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Commercial Health Care: What's Next?

A Health Section Strategic Initiative

By David Dillon

In June 2017, the Society of Actuaries (SOA) Health Section released a new strategic initiative entitled Commercial Health Care: What's Next? This initiative was designed to be an anthology series of articles focusing on education and research concerning key issues in health care reform. This article contains a condensed summary and excerpts from the fourth article that was released in the series. The full article and newly released companion pieces are located at *http://www.theactuarymagazine.org/category/web-exclusives/commercial-health-care-whats-next/*. Excerpts from the article "Creating Stability in Unstable Times" are reprinted with permission from the Society of Actuaries, Schaumburg, Illinois. Copyright © 2017 by the Society of Actuaries.

CREATING STABILITY IN UNSTABLE TIMES: A LOOK AT RISK ADJUSTMENT AND MARKET STABILIZATION

By Julie Peper, FSA, MAAA, Danielle Hilson, FSA, MAAA, and Michael Cohen, Ph.D.

When individual market instability under the Affordable Care Act (ACA) is discussed, the same themes are often heard: not enough young and healthy enrollees; issuers leaving the market in specific counties or altogether; less consumer choice as issuers have stopped offering richer and wider network plans. It is often asked if the individual market is sustainable long-term and if these issues can be fixed. In order to understand if the market can become more stable and sustainable, it must first be understood what is driving the current instability.

The passage of the ACA created an environment in which individuals with pre-existing conditions could no longer be medically underwritten or otherwise discriminated against. In an insurance market of guaranteed issue and bans on pre-existing condition discrimination, one of the most important needs for a stable market is to minimize adverse selection, both in the entire market and within market subsegments.

To have a balanced risk pool with limited market selection, the market must have a reasonable distribution of enrollees. In order to encourage the younger and healthier individuals to enroll in the individual market, the ACA has an individual mandate, subsidies based on income and enrollment limitations. Other key factors for maintaining a balanced risk pool were risk mitigation programs, including risk corridors, reinsurance and risk adjustment. Other factors that have had an impact on the individual ACA risk pool include outreach and advertising, Medicaid expansion and regulatory uncertainty.

Risk Adjustment

While the impact of adverse selection by market varies significantly by state, the impact of adverse selection within a market has seen similar results in many states. For there to be no adverse selection within a market, the financial impact of insuring any member must be similar across all members for a particular issuer. Risk adjustment was designed with the primary goal of compensating issuers for not being able to charge premium rates that align with the underlying cost and risk of enrollees. Risk adjustment is a budget-neutral program that redistributes funds, within each state and market, from issuers with lower-risk, lower-cost enrollees to issuers with higher-risk, higher-cost enrollees. While the risk adjustment program compensated issuers with higher actuarial risk with higher risk adjustment transfers, it had some shortcomings for certain segments of the population.

We conducted an analysis using 2015 ACA-compliant data, which included approximately 5 million people from more than 100 issuers in more than 20 states. We also completed a similar analysis for the state of Nevada. The analyses reviewed market stability through the lens of profitability and most findings were consistent at the national and state levels.

- Premiums, net of risk adjustment transfers, are higher than claims for bronze and significantly lower than claims for platinum. This indicates that bronze is relatively more profitable in the individual market while platinum is less profitable. The opposite is true for the small group market.
- Relative profitability for PPO plans is notably worse than HMO plans.
- Members who had at least one medical condition that flagged a risk adjustment transfer had higher relative profitability.
- Older enrollees are more profitable than younger enrollees.

Any change to the risk adjustment model has an impact on the profitability of market segments, which impacts the stability of the market. It is assumed that any changes made are intended to improve the risk adjustment model and market stability.

However, if the new models are not released prior to the rating deadline and issuers are not able to identify the impact of the model changes, this uncertainty could have the opposite effect and create additional instability.

Pricing Changes and the Current Status

The individual market looks very different now than it did in 2014. As of the first quarter of 2017, large premium increases have improved profitability.[1] Despite initial concerns for 2018, every individual in the country has the option to purchase a plan on an Exchange. However, issues still remain. Federal policy uncertainty fueled premium increases or issuer exits. Premiums for those not receiving subsidies may be prohibitively expensive in some areas.

Many states are taking it upon themselves to improve the stability of their individual markets including taking advantage of state innovation waivers (or 1332 waivers). Through this option, states are able to change portions of the ACA as long as the changes meet a certain set of requirements known as guard rails. To date, several states have had 1332 waivers designed to improve market stability accepted.[2] While the current state activities are encouraging and may improve market stabilization, there are still several other factors that will need to be improved to truly achieve market stability, including clarity at the federal level, regulators actively working to anticipate market dynamics, and long-term solutions to address overall health care costs.

There are still high levels of market uncertainty and instability. States have been trying to increase stability by focusing on improving the risk pool. While federal and state-specific changes are considered, it is important for all stakeholders to internalize the lessons of the previous few years. Policies can have unintended consequences, and ensuring that issuers and the public understand the rules is necessary for successful implementation of any market stabilization program. ■

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ENDNOTES

1 Semanskee, Ashley, and Larry Levitt. "Individual Insurance Market Performance in Mid 2017." The Henry J. Kaiser Family Foundation. Oct. 6, 2017, *http://www.kff.org/health-reform/issue-brief/individual-insurance-market-performance-in-early-2017/*

2 Tolbert, Jennifer, and Karen Pollitz. "Section 1332 State Innovation Waivers: Current Status and Potential Changes." The Henry J. Kaiser Family Foundation. July 6, 2017, *http://www.kff.org/health-reform/issue-brief/section-1332-state-innovation-waivers-current-status-and-potential-changes/*