

Risk adjustment

NICHM Risk Adjustment working session

Discussion document
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There are two primary goals of healthcare reform

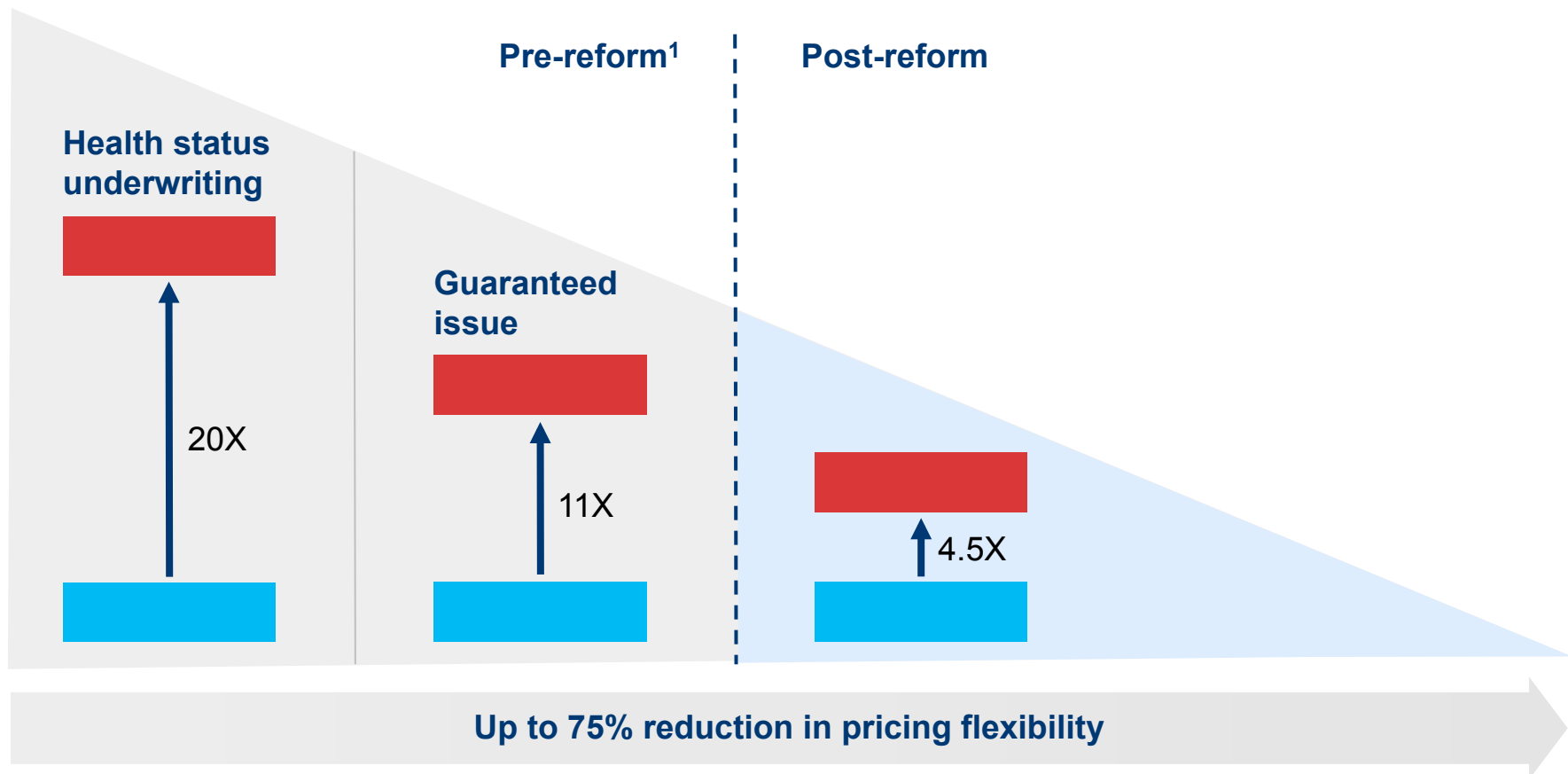
	Description	Relevant ACA measures
Improve competition in insurance market across all segments	<ul style="list-style-type: none">Seeks to improve choice, competition, and prices for all segments of the population by launching exchanges that offer more easily-shopped-for products	<ul style="list-style-type: none">ExchangesEssential benefitsIndividual mandate/subsidies
Eliminate incentives that adversely affect older, sicker consumers	<ul style="list-style-type: none">Incentivizes insurance plans to compete to provide coverage to all individuals, regardless of risk	<ul style="list-style-type: none">Guaranteed issueCommunity ratingPricing bands based on age and smoking habitsRisk adjustmentReinsurance

Narrow price bands will socialize medical risk

- 63yo F (smoker with diabetes)
- 18yo M (non-smoker)

Reform will reduce the ability of payors to price risk


Individual market risk bands (price multiple of minimum risk level)



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¹ Illustrative example for health status underwriting in states w/no rating regulations and w/rate banding regulations

Risk adjustment and reinsurance present issues to achieving goals

 Focus of discussion

ACA measure

Issue

Risk adjustment

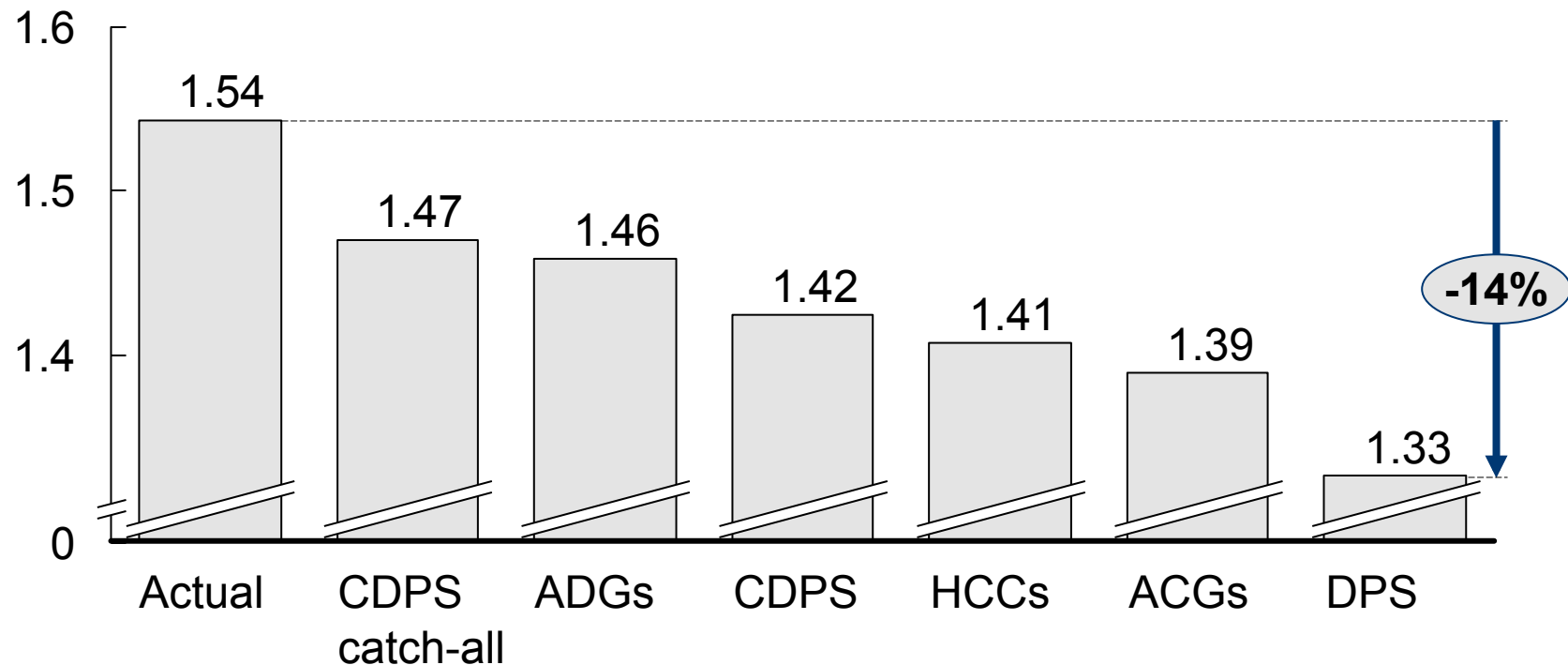
- Current risk adjustment methodologies do not adequately compensate the full differences between high and low risk
- Risk is unlikely to be evenly distributed across plans

Reinsurance program

- Mitigates effects of enrollment ramp up and risk pool instability for small growing plans

None of the current approaches fully compensate for differences in risk

Actual and risk adjusted medical cost for simulated membership Ratio of highest-risk plan to lowest-risk plan



NOTES: CDPS is Chronic Illness and Disability Payment System, CDPS 'catch-all' includes extremely low cost and ill-defined diagnoses that are excluded from the CDPS model, ADG is Ambulatory Diagnostic Group, HCC is Hierarchical Condition Category, ACG is Adjusted Clinical Group, DPS is Disability Payment System.

SOURCE: Improving Health-Based Payment for Medicaid Beneficiaries: CDPS, Kronick et al, Health Care Financing Review, Spring 2000

Today we will discuss what approaches can be taken to improve risk adjustment and achieve effective market competition

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- Which quantitative approach?
 - What is the most effective process – especially in year 1?
 - How can the approach be augmented?
 - Timing and frequency
 - Feedback and refinement
 - Data
 - ...
 - ...
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