose an alternate model that:
  - Incorporates a prospective model approach
  - Has State-specific weights different from the weights in the model developed by HHS
- States cannot initially vary from the HHS methodology for payments and charges

# Risk Adjustment Data Collection

- The Premium Stabilization final rule gives States operating risk adjustment the flexibility to determine a data collection approach that best suits their program's needs
- States must develop privacy and security standards to protect any risk adjustment data that is collected
- States must ensure that a statistically valid sample of risk adjustment data from each issuer is validated annually
- States can request approval to use a data collection approach that aligns with its alternate risk adjustment model

# State Notice Requirements in Premium Stabilization Final Rule

- States that operate their own risk adjustment program must publish information on their risk adjustment methodology by March 1, 2013
- Information on what should be in the State notice can be found in 45 CFR 153.100
- States are encouraged to have a transparent process and to interact with stakeholders leading up to their State notice

# Major Milestones for Risk Adjustment for 2012-2013

