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ACA Financial Reporting: The Second Year

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As pricing actuaries are preparing to price the fourth year of Affordable Care Act (ACA) plans, valuation actuaries are still in the process of understanding the effects of the ACA risk adjustment, reinsurance, and risk corridor programs (collectively known as the 3R's). While valuation actuaries are addressing uncertainty related to 2015 financial statements, pricing actuaries are developing rates for 2017, for which reinsurance and risk corridors are no longer applicable.

The Health and Financial Reporting Section Councils partnered to survey reporting on new ACA assets and liabilities. This is follow-up to a survey originally conducted in June 2014. The original survey was summarized in the October 2014 edition of *Health Watch*[1] and reprinted in the December 2014 edition of *The Financial Reporter*.

This second survey was given to members of the financial reporting and health sections. The survey was offered from Feb. 15, 2016 through March 18, 2016. There were 25 respondents, which is approximately half of the number of original survey respondents. Because of the small sample size, readers are cautioned that the results from this survey may not be representative of the market in general.

Since the original survey, which solicited thoughts on anticipated reporting of ACA items, the following has occurred:

- Two years of annual statements have been filed, the second of which was filed during the survey response period.
- One year of post-ACA medical loss ratio (MLR) results have been filed. The attachment point for 2015 transitional reinsurance was decreased from $70 thousand to $45 thousand.[2]
- The Centers for Medicare and Medicaid Services (CMS) provided allocation for 2014 risk adjustment, reinsurance, and risk corridors:
  - 2014 risk adjustment transfer results by carrier, including certain transfer formula parameters by state and market were publicly reported;[3]
  - 2014 risk corridor receivables were prorated to 12.6 percent of the total calculated receivable;[4] and
  - The 2014 coinsurance rate on reinsurance increased from 80 percent to 100 percent.
- Following the actual payout of 12.6 percent for risk corridor receivables, the NAIC issued guidance on any remaining accruals for risk corridor receivables for all plan years, 2014-2016.[5]
- CMS announced additional funds from 2014 are available for 2015 reinsurance payments.[6]
- Cost sharing reduction (CSR) reconciliation still has not occurred for plan years 2014 and 2015.[7]
- In certain markets, CMS released preliminary 2015 risk adjustment results[8] and early reinsurance payments were provided.

The following topics were covered by this follow-up survey:

- Company Demographics;
- Risk Adjustment—Individual and Small Group;
- Transitional Reinsurance;
- Risk Corridor; and
- Cost Sharing Reduction Payments.

The focus of the questions includes reviewing 2014 estimates compared with actual 2014 results, data availability for these estimates, and expectations for 2015 estimates.

COMPANY DEMOGRAPHICS

Of the 25 respondents, 92 percent represented health carriers with the remaining representing multi-line carriers.

Twenty-four percent of the carriers represented cover fewer than 100,000 lives while 32 percent of those represented cover more than one million lives.

Thirty-six percent of respondents identified as mutual/fraternal companies and another 36 percent identified as not-for-profits. One carrier was a privately-held stock company with the remainder being publicly-held.

RISK ADJUSTMENT

The risk adjustment program is designed to financially protect carriers that enroll a higher risk (less healthy) population than the statewide average. Under this program, funds are transferred from carriers with low-risk enrollees to carriers with higher-risk enrollees as measured by the U.S. Department of Health and

Human Services (HHS) risk adjustment model. The intent of this program is to equalize differences in cost related to differences in risk. The transfer payments in this program occur at the state and market level and apply to non-grandfathered plans in the individual and small group markets inside and outside the exchange.

For risk adjustment, the survey included separate sections for individual and small group market responses. Of the 25 respondents, two did not have business subject to risk adjustment, and one respondent operating in a merged individual/small group market provided responses in the individual section.

For both risk adjustment and reinsurance payments, carriers are required to submit CMS EDGE server data to CMS from which CMS determines final risk adjustment transfers and reinsurance recoveries. Generally, there is back and forth between CMS and carriers in order to meet the data quality requirements for processing before the close of the window for submitting additional information. The EDGE server submission window closes at the end of April and then CMS processes final risk adjustment transfers and reinsurance recoveries, with this information being made available at the end of June.

Individual Market

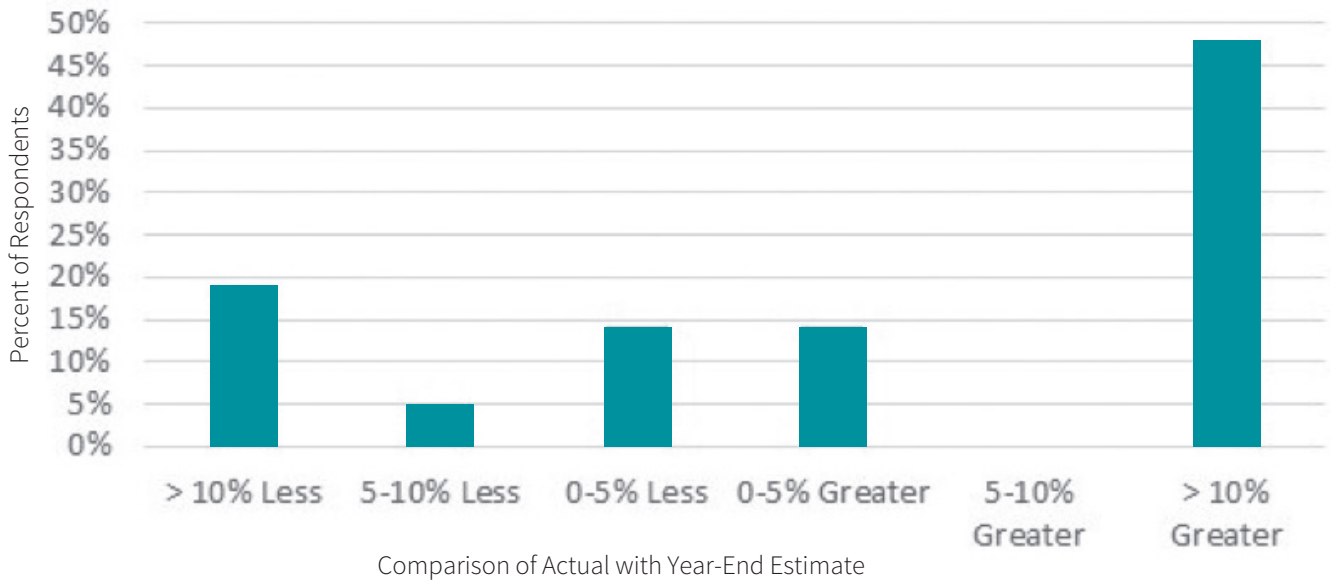
The first two questions focused on actual 2014 results compared to 2014 estimates.

Of those responding to the first question, 76 percent estimated the correct direction of the risk adjustment transfer balance sheet item (i.e., a receivable or payable). One carrier estimated a receivable, but resulted with a payable. The remainder of respondents had estimated $0 accrual at year-end.

Chart 1 shows the results comparing actual risk adjustment payments with what was estimated as of Dec. 31, 2014. Nearly 50 percent of respondents paid or received more than 10 percent greater than what was expected, while just more than 15 percent paid or received less than 90 percent of what was expected.

Chart 1

Actual Indiviidual Risk Adjustment Payment compared with Year-End Estimate



When asked about methodology changes for 2015, 59 percent of respondents intended to use either the same methodology or a slightly modified methodology compared with what was used in 2014. Thirty-six percent expected to use a methodology for 2015 reporting that is substantially different from what was used in 2014.

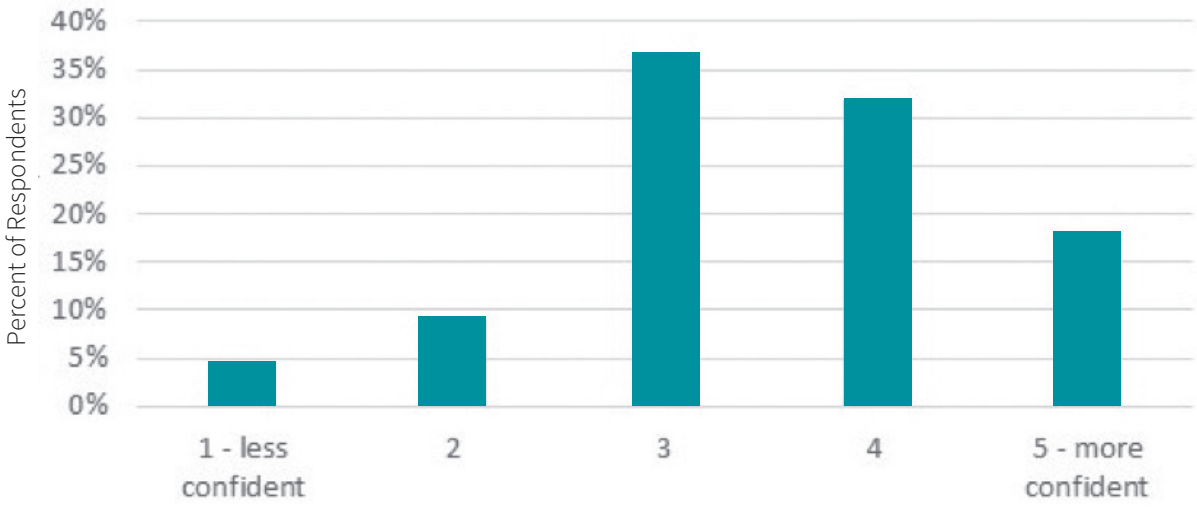
Another question focused on drivers of differences between estimated and actual, including the carrier's own risk score, the applicable market risk score, and some combination of the two. Data processing issues are also included within the scope of this question. Respondents could select multiple items. Key findings from this question include:

- Ten percent overestimated their final risk score, while no respondents underestimated their own risk score.
- Ten percent overestimated the market risk score, while 35 percent underestimated the market risk score.
- Twenty-five percent felt that between estimating their own risk score and the market risk score, the result was a larger payout than expected.
- Fifteen percent indicated that the combination of estimating their own and the market risk score resulted in a larger receipt than expected.
- Twenty percent felt that data processing was a significant driver of the difference between actual and expected.
- One carrier was not sure what the significant drivers were while another carrier booked $0 risk adjustment because of their large market share.

In a related question, respondents were asked how their estimated state average plan level risk score (PLRS) compared with the actual state average PLRS. Of 15 respondents, 80 percent underestimated the state average PLRS. Two carriers indicated that their estimate was more than 10 percent less than actual. Three carriers felt their estimates were 5–10 percent less, while another seven carriers had their estimates from 0–5 percent of the final PLRS. Only one carrier said its estimate was greater than the final state average PLRS. Another carrier had cited overestimation of the market risk score as a significant driver (paragraph above), but did not provide a range on the difference. There were two carriers that indicated that they did not have an explicit estimate of the state average PLRS.

Respondents were then asked to rate their ability to develop 2015 risk adjustment estimates compared with 2014, given one year of actual risk adjustments. The range was from one to five, with one representing "I am more confused than 2014 based on the actual payout" and five representing "I am very confident with the methodology I will use for 2015." Chart 2 shows the results:

Chart 2
Ability to Develop 2015 Individual Risk Adjustment Estimates



Half selected four or five, with the other half selecting three or lower. The results are skewed towards being more confident, but still 36 percent answered with a three, suggesting that uncertainty is still present in risk adjustment estimates.

The final questions of this section related to EDGE Server data processing.

Eighty-three percent had an EDGE Server claims acceptance ratio of 98 percent or higher, while all carriers responding had an acceptance rate of 94 percent or higher.

Seventy-six percent had an enrollment acceptance ratio of 98 percent or higher and all carriers responding had an acceptance rate of 94 percent or higher.

Just over half of the respondents had performed analyses to compare how close data submission was to optimal. Of those who had performed the analysis, 36 percent felt that additional submissions would have improved the risk score. The remaining respondents felt the risk score would have been unchanged.

CMS established an appeals process for several of the programs under ACA, including the risk adjustment program. In this case, the carrier will request reconsideration from CMS. CMS will then make a final and binding reconsideration decision. Of survey respondents, 10 percent had filed an appeal.

Thirty-three percent were able to submit supplemental data for the 2014 risk adjustment.

Small Group

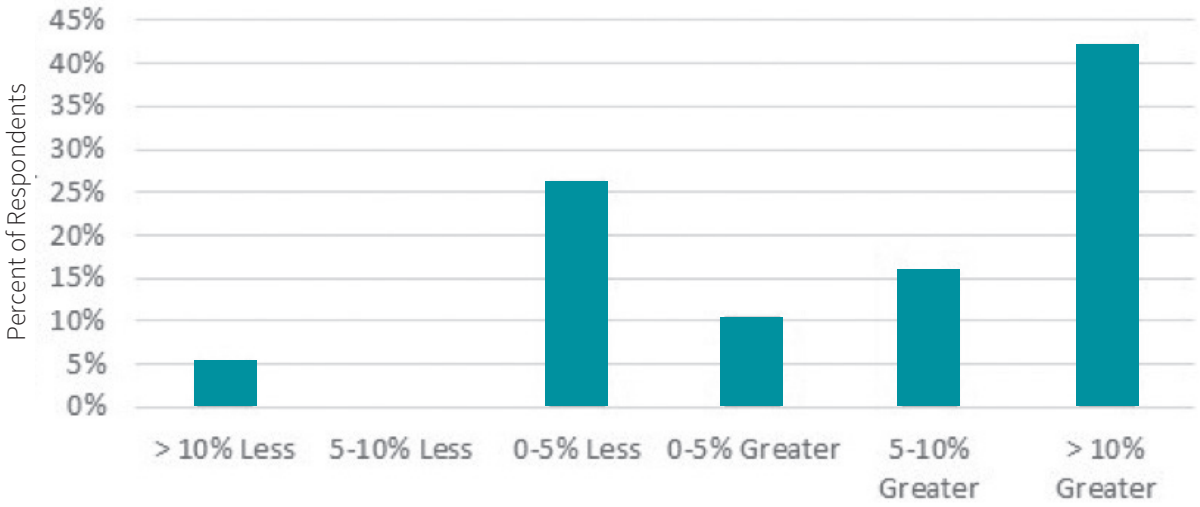
The first two questions focused on actual 2014 results compared with 2014 estimates.

Of those responding to the first question, 57 percent estimated the correct direction of the risk adjustment payable, i.e., a receivable or payable. Two carriers estimated a receivable with the final result being a payable and one carrier estimated a payable and ended up with a receivable. Five respondents accrued $0 at year-end, with four receiving a risk adjustment transfer and the fifth paying a risk adjustment transfer.

Chart 3 shows the results when comparing actual risk adjustment payments to what was accrued at year-end. Similar to the individual estimates, 42 percent of respondents paid or received more than 10 percent greater than what was expected. However, for small group, only 5 percent paid or received less than 90 percent of what was expected.

Chart 3

Actual Small Group Risk Adjustment Payment compared with 2014 Year-End Estimate



When asked about methodology changes for 2015, 75 percent of respondents intended to use either the same methodology or a slightly modified methodology compared with what was used in 2014. Only 20 percent expected to use a methodology for 2015 reporting substantially different from what was used in 2014, compared with 36 percent in the individual section.

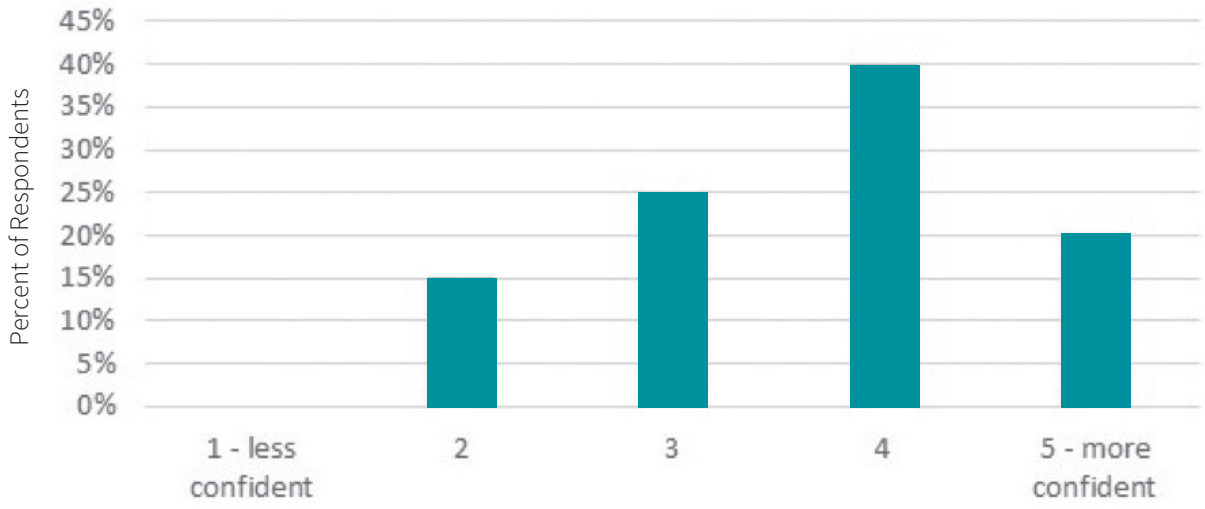
Another question focused on drivers of differences between estimated and actual, including the carrier's own risk score, the applicable market risk score, some combination of the two, and data processing issues. Respondents could select multiple items. Key findings from this question include:

- Ten percent overestimated their final risk score, while 15 percent underestimated their own risk score.
- Twenty percent overestimated the small group market risk score, while 30 percent underestimated the market risk score.
- Ten percent indicated that between estimating their own risk score and the market risk score, the result was a larger payout than expected; while 20 percent felt that the combination of estimating their own and the market risk score resulted in a larger receipt than expected.
- Ten percent indicated that data processing was a significant driver of the difference between actual and expected.

In a related question, respondents were asked how their estimated state average PLRS compared with the actual state average PLRS. Of 14 respondents, the majority were within 5 percent of the state average PLRS, with 29 percent overestimating and 29 percent underestimating. One carrier indicated that their estimate was more than 10 percent less and two carriers felt their estimates were 5–10 percent less than the actual state average PLRS. One carrier did not have an explicit estimate for the state level PLRS, while another, similar to the response above, had differing results by state.

Respondents were then asked to rate their ability to develop 2015 risk adjustment estimates compared with 2014, given one year of actual risk adjustments. The range was from one to five, with one representing "I am more confused than 2014 based on the actual payout" and five representing "I am very confident with the methodology I will use for 2015." Chart 4 shows the results:

Chart 4
Ability to Develop 2015 Small Group Risk Adjustment Estimates



The average confidence level for the small group market is 3.65 compared with an average confidence level of 3.50 for the individual market.

Again, given the timing of the survey, it would seem to imply that uncertainty is still very prevalent in risk adjustment estimates.

The final questions of this section related to data processing.

Eighty-one percent of respondents had a claims acceptance ratio of 98 percent or higher, while all carriers responding had an acceptance rate of 96 percent or higher.

Eighty-eight percent of respondents had an enrollment acceptance ratio of 98 percent or higher, and similar to the claims acceptance, all carriers responding had an acceptance rate of 96 percent or higher.

Just under half of the respondents had performed analyses to compare how close data submission was to optimal. Of those who had performed the analysis, 22 percent felt that additional submissions would have improved the risk score. The remaining respondents felt the risk score would have been unchanged.

Of survey respondents, five percent had filed an appeal.

Thirty percent were able to submit supplemental data for the 2014 risk adjustment.

TRANSITIONAL REINSURANCE

Transitional reinsurance is a temporary program which is in operation from 2014 to 2016. While most health plans[9] are required to contribute to the program, only individual plans receive reinsurance payments. This program's 2015 provisions include:

- Attachment point of $45,000
- Reinsurance cap of $250,000
- Coinsurance of 50 percent paid for claims between the attachment point and cap.

For the 2014 calendar year, the coinsurance rate was increased from 80 percent to 100 percent. Also, it should be noted that during the time the survey was available, CMS released a statement citing additional funds (above what was budgeted) for the 2015 plan year. Based on guidance from CMS, the coinsurance rate will be adjusted, if necessary, to pay out the additional funds.

The first survey question of this section related to claims runout. For all carriers, the change in 2014 claims runout from what was booked in the annual statement to the time of the survey was 10 percent or less, with 44 percent citing an increase of 0–5 percent and 28 percent citing a decrease of 0–5 percent. An additional 22 percent cited an increase of 5–10 percent while the remaining 6 percent indicated a decrease of 5–10 percent. One carrier additionally cited high fourth quarter utilization as driving the additional runout, thus impacting the reinsurance estimate.

Another question was related to the impact of data processing and EDGE server on the final amount received compared with what was booked at year-end. Thirty-five percent of survey respondents felt that the data processing process decreased the amount received, with the remaining 59 percent feeling it had no impact. One respondent felt it increased the amount received. Relating to the EDGE server requirements, another question asked whether the April 30th submission deadline had an impact on estimates. Of those surveyed, only 15 percent felt that the April cutoff had a material impact.

The final question of this section asked about whether or not the 2015 estimate would be affected by CMS's decision to increase the coinsurance rate on the calendar year 2014 reinsurance estimates. Two respondents indicated using a higher coinsurance rate and two more indicated that for year-end reporting they would use the published rate (50 percent), but for other reporting a higher estimate is being considered. Comments for those continuing to use the 50 percent coinsurance rate included:

- "Any payment rate beyond 50 percent will be upside."
- "We conservatively assumed 50 percent."
- "Possible amount to receive higher than minimum for 2015, though for year-end purposes reflecting minimum."
- "No impact still using the published coinsurance."

RISK CORRIDOR

The risk corridor program is a temporary program which is in operation from 2014 to 2016, and applies only to individual and small group Qualified Health Plans (QHPs) operating on the exchange or plans substantially similar to QHPs offered off-exchange. Large groups, grandfathered, and self-funded or TPA plans do not participate in the risk corridors program. The goal of the risk corridors program is to temporarily dampen gains and losses, due to the mispricing of plans, by having plans pay or receive funding from the federal government.

The risk corridor formula attempts to dampen any profits or losses, including the impacts of risk adjustment transfers, reinsurance, and claims runout.

The 2014 proration percentage for payout for the risk corridor receivables was only 12.6 percent of total amount due. Those paying into the program paid the full amount. The reduced payout to those with a risk corridor receivable was a proportional

adjustment to the risk corridor program to ensure revenue-neutrality.

Because of the revenue-neutral requirement and the actual payout of 12.6 percent, there were only two questions on risk corridors. The first focused on a comparison of 2014 year-end estimates for risk corridor to the risk corridor amounts filed with the MLR templates. As mentioned above, the risk corridor itself is calculated from a formula, so any changes in risk corridor are driven by other accruals. Table 1 shows significant drivers of changes between the 2014 final risk corridor and the estimate at year-end and the percent of respondents citing each.

Table 1	
Driver of Risk Corridor Change	Percent of Respondents
Higher Reinsurance Recoveries	20%
Lower Reinsurance Recoveries	13%
Higher Risk Adjustment	20%
Lower Risk Adjustment	0%
Higher Claims Runout	13%
Lower Claims Runout	13%
Other	20%

The largest drivers of change were increases in reinsurance recoveries and increases in risk adjustment transfers. Claims runout was equally impactful in either direction, with 13 percent citing higher claims runout as a significant driver and 13 percent citing lower claims runout as a significant driver. Similarly, 13 percent cited lower reinsurance recoveries as the most significant driver of change. The majority of those citing "Other" did not include any risk corridor accrual in their 2014 year-end statement.

The focus of the second risk corridor survey question was related to what would be accrued for 2015 year-end given the adjustment to risk corridors requiring the program to be revenue-neutral. One survey respondent said they would be accruing a lower estimate and one respondent stated they were recording a payable. The remaining respondents were either not booking anything or at the time of the survey were still undecided. As outlined in the introduction, the NAIC issued guidance on accruals for risk corridor receivables; in general, the guidance suggested that if anything was booked, it should be booked as a non-admitted asset rather than admitted given the lack of funds in 2015 for payout on 2014 risk corridor receivables.

COST SHARING REDUCTION

Silver product variants are available to individuals whose income is 250 percent or less than the Federal Poverty Level (FPL). The federal government subsidizes a portion of the member cost sharing amounts through CSR payments.[10] The government pays carriers an estimated monthly amount to cover CSR payment amounts (prospective payments). As defined in federal guidance, two different methodologies for determining the actual amount exist: a standard methodology and a simplified methodology. Following the plan year, the federal government will true-up the prospective payments based on results from the carrier's selected methodology.

Of those responding to the survey, the majority of respondents, 55 percent, used the prospective payments from CMS for their estimate of CSR payments. Twenty-five percent used an adjusted amount and the remaining portion did not have business subject to CSR payments. Of those using an adjusted amount, all used an estimated decrease from the prospective amount. Although the range of the CSR estimates has the potential to affect MLR rebates, only one respondent felt that the potential range of CSR payments could impact whether or not MLR rebates were necessary.

While 2014 CSR prospective payments were originally scheduled to be reconciled in spring 2015, CMS postponed the reconciliation to April 2016 to be reconciled together with the 2015 payments.

The majority of respondents used the prospective payments from CMS for their estimates of CSR payments.

Of the respondents, 25 percent expected the delay to affect the methodology (standard vs. simplified) used. The remainder did not expect the delay to impact the methodology.

CONCLUDING REMARKS

Many thanks to all who took the time to fill out this survey.

Uncertainty in market estimates and overall methodology continues to exist for the risk adjustment program, even as we complete 2015 financial statements. For reinsurance, there is still uncertainty in what actual payments will be for the 2015 plan year. The majority of carriers are using published parameters for 2015 with an expectation of increased parameters in what is actually paid out. The risk corridor formula is absorbing impacts of risk adjustment transfers, reinsurance, and claims runout as intended. However, the impact is diminished for plans with a risk corridor receivable as the majority of respondents either estimated $0 or were still deliberating at the time of the survey. The impact of the CSR payments reconciliation is still unknown for 2014 and 2015 accruals. As a result, there is potential for material impact given that the majority of respondents used the CMS prospective payments (based on pricing) and there were large losses for 2014 based on risk corridors filed.

Many thanks to Nancy Hubler and Dave Liner for their peer review as well as the SOA staff who administered the survey. ■

ENDNOTES

1 https://www.soa.org/news-and-publications/newsletters/health/pub-health-section-newsletters-details.aspx

2 https://www.gpo.gov/fdsys/pkg/FR-2014-05-27/pdf/2014-11657.pdf

3 https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RI-RA-Report-Draft-6-30-15.pdf

4 https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/RC-Issuer-level-Report.pdf

5 http://www.naic.org/documents/committees_e_app_eaiwg_related_int_1501_risk_corridors.pdf

6 https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/RIC_2015ContributionsGuidance.pdf

7 https://www.regtap.info/uploads/library/APTC_CSR_Recon_timing_guidance_5CR_021315.pdf

8 https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/InterimRAReport_BY2015_5CR_031816.pdf

9 Includes carriers with individual, small group, and large group business markets along with TPAs and self-funded plans.

10 Premium subsidies are also available through the advanced premium tax credit (APTC).

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