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Family Values and the ACA

By Kristi Bohn

The overall objective of the Actuarial Value Calculator was to increase the comparability of health insurance plans, and flexibly standardize the value of plans to individual and small group health insurance purchasers across the country. However, the exchange plan designs that are similar when viewed as single coverage may look materially different when viewed from the perspective of family coverage, despite the metal level—bronze, silver, gold or platinum—the plan falls under. While the ± 2 percent actuarial value corridor may seem small, it implies a relatively wide range of allowable deductibles, particularly for silver and bronze plans, and even more so for family (versus single) contracts since the deductible range within the metal level doubles (or more).

Family Plans with Embedded Structures

If a family design has an “embedded” structure—that is, there is a lower interim deductible (typically half of the family deductible) for one individual within the family to meet, with no requirement for that one person to absorb the entire family deductible—then Department of Health and Human Services (HHS) gave insurers a long rein for creating the family plan design’s multiplier. In other words, actuaries were instructed to ensure that the single plan design fell into the ± 2 percent corridor of the metal level thresholds, but could create family plans that were any multiplier of the single deductible. Many plans have a 2x multiplier (for example, a \$1,000 single deductible is paired up with a \$2,000 family deductible). However, some plans were designed with a 2.5x or 3x family multiplier. The family multiplier is material enough to be included in insurer’s pricing tools. However, HHS did not have the data it needed to value the family multiplier design element since the member records in their data source were not connected to one another.

A solution to this lack of data could have been to simply require all plans to use one standard family multiplier to achieve consistency and ease comparisons for families shopping in the exchange market (2x is a very common design choice). Family multiplier standardization is something that California has achieved at the 2x level since California created

a standard set of benefit parameters at every metal level for all design elements.

The variation in family multipliers may create a competitive scenario that changes when viewing single versus family contracts for a plan, whether in terms of design attractiveness, pricing implications or even risk adjustment outcomes. In terms of risk adjustment outcomes, it is possible there is bias in risk adjustment for those who are single, versus those who are married without children, versus those who are married with children, and also for the number of children in a family.

Family Plans with Nonembedded Structures

Alternative guidance was given for valuing family designs with “nonembedded” structures. Nonembedded deductibles must be met by any and all family members before the coinsurance provisions kick in to reduce enrollees’ costs (note that out-of-pocket maximums are also embedded or nonembedded, the choice of which typically matches up to the treatment of the deductible). Nonembedded structures are very common in plans compatible with health savings accounts (HSAs), plans that are highly sought on the individual market.

Under guidance from HHS, actuaries are not allowed to simply rely on the single metal level valuation when a nonembedded family structure exists. While the family parameters could have been used directly in the calculator, special actuarial adjustments were generally employed because the option to use the family parameters in the calculator would have created odd placements into the metal categories.

Family Values Reflect a Variety of Personal Beliefs

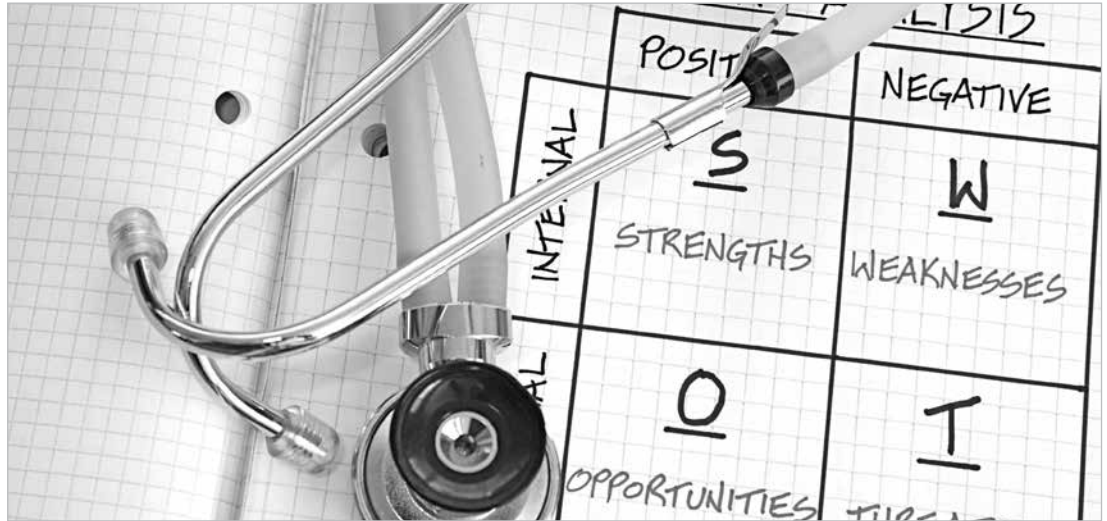
There is a wide range of legitimate data sources, methods and assumptions for valuing a nonembedded deductible and the family multiplier, which has resulted in a wide range of designs falling under the metal levels. Here are some key questions to consider about the various data sources, assumptions and methods that actuaries probably used. The answers



Kristi Bohn, FSA, MAAA, is consulting staff actuary—health at the Society of Actuaries. She can be reached at kbohn@soa.org.

If you are not familiar with the Actuarial Value Calculator and are interested in learning more, follow the link below to the Plan Management/Regulations section in order to download both the AV calculator and its methodology. <http://www.cms.gov/ccio/Resources/Regulations-and-Guidance/index.html>

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will help explain the variation of designs that exist in 2014 at each metal level.

- Did the actuary assume that because embedded structures could use any family multiplier, the only feature needing a special adjustment for nonembedded plans was the value of nonembedded compared to embedded structure? For those taking this stance, the work of valuing the family multiplier is skipped. The use of this method is visible through higher deductibles that approach the allowable HSA limits for 2014 of up to \$12,700.
- In valuing the family multiplier, did the actuary build a family continuance table based upon HHS' actuarial value tools' source data?
 - If so, was the continuance table based on HHS average members, or instead did the actuary bifurcate the HHS member data into a composition of adults and children?
 - Was a distribution of family sizes and compositions used? Or, was a single expected member-to-contract ratio used?
 - Was experiential data or existing pricing tool adjustments used? If so, was calibration performed to ensure the adjustment reflects the data that sourced HHS' actuarial value tool?
- In valuing the nonembedded versus embedded structure, did the actuary build this estimate based upon HHS' actuarial value tools' source data?
 - If so, was the continuance table based on HHS average members, or instead did the actuary bifurcate the HHS member data into a composition of adults and children?
 - Was a distribution of family sizes and compositions used? Or, was a single expected member-to-contract ratio used?
 - Was the insurer's experiential data or existing pricing tool adjustments used? If so, was calibration performed to ensure the adjustment reflects the data that sourced HHS' actuarial value tool?
 - Many actuaries would have combined this adjustment with the family multiplier adjustment and expressed just one aggregate adjustment factor (assuming the actuary thought the family multiplier was necessary in the first place). If not performed in a bundled approach, were the data sources, methods and assumptions used to make the nonembedded adjustment consistent with those used to calculate the family multiplier adjustment?
 - Was Monte Carlo simulation performed to more readily model the difference between embedded versus nonembedded structures? If so, was the random but right-skewed variation in costs at the family level simulated to be consistent with HHS' average member costs? Were distributions of family sizes and compositions included, or just one single average member-to-contract ratio?
 - Alternatively, an insurer could have measured this special adjustment by reviewing previous designs'

outcomes, noting though that this is a very difficult analysis since a myriad of embedded and non-embedded design parameter combinations exist.

- Did the actuary assume that the family plan's actuarial value could be weighted with the single plan's actuarial value, and thus each could separately fall outside of the +/-2 percent corridor but meet the corridor threshold in aggregate? This would more readily allow for more traditional family multipliers (2x, for example). Or, did the actuary assume that the single plan's actuarial value must meet the metal level corridor on its own and the family parameters must be calibrated to the same metal level range? This would be visible by plans with very atypical family multipliers.
- What was the weighting between single contracts versus family contracts?
- What was this weighting based on: Past experience in the specific product? Past experience of the entire risk pool? Predicted compositions? Some hypothetical estimate of HHS' data source?

In my view, in terms of ranking the types of special adjustments the Actuarial Value Calculator could not handle, the family multiplier is nearly universally needed and is quite visible to the public, and thus should rank very high on HHS' list of future tool upgrades. It is also quite material in and of itself, as well as in terms of the differences in special adjustments that result from different actuarial approaches aimed at the exact same designs. Going forward, if the data source continues to fail to support this tool upgrade, I believe it is worthwhile for HHS to consider either creating some design standardization requirements that will improve the comparability of all plans for families on the individual and small group markets (such as implementing 2x standard for all plans). HHS could also provide more guidance so that the data sources, methods and assumptions used by actuaries in valuing both the family multiplier special adjustment as well as the embedded versus nonembedded design special adjustment are more consistently applied.

I purchased a family plan on the individual exchange that I would not have attested as meeting the 58 percent actuarial value under any of the alternative

measurement methods described above. The plan has a nonembedded family deductible/out-of-pocket maximum at the IRS maximum of \$12,700, which seems too high to fit into the bronze level category. Perhaps the actuary did not hear about HHS' guidance on nonembedded structures. Heck, even a single plan at \$6,350 gives me pause on the individual and small group markets (58 percent might show up on the calculator, but the error message suggests that the value of this plan is on the wrong side of the rounding). Perhaps the actuary priced an embedded HSA-compatible plan and the insurer's marketing department did not get the message (I checked—the paperwork backing up the product clearly lists a nonembedded deductible). That did not stop me from purchasing the plan though, since the small network, plus high level and nonembedded nature of the deductible brought the price tag down significantly. People like me who purchase such high levels of deductible have little plans to need the insurance and purchase it for peace of mind. The lower the price for that peace of mind, the better. People as individuals do not really follow actuarial equations of value. ■