



**Date:** April 11, 2014

**Subject:** Risk Corridors and Budget Neutrality

**Q1:** In the HHS Notice of Benefit and Payment Parameters for 2015 final rule (79 FR 13744) and the Exchange and Insurance Market Standards for 2015 and Beyond NPRM (79 FR 15808), HHS indicated that it intends to implement the risk corridors program in a budget neutral manner. What risk corridors payments will HHS make if risk corridors collections for a year are insufficient to fund risk corridors payments for the year, as calculated under the risk corridors formula?

**A1:** We anticipate that risk corridors collections will be sufficient to pay for all risk corridors payments. However, if risk corridors collections are insufficient to make risk corridors payments for a year, all risk corridors payments for that year will be reduced pro rata to the extent of any shortfall. Risk corridors collections received for the next year will first be used to pay off the payment reductions issuers experienced in the previous year in a proportional manner, up to the point where issuers are reimbursed in full for the previous year, and will then be used to fund current year payments. If, after obligations for the previous year have been met, the total amount of collections available in the current year is insufficient to make payments in that year, the current year payments will be reduced pro rata to the extent of any shortfall. If any risk corridors funds remain after prior and current year payment obligations have been met, they will be held to offset potential insufficiencies in risk corridors collections in the next year.

Example 1: For 2014, HHS collects \$800 million in risk corridors charges, and QHP issuers seek \$600 million risk corridors payments under the risk corridors formula. HHS would make the \$600 million in risk corridors payments for 2014 and would retain the remaining \$200 million for use in 2015 and potentially 2016 in case of a shortfall.

Example 2: For 2015, HHS collects \$700 million in risk corridors charges, but QHP issuers seek \$1 billion in risk corridors payments under the risk corridors formula. With the \$200 million in excess charges collected for 2014, HHS would have a total of \$900 million available to make risk corridors payments in 2015. Each QHP issuer would receive a risk corridors payment equal to 90 percent of the calculated amount of the risk corridors payment, leaving an aggregate risk corridors shortfall of \$100 million for benefit year 2015. This \$100 million shortfall would be paid for from risk corridors

charges collected for 2016 before any risk corridors payments are made for the 2016 benefit year.

Q2: What happens if risk corridors collections do not match risk corridors payments in the final year of risk corridors?

A2: We anticipate that risk corridors collections will be sufficient to pay for all risk corridors payments over the life of the three-year program. However, we will establish in future guidance or rulemaking how we will calculate risk corridors payments if risk corridors collections (plus any excess collections held over from previous years) do not match risk corridors payments as calculated under the risk corridors formula for the final year of the program.

Q3: If HHS reduces risk corridors payments for a particular year because risk corridors collections are insufficient to make those payments, how should an issuer's medical loss ratio (MLR) calculation account for that reduction?

A3: Under 45 CFR 153.710(g)(1)(iv), an issuer should reflect in its MLR report the risk corridors payment to be made by HHS as reflected in the notification provided under §153.510(d). Because issuers will submit their risk corridors and MLR data simultaneously, issuers will not know the extent of any reduction in risk corridors payments when submitting their MLR calculations. As detailed in 45 CFR 153.710(g)(2), that reduction should be reflected in the next following MLR report. Although it is possible that not accounting for the reduction could affect an issuer's rebate obligations, that effect will be mitigated in the initial year because the MLR ratio is calculated based on three years of data, and will be eliminated by the second year because the reduction will be reflected. We intend to provide more guidance on this reporting in the future.

Q4: In the 2015 Payment Notice, HHS stated that it might adjust risk corridors parameters up or down in order to ensure budget neutrality. Will there be further adjustments to risk corridors in addition to those indicated in this FAQ?

A4: HHS believes that the approach outlined in this FAQ is the most equitable and efficient approach to implement risk corridors in a budget neutral manner. However, we may also make adjustments to the program for benefit year 2016 as appropriate.