

# State Flexibility and Alternate Methodologies

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



# CONTEXT

The contents of this presentation represent preliminary information with the purpose of soliciting stakeholder feedback. Draft 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.

# Agenda

- Background.
- Overview of alternate methodology.
- Process.
- Content.
- Technical assistance.
- Questions.

# Background

## Overall goals:

- Mitigate the impacts of potential adverse selection.
- Stabilize premiums in the individual and small group markets.

## Aim:

- Premiums reflect differences in benefits and plan efficiency, not health status of enrolled population.

# Overview of Risk Adjustment Methodologies

- HHS will develop a risk adjustment methodology for use when operating risk adjustment on behalf of a State.
- A State may propose alternate risk adjustment methodologies for certification by HHS.
- Any Federally certified risk adjustment methodology (including the methodology developed by HHS) can be used by a State operating risk adjustment.

# Risk Adjustment Methodology

- Risk adjustment methodology is defined in Premium Stabilization final rule 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.

# State Flexibility

- States can modify the:
  - 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.



# Process for Proposing a State Alternate Risk Adjustment Methodology

- Within 30 days of release of the draft HHS payment notice, States interested in using an alternate methodology would 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 certified 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.



# Process for Proposing a State Alternate Risk Adjustment Methodology (cont'd)

- A State request to HHS for the certification of an alternate risk adjustment methodology will include:
  - Information noted in 45 CFR 153.330.
  - Additional information that will be forthcoming in the draft HHS payment notice.
- Information will likely include:
  - Underlying clinical and predictive logic and organization of the alternative risk adjustment model.
  - Description of how each plan's average actuarial risk will be calculated.
  - Description of data collection approach.
  - Statistical model performance.
  - Written evaluations of model performance.

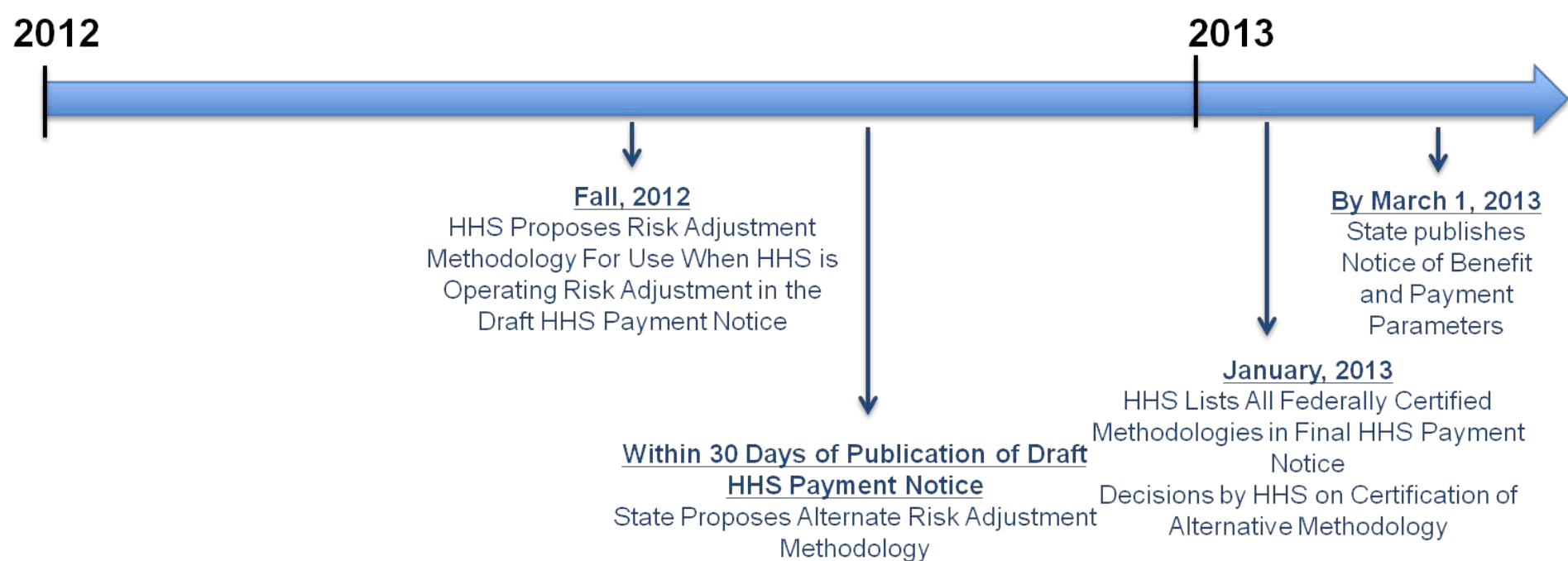
# Evaluation Criteria for State Alternate Risk Adjustment Methodology

- Criteria for evaluating alternate methodologies will be finalized in the draft HHS payment notice.
- HHS is considering some of the following criteria to review alternate methodologies:
  - Model would produce risk scores based on individual level data.
  - Risk factors are calibrated on a sample reasonably representative of the anticipated risk adjustment population.
  - Risk scores produced would reflect the relative health care expenditures or resource use associated with the required covered benefits.
  - Methodology would have a reasonable level of transparency.
  - Model track record will be evaluated.

# State Notice Requirements in Premium Stabilization Final Rule

- States that are approved to operate their own risk adjustment program would 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 153.110.
- States are encouraged to have a transparent process and to interact with stakeholders leading up to their State notice.

# Major Milestones for Risk Adjustment Methodology for 2012-2013



# Technical Assistance

- HHS will provide technical assistance to any State that is thinking about developing an alternate methodology.
- States that are considering submitting an alternate methodology are encouraged to contact HHS at any point in their development for assistance.
- States can propose an alternate methodology after the initial year.