

DEPARTMENT OF HEALTH & HUMAN
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Centers for Medicare & Medicaid Services
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INTERIM SUMMARY REPORT ON RISK ADJUSTMENT FOR THE 2016 BENEFIT YEAR

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I. Background

Section 1343 of the Affordable Care Act establishes a permanent risk adjustment program to provide payments to health insurance issuers that attract high-risk enrollees, such as those with chronic conditions, thereby reducing the incentive for issuers to avoid those enrollees and lessening the potential influence of risk selection on the premiums that plans charge.

The risk adjustment methodology developed by the Department of Health and Human Services (HHS) is based on the premise that premiums should reflect the differences in plan benefits, quality, and efficiency – not the health status of the enrolled population. The HHS-developed risk adjustment methodology determines each plan’s risk adjustment transfer amount based on the actuarial risk of enrollees, the actuarial value (AV) of coverage, utilization and the cost of doing business in local rating areas, and the effect of different cost-sharing levels on utilization. HHS applied this methodology in 49 states and the District of Columbia for the 2016 benefit year.¹

II. Description of Data

As described in the December 23, 2016, “Evaluation of EDGE Data Submissions for 2016 Benefit Year” bulletin,² HHS evaluated whether issuers provided access to EDGE server data sufficient for HHS to release an interim summary report on risk adjustment for each state. HHS evaluated each issuer to determine if the issuer submitted at least 90% of its enrollment data and 90% of its claims data for the first three quarters of the 2016 benefit year (the data “quantity” evaluation). HHS also evaluated each issuer’s EDGE server data to investigate outliers on a number of criteria (the data “quality” evaluation). If an issuer had a specific data outlier, the issuer was provided an opportunity to explain the outlier. If the outlier was determined to be a true data quality issue, or if the issuer submitted no explanation, the issuer failed data quality. As described in the bulletin, HHS is issuing interim summary risk adjustment information or a state *only* if all credible issuers in that state pass both data quantity and quality thresholds.³

All states where HHS operates the risk adjustment program for the 2016 benefit year except Hawaii are included in this report. Hawaii had two (2) credible issuers who were unable to pass the quantity thresholds. Massachusetts is also excluded as it has a State-operated risk adjustment program for the 2016 benefit year.

The data displayed in this report is preliminary – final risk adjustment data may differ significantly in magnitude and possibly in the direction of the transfers from the data presented in this report. To qualify for interim risk adjustment reporting, issuers were required to submit at least 90% of their first three quarters of enrollment and claims data; however, many issuers have submitted more than this threshold. Because an issuer’s risk adjustment transfer amount is dependent on the data other issuers within a risk pool market and state submit, a stable risk score between interim and final risk adjustment may not reflect a stable risk adjustment transfer

¹ Massachusetts operates its own State-operated risk adjustment program for the 2016 benefit year.

² Available at: https://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/EDGE-2016-Q-Q-Guidance_20161222v1.pdf.

³ Issuers were generally deemed credible if they had at least 0.5% market share.

amount. The final risk adjustment transfer results and final state average calculations based on issuers' final data submissions may diverge from the data patterns reflected in this report.

Therefore, the risk scores provided in this interim risk adjustment report will not necessarily be predictive of final 2016 benefit year risk adjustment transfers. If an issuer wishes to use this interim information to assist in estimating the 2016 benefit year risk adjustment amounts, it should do so with caution and in combination with other significant data. In particular, smaller issuers may experience a wider degree of variation, given the impact larger issuers have on transfers within a state and market.

III. Comparison of the 2015 Benefit Year Interim and Final Risk Adjustment Results

We have conducted additional analyses comparing the 2015 benefit year interim summary results and final risk adjustment results to illustrate predictability and variation. The analysis includes only issuers in the 21 states deemed eligible for the 2015 benefit year interim summary report on risk adjustment and compares interim results to final risk adjustment results for the 2015 benefit year.

- 1. For 2015 benefit year, the direction of risk adjustment transfers reversed for a minority of issuers** between interim and final reports in the 2015 benefit year.
 - 10.5% of issuers in the individual market and 15.3% of issuers in the small group market had risk adjustment transfers that reversed direction from the interim report to the final report (i.e., issuers calculated to receive a payment at interim, but actually assessed a final charge, or issuers calculated to pay a charge at interim, but actually received a final payment).
 - Of the 190 individual market issuers that received interim risk adjustment estimates, 5.8% changed from an interim calculated charge to a final payment, and 4.7% changed from a calculated interim payment to a final charge.
 - Of the 229 small group market issuers that received interim risk adjustment estimates, 10.0% went from an interim charge to a final payment, and 5.2% went from an interim payment to a final charge.

- 2. For the 2015 benefit year, issuers with risk adjustment transfers that reversed from interim to final had transfer amounts that were close to the overall average.** As expected, the majority of issuers in the individual and small group markets with transfers that reversed between interim and final fell in the middle quartiles, as shown in Figures 1 and 2 below. The figures plotted issuers' transfers as a percent of premium at the time of the interim report (x-axis) and issuers' final transfers as a percent of premium at the time of the final report (y-axis). Issuers ranked with the lowest rank representing the largest charge and the highest rank representing the largest payment. The middle quartiles are closer to the average and should represent transfers that are closer to zero, and thus more likely to change direction.

Figure 1. Interim vs. Final Transfers as Percent of Premium, by Status of Transfer Change (Charge or Payment), Individual Market, 2015 Benefit Year

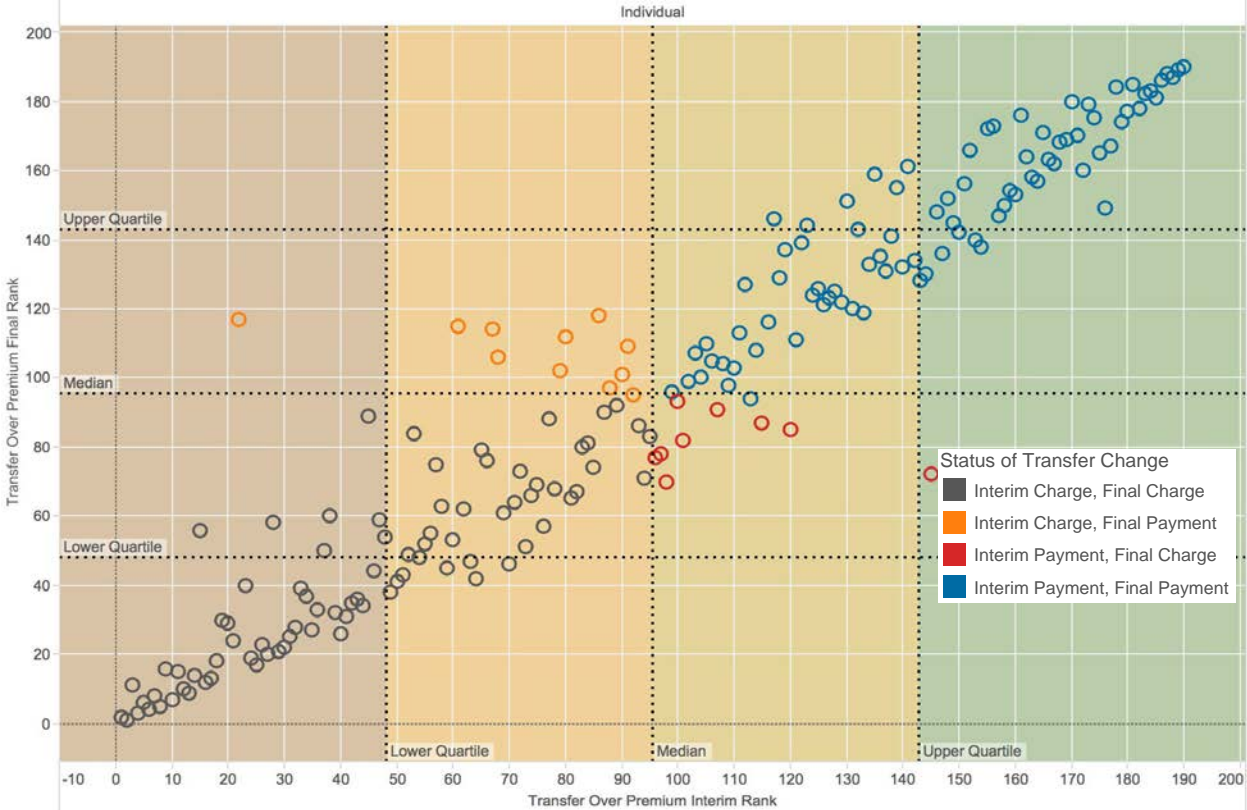
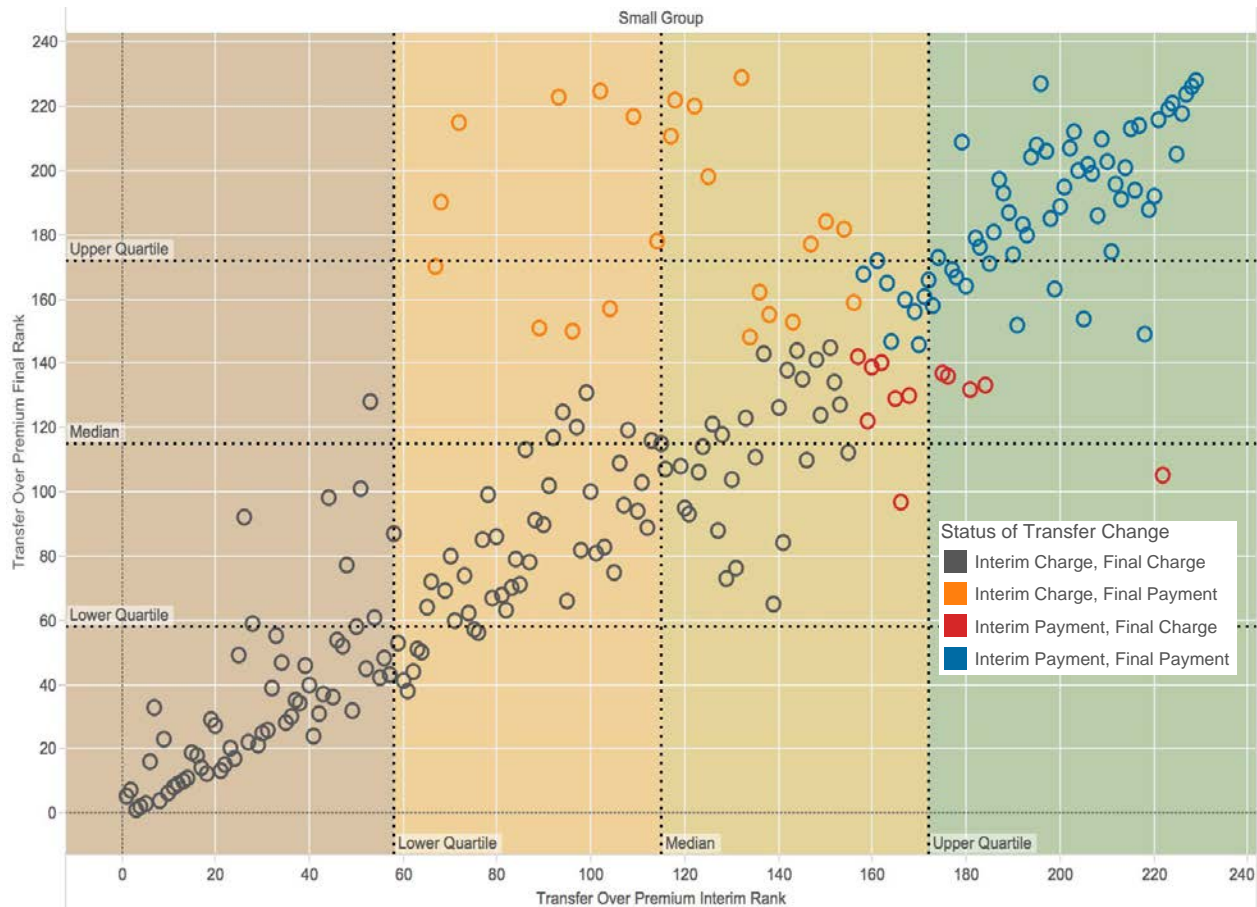


Figure 2. Interim vs. Final Transfers as Percent of Premium, by Status of Transfer Change (Charge or Payment), Small Group Market, 2015 Benefit Year

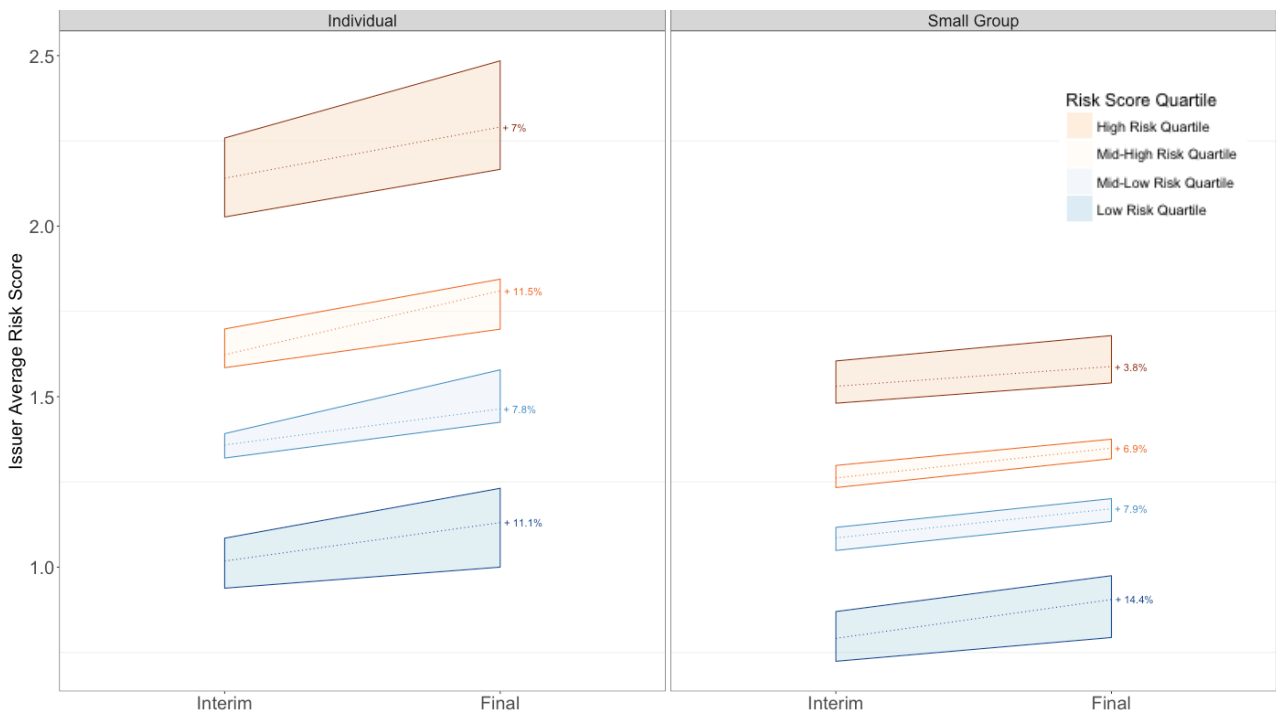


3. For the 2015 benefit year, state averages of key risk adjustment variables showed very little movement – with the notable exception of state average risk score. Most issuers’ risk scores increased between interim and final reports, with the individual market seeing a mean 7.8% increase and the small group market seeing a mean 5.7% increase. Billable member months also increased by 0.5% in the individual market and 1.9% in the small group market. Overall, however, key measures like average actuarial value and age rating factor saw near-negligible movement from interim to final risk adjustment (Table 1).

Table 1. Percent Change in Select Risk Adjustment Variables, Interim to Final, in States Eligible for BY15 Interim Risk Adjustment Report, 2015 Benefit Year

Variable	Individual Market		Small Group Market	
	Mean	Standard Deviation	Mean	Standard Deviation
Plan Liability Risk Score	7.8%	3.5%	5.7%	3.4%
Billable Member Months	0.5%	1.3%	1.9%	2.2%
Monthly Premiums	-0.3%	1.4%	-1.0%	6.5%
Age Rating Factor	-0.1%	0.2%	-0.1%	0.1%
Actuarial Value	0.0%	0.1%	0.0%	0.1%

Figure 3. Median Percent and Risk Score Change and Confidence Intervals of Issuer Average Risk Scores, from Interim to Final Risk Adjustment, by Risk Score Quartile and Market, 2015 Benefit Year



For each quartile of issuers, solid lines denote 95% confidence interval boundaries, and dashed lines indicate median change in average issuer risk scores. Numbers labeling each quartile indicate the percent change between the quartile's median final risk score and median interim risk score.

- For the 2015 benefit year, risk score showed the most movement – specifically, trends in risk score change from interim to final varied considerably by market and risk score quartile. The vast majority of issuers experienced an increase in risk score from interim to final, but Figure 3, which compares median risk score change and associated confidence intervals by risk quartiles and market, shows there was significant variation in the amount of the increase.

- In the individual market, the second highest and bottom quartiles saw the largest percent increase in risk scores. In terms of absolute median risk score change in the individual market, the median risk score in the bottom two quartiles increased approximately 0.11, the second highest quartile increased 0.19, and the highest quartile increased approximately 0.15.
- In terms of absolute median risk score change in the small group market, the median risk score in the bottom quartile increased approximately 0.11, the middle quartiles increased 0.09, and the highest quartile increased approximately 0.06.
- Overall, the individual market exhibited greater variation than the small group market. The highest and lowest quartiles in the individual market had more variation than the middle quartiles. The highest and lowest quartiles in the small group market also experienced greater variation.

IV. HHS-operated Risk Adjustment Program State-specific Data

Included in this report are the key elements of the risk adjustment transfer formula for the states that met the credibility requirements.

Table 2. Description of Risk Adjustment Data

DATA ELEMENT	DESCRIPTION
State Average Premium	The state average premium for state market risk pool is the weighted average monthly premium for the state market risk pool, weighted by plan share of statewide enrollment in the state market risk pool.
State Average Plan Liability Risk Score (PLRS)	The state average PLRS is calculated as the summed products of PLRS and billable member months for all plans within the state market risk pool divided by total billable months for all plans within the state market risk pool.
State Average Allowable Rating Factor (ARF)	The state average ARF is calculated as the summed products of ARF and billable member months for the plans within the state market risk pool divided by total billable member months for all plans in the state market risk pool.
State Average Actuarial Value (AV)	The state average AV is calculated as the summed products of AV and billable member months for the plans within the state market risk pool divided by the total billable member months within the state market risk pool. AV corresponds with metal and catastrophic tiers as follows: *Catastrophic: 0.57 *Bronze: 0.60 *Silver: 0.70 *Gold: 0.80 *Platinum: 0.90
Billable Member Months	Billable member months are the member months of an individual or family policy that are included when setting the policy's premium rate.

**Table 3. Interim Risk Adjustment State Averages with State Billable Member Months
– Appendix A**

STATE	RISK POOL	STATE AVERAGE MONTHLY PREMIUMS	STATE AVERAGE PLAN LIABILITY RISK SCORE	STATE AVERAGE ALLOWABLE RATING FACTOR	STATE AVERAGE ACTUARIAL VALUE	STATE BILLABLE MEMBER MONTHS
AK	Individual	\$869.25	1.315	1.624	0.654	210,225.9
	Small Group	\$674.84	1.030	1.427	0.705	127,090.9
	Catastrophic	N/A	N/A	N/A	N/A	N/A
AL	Individual	\$414.74	1.955	1.599	0.699	2,457,645.1
	Small Group	\$410.22	1.510	1.460	0.774	2,804,653.2
	Catastrophic	\$180.55	0.662	1.100	0.570	18,390.4
AR	Individual	\$369.17	2.046	1.484	0.699	3,987,010.7
	Small Group	\$384.45	1.321	1.410	0.786	275,507.2
	Catastrophic	\$147.25	0.297	1.001	0.570	5,439.7
AZ	Individual	\$317.24	1.394	1.535	0.680	2,796,435.5
	Small Group	\$372.13	1.141	1.367	0.731	1,437,409.6
	Catastrophic	\$106.99	0.348	0.940	0.570	74,237.1
CA	Individual	\$397.67	1.315	1.571	0.699	25,583,869.4
	Small Group	\$431.94	1.120	1.368	0.762	21,687,707.4
	Catastrophic	\$166.36	0.261	0.952	0.570	332,133.1
CO	Individual	\$374.52	1.206	1.559	0.659	3,171,933.9
	Small Group	\$420.31	1.048	1.364	0.719	2,444,192.9
	Catastrophic	\$167.20	0.278	0.974	0.570	98,171.7
CT	Individual	\$438.78	1.505	1.666	0.696	2,054,192.4
	Small Group	\$496.13	1.304	1.452	0.726	2,036,714.9
	Catastrophic	\$147.89	0.261	1.019	0.570	23,848.1
DC	Individual	\$323.80	1.322	1.091	0.727	196,927.9
	Small Group	\$469.08	1.205	1.039	0.830	937,065.4
	Catastrophic	\$86.09	0.170	0.736	0.570	10,276.2
DE	Individual	\$472.10	1.628	1.615	0.707	413,353.0
	Small Group	\$527.54	1.283	1.422	0.755	357,448.2
	Catastrophic	\$204.58	0.245	1.009	0.570	1,923.6
FL	Individual	\$402.36	1.680	1.635	0.697	19,131,230.0
	Small Group	\$483.30	1.329	1.452	0.757	2,948,626.9
	Catastrophic	\$177.76	0.442	1.055	0.570	131,723.0
	Individual	\$381.20	1.544	1.541	0.686	6,820,573.8
GA	Small Group	\$446.20	1.244	1.408	0.728	1,872,246.9

STATE	RISK POOL	STATE AVERAGE MONTHLY PREMIUMS	STATE AVERAGE PLAN LIABILITY RISK SCORE	STATE AVERAGE ALLOWABLE RATING FACTOR	STATE AVERAGE ACTUARIAL VALUE	STATE BILLABLE MEMBER MONTHS
	Catastrophic	\$157.21	0.397	1.021	0.570	130,743.1
HI	Individual	N/A	N/A	N/A	N/A	N/A
	Small Group	N/A	N/A	N/A	N/A	N/A
	Catastrophic	N/A	N/A	N/A	N/A	N/A
IA	Individual	\$405.68	1.557	1.648	0.678	965,966.4
	Small Group	\$383.26	1.203	1.396	0.745	928,061.2
	Catastrophic	\$182.75	0.352	0.968	0.570	1,344.7
ID	Individual	\$355.00	1.426	1.552	0.684	1,372,143.3
	Small Group	\$366.30	1.089	1.358	0.754	464,753.5
	Catastrophic	\$155.90	0.293	0.910	0.570	17,982.0
IL	Individual	\$368.44	1.374	1.597	0.686	5,926,974.1
	Small Group	\$455.96	1.236	1.409	0.784	3,196,591.0
	Catastrophic	\$175.48	0.250	0.987	0.570	43,415.8
IN	Individual	\$408.84	1.612	1.669	0.668	2,411,921.6
	Small Group	\$463.09	1.277	1.428	0.720	1,008,072.6
	Catastrophic	\$175.99	0.272	0.958	0.570	30,992.3
KS	Individual	\$342.48	1.480	1.539	0.690	1,563,513.4
	Small Group	\$377.03	1.227	1.387	0.768	731,950.1
	Catastrophic	\$148.24	0.466	0.889	0.570	9,497.4
KY	Individual	\$357.27	1.697	1.659	0.687	1,249,094.2
	Small Group	\$409.97	1.365	1.417	0.735	666,163.1
	Catastrophic	\$145.58	0.284	0.981	0.570	25,165.1
LA	Individual	\$447.43	1.744	1.574	0.687	2,505,126.0
	Small Group	\$416.12	1.367	1.389	0.768	1,191,617.1
	Catastrophic	\$182.85	0.318	1.051	0.570	16,188.2
MD	Individual	\$335.41	1.344	1.564	0.687	2,967,349.7
	Small Group	\$431.01	1.168	1.399	0.751	2,924,108.0
	Catastrophic	\$117.40	0.290	0.978	0.570	76,164.5
ME	Individual	\$412.15	1.200	1.711	0.681	976,765.8
	Small Group	\$380.14	1.025	1.478	0.692	606,850.1
	Catastrophic	\$166.58	0.224	1.070	0.570	10,032.0
MI	Individual	\$388.85	1.561	1.646	0.683	4,787,659.4
	Small Group	\$417.10	1.358	1.401	0.797	4,027,669.9
	Catastrophic	\$145.68	0.268	0.983	0.570	101,489.8
	Individual	\$385.93	1.307	1.709	0.675	2,743,802.5
MN	Small Group	\$399.18	1.136	1.451	0.751	3,095,079.2

STATE	RISK POOL	STATE AVERAGE MONTHLY PREMIUMS	STATE AVERAGE PLAN LIABILITY RISK SCORE	STATE AVERAGE ALLOWABLE RATING FACTOR	STATE AVERAGE ACTUARIAL VALUE	STATE BILLABLE MEMBER MONTHS
	Catastrophic	\$136.99	0.218	1.003	0.570	106,287.3
MO	Individual	\$397.96	1.653	1.582	0.678	3,428,367.0
	Small Group	\$438.43	1.403	1.403	0.751	1,137,844.7
	Catastrophic	\$159.35	0.348	0.904	0.570	46,067.2
MS	Individual	\$400.77	1.802	1.606	0.707	1,083,471.2
	Small Group	\$394.37	1.149	1.389	0.749	199,111.6
	Catastrophic	\$195.79	0.604	1.064	0.570	8,427.5
MT	Individual	\$395.91	1.181	1.661	0.656	868,460.4
	Small Group	\$372.55	0.948	1.386	0.728	565,981.6
	Catastrophic	\$158.15	0.274	0.948	0.570	12,091.7
NC	Individual	\$501.47	1.631	1.588	0.688	6,346,185.4
	Small Group	\$489.29	1.220	1.445	0.741	1,291,413.0
	Catastrophic	\$165.35	0.414	0.965	0.570	134,762.4
ND	Individual	\$427.03	1.356	1.513	0.716	472,523.1
	Small Group	\$397.01	1.153	1.280	0.822	358,746.5
	Catastrophic	\$133.51	0.337	1.044	0.570	27,666.3
NE	Individual	\$400.54	1.438	1.531	0.664	1,252,400.4
	Small Group	\$400.40	1.142	1.376	0.726	509,740.5
	Catastrophic	\$165.67	0.399	0.985	0.570	29,307.0
NH	Individual	\$364.26	1.560	1.588	0.688	1,137,408.6
	Small Group	\$446.24	1.205	1.469	0.740	569,176.3
	Catastrophic	\$121.12	0.233	0.994	0.570	12,009.2
NJ	Individual	\$484.21	1.504	1.616	0.702	4,030,705.9
	Small Group	\$523.01	1.321	1.451	0.747	4,428,916.7
	Catastrophic	\$219.62	0.307	1.100	0.570	53,515.7
NM	Individual	\$317.64	1.452	1.717	0.704	860,844.7
	Small Group	\$423.44	1.264	1.448	0.784	584,172.7
	Catastrophic	\$122.11	0.131	0.982	0.570	4,408.2
NV	Individual	\$356.43	1.498	1.551	0.690	1,535,576.1
	Small Group	\$376.50	1.191	1.348	0.753	1,082,110.7
	Catastrophic	\$149.30	0.303	0.947	0.570	17,309.6
NY	Individual	\$475.13	1.728	0.988	0.743	3,915,114.3
	Small Group	\$601.35	1.691	0.974	0.782	11,388,761.7
	Catastrophic	\$149.56	0.205	0.999	0.570	166,412.5
	Individual	\$399.33	1.671	1.689	0.673	3,248,815.1
OH	Small Group	\$486.37	1.448	1.454	0.736	1,387,649.8

STATE	RISK POOL	STATE AVERAGE MONTHLY PREMIUMS	STATE AVERAGE PLAN LIABILITY RISK SCORE	STATE AVERAGE ALLOWABLE RATING FACTOR	STATE AVERAGE ACTUARIAL VALUE	STATE BILLABLE MEMBER MONTHS
	Catastrophic	\$163.17	0.259	0.985	0.570	44,839.8
OK	Individual	\$357.74	1.561	1.556	0.672	2,020,804.3
	Small Group	\$408.37	1.307	1.420	0.768	1,402,398.0
	Catastrophic	\$165.67	0.444	0.915	0.570	12,744.2
OR	Individual	\$356.33	1.288	1.625	0.690	2,652,608.5
	Small Group	\$430.57	1.203	1.452	0.767	1,243,589.6
	Catastrophic	\$144.67	0.182	0.980	0.570	16,566.7
PA	Individual	\$380.02	1.599	1.684	0.706	6,800,956.3
	Small Group	\$470.80	1.408	1.437	0.794	4,695,335.1
	Catastrophic	\$131.24	0.245	1.017	0.570	46,407.5
RI	Individual	\$377.35	1.510	1.667	0.698	545,030.6
	Small Group	\$489.65	1.483	1.475	0.807	702,925.3
	Catastrophic	N/A	N/A	N/A	N/A	N/A
SC	Individual	\$408.72	1.729	1.643	0.699	2,586,199.0
	Small Group	\$462.63	1.231	1.419	0.747	711,425.0
	Catastrophic	\$189.43	0.296	1.009	0.570	24,144.4
SD	Individual	\$398.22	1.537	1.491	0.681	457,683.1
	Small Group	\$428.05	1.148	1.402	0.736	299,981.8
	Catastrophic	\$179.37	0.352	0.961	0.570	7,110.5
TN	Individual	\$388.80	1.832	1.638	0.673	3,544,980.7
	Small Group	\$399.59	1.329	1.447	0.738	1,361,498.4
	Catastrophic	\$162.89	0.462	1.087	0.570	23,421.0
TX	Individual	\$347.31	1.463	1.539	0.678	14,900,392.9
	Small Group	\$460.36	1.235	1.382	0.738	6,301,737.6
	Catastrophic	\$160.02	0.357	0.977	0.570	130,987.8
UT	Individual	\$284.23	1.279	1.559	0.699	2,310,937.6
	Small Group	\$321.60	1.075	1.409	0.773	1,474,342.0
	Catastrophic	\$163.14	0.481	1.169	0.570	14,286.4
VA	Individual	\$364.13	1.540	1.548	0.688	5,123,104.2
	Small Group	\$419.97	1.256	1.358	0.791	4,413,205.5
	Catastrophic	\$156.52	0.389	1.034	0.570	90,764.2
VT	Merged	\$497.30	1.437	0.981	0.740	854,375.7
	Catastrophic	\$234.96	0.134	0.996	0.570	2,398.2
WA	Individual	\$373.43	1.392	1.672	0.674	3,731,980.8
	Small Group	\$422.81	1.202	1.447	0.766	2,360,803.1
	Catastrophic	\$155.41	0.146	1.004	0.570	16,065.6

STATE	RISK POOL	STATE AVERAGE MONTHLY PREMIUMS	STATE AVERAGE PLAN LIABILITY RISK SCORE	STATE AVERAGE ALLOWABLE RATING FACTOR	STATE AVERAGE ACTUARIAL VALUE	STATE BILLABLE MEMBER MONTHS
	Individual	\$454.86	1.666	1.767	0.683	2,916,394.6
WI	Small Group	\$467.75	1.214	1.407	0.738	1,087,485.1
	Catastrophic	\$181.14	0.255	1.029	0.570	33,096.5
WV	Individual	\$513.16	1.907	1.761	0.700	519,790.2
	Small Group	\$531.08	1.461	1.468	0.743	209,291.6
	Catastrophic	\$220.59	0.179	1.038	0.570	1,887.1
WY	Individual	\$573.56	1.620	1.595	0.674	309,936.7
	Small Group	\$517.16	1.114	1.360	0.720	81,309.5
	Catastrophic	\$280.71	1.232	0.972	0.570	2,236.6

The Interim Risk Adjustment State Averages with State Billable Member Months are also provided in appendix A.

V. HHS-operated Risk Adjustment Geographic Cost Factor (GCF) – Appendix B

The purpose of the geographic cost factor (GCF) adjustment is to remove differences in premium due to allowable geographic rating variation. GCFs are calculated for each rating area established by the state under 45 CFR 147.102(b).

The GCFs are calculated based on the observed average silver plan premium for the metal-level risk pool (calculated separately for individual and small group if the state does not have a merged market) or catastrophic plan premium for the catastrophic risk pool, in a geographic area relative to the statewide average silver or catastrophic plan premium. Calculation of the GCF involves three steps. First, the average premium is computed for each silver or catastrophic plan, as applicable, in each rating area (using the same formula that is used to compute plan premiums in the statewide average premium calculation). The second step is to generate a set of plan average premiums that standardizes the premiums for age rating. Plan premiums are standardized for age by dividing the average plan premium by the plan rating factor (calculated at the rating area level), the enrollment-weighted rating factor applied to all billable members. Lastly, a GCF is computed for each rating area. The GCF is simply the ratio of the enrollment-weighted average age-standardized premium revenue for a rating area to the overall statewide enrollment-weighted average age-standardized premium revenue for all silver plans. The enrollment-weighted statewide average of plan GCF values will equal 1.0, so the GCF can be interpreted as the percentage by which any geographic area's costs deviate from the state average.⁴

The HHS-operated risk adjustment GCFs are provided in Appendix B.

⁴ A GCF of zero indicates no silver plans in the rating area. In final risk adjustment calculations, a GCF of zero will have an imputed value of one.

Appendix A: Interim Risk Adjustment State Averages with State Billable Member Months

Appendix B: HHS-operated Risk Adjustment Geographic Rating Factors (GCFs)