SOCIETY OF ACTUARIES

Article from

Health Watch

March 2017

Issue 82

ACA Exchange Initiatives Program Interview

With Kurt Wrobel

The Health Section recently published a series of eight articles related to the long-term sustainability of the Affordable Care Act (ACA) exchanges, with a special focus on risk adjustment. These articles accompanied a formal SOA research project that examined relative risk in the ACA individual market. The entire collection can be found as the first web-exclusive content for *The Actuary* magazine at *http://theactuarymagazine.org/category/web-exclusives/aca-initiative/*.

Kurt Wrobel, FSA, MAAA, spearheaded this initiative and did a masterful job of leading a diverse group of thought leaders. We had a chance to catch up with Kurt recently and get a bit of a behind-the-scenes look into the project.

***Health Watch:* What was the motivation and primary goal behind this project?**

Kurt Wrobel: As we developed the initiative, we most wanted to highlight a complete story of the ACA marketplace based on meaningful emerging data and actuarial principles—two areas that had been widely underreported. Instead, many have focused on short-term issues (rate increases, risk corridor funding, operational challenges) without a full grounding in actuarial principles. We wanted to correct this shortcoming by developing research and articles that focused on the long-term sustainability of the exchanges using the best available data. By doing this, our goal was to have a positive impact on the public debate by offering an objective view of the marketplace and its long-term sustainability.

***HW:* What were the early steps?**

KW: The earliest steps included soliciting viewpoints from a wide range of actuarial experts representing different organizations, including smaller health plans, larger Blues plans, large national players, regulators and consultants. Because of the technical nature of our effort, we had an off-site where we began to focus on the most salient long-term challenges, including the risk adjustment program, the changing risk pool, the subsidy program and the significant member turnover in the program.

***HW:* Who were some key contributors?**

KW: We had a number of contributors who participated in the off-site, wrote an article in final publication, or provided insight throughout the process. These include Greg Fann, Hans Leida, Doug Norris, Victor Davis, Kristi Bohn, Jason Siegel, Andie Christopherson, Rina Vertes, Dave Dillon, Susan Pantelly, Valerie Nelson, Elaine Corrough, Margie Rosenberg, Scott Brockman, Greg Gierer, Timothy Jost and Roy Goldman.

While many graciously volunteered their time, I want to particularly thank Joe Wurzburger and Rebecca Owen from the Society of Actuaries for their efforts. Joe worked tirelessly to keep the whole group organized and grounded as the project and the marketplace program evolved over time. Without his organization and guidance, the project would not have come to its final completion. In addition to providing guidance, Rebecca also wrote an excellent article highlighting the most important objective facts on the marketplace program.

***HW:* Did the goal or plan change at all along the way?**

KW: The entire project was very much a moving target. Initially, we wanted to follow a blueprint developed by pension actuaries in their successful 2020 program where they engaged actuaries as well as a number of external experts, including researchers and professors, to address long-term pension-related issues. As we tried to develop something similar, we found that many researchers were not as well equipped as actuaries because they didn't have the same access to real-time information or a detailed knowledge of the regulatory details of the ACA. They also had less interest in the topic because so little data had been made public. As a result, we decided to pursue projects that focused more on actuaries rather than other outside experts.

***HW:* How challenging was it to manage this project in a constantly changing environment?**

KW: This was a difficult aspect of the project. Between the emerging financial performance and the potential for technical changes in the law—particularly around risk adjustment—we did not want to provide technical feedback on issues that would change in a few months. We also wanted to be careful to allow more hard data to emerge before providing a more in-depth analysis. We felt this was important because so much of the discussion had already been on theoretical issues rather than actual data.

***HW:* There clearly have been some challenges in the ACA marketplace. To what extent have actuaries been able to successfully anticipate these?**

KW: I think many of us have been very successful at highlighting the emerging challenges. Several relevant articles are highlighted here:

- "The True Cost of Coverage: Let's Talk About Those ACA Subsidies Again and Understand Their Impact on Individual Rates," *The Actuary*, Dec. 2015/Jan. 2016, *http://theactuarymagazine.org/archives/*
- "The ACA Cost Predictability Question," *The Actuary*, Oct./Nov., *http://theactuarymagazine.org/archives/*
- "The Individual Market and ACA Products: Starting from First Actuarial Principles," *The ACA @ 5: An Actuarial Retrospective*, 2015, *http://www.soa.org/health/*
- "The Individual ACA Market—What's Next?" *The Actuary*, Feb./March 2015, *http://theactuarymagazine.org/archives/*
- "A Comparison Between the ACA Exchange and Medicare Risk Adjustment Programs," *Health Watch*, January 2015, *http://www.soa.org/news-and-publications/newsletters/health/pub-health-section-newsletters-details.aspx*
- "Implementing the ACA: An Actuarial Perspective," *The Actuary*, December 2013/January 2014, *http://theactuarymagazine.org/archives/*
- "The ACA—Two Policy Experts' Perspectives," *Health Watch*, October 2013, *http://www.soa.org/news-and-publications/newsletters/health/pub-health-section-newsletters-details.aspx*

***HW:* Some authors had different viewpoints on the use of concurrent vs. prospective risk scores. What is your view on this issue?**

KW: I think the concurrent vs. prospective risk scores remains as an important question. On the one hand, the concurrent scores are theoretically more accurate and important for a population that has a significant amount of turnover. The concurrent approach also requires health plans to wait six months after the contract period for a final financial reconciliation—an important limitation in the program. In my view, the concurrent approach can work, but it also needs features that allow health plans to have better real-time information on their true financial performance. Without this, I think the concurrent approach is not workable for the long term.

***HW:* One of your criteria for long-term market sustainability is that plans have an interest in the long-term health of members in the pool. The other two criteria (predictability and ability to react to financial results) seem like they could be improved with changes to existing processes, but the long-term health question isn't as obvious. Ultimately, does this aspect require explicit support of public health initiatives, or can we address it mechanically (such as through spreading costs associated with chronic conditions that develop over time)?**

> I have concerns about a policy that actively encourages member turnover largely because it discourages investments in improving the health of members.

KW: As I suggested in my article "A Review of Emerging Data: The Long-Term Sustainability Question for the ACA Marketplace" (*http://theactuarymagazine.org/category/web-exclusives/aca-initiative*), I have concerns about a policy that actively encourages member turnover largely because it discourages investments in improving the health of members. I view this as a big problem and one that calls into question the policy of relying so heavily on competitive markets to produce a lower premium rate. I think allowing a reasonable incentive for health plans to invest in its members along with other public health initiatives funded by state and federal governments will produce a better overall outcome.

***HW:* One of the authors said that solutions to sustainability don't solve the problem if the market is underfunded to begin. Do you have a sense for how much the entire ACA market is underfunded? Is it just a matter of looking at the risk corridor results, or are there other buried costs that we are not seeing?**

KW: I think the large rate increases in many markets and the withdrawals by several large insurers suggest that the program has been underfunded. The risk corridor results provide additional evidence of this problem on a national basis. The extent, however, is still an open question that varies significantly by state.

That said, I think the challenges in the program go beyond just a funding problem. I think that the structural challenges—including the challenge in estimating health care costs, tracking financial performance, and economic incentives to change plans—create inherent long-term concerns that will not be corrected with large rate increases. ■