

A Brief Analysis of the 2014 - 2016 ACA Reinsurance and Risk Adjustment Results

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In January 2014, the Affordable Care Act (ACA) established state-based Reinsurance and Risk Adjustment programs to reduce the financial risk for participating health insurance companies selling coverage on the public exchanges. The goal of these programs was to protect against adverse selection and risk selection in the market while stabilizing premiums, ultimately resulting in healthier competition in health insurance markets.

The Reinsurance provision was designed to prevent large premium increases in the individual market. The program provided funding to individual health plans that incurred high claims costs (costs exceeding the attachment point) for enrollees. The objective, in a nutshell, was to protect health plans against unusually high claims costs. This was a temporary, three-year program that ran from 2014-2016.

The Department of Health and Human Services (HHS) collected all Reinsurance contributions. The ACA set national levels for Reinsurance funds at \$10 billion in 2014, \$6 billion in 2015, and \$4 billion in 2016. While all health plans contributed funds to the program, only eligible Individual plans received funds back from the government.

The Risk Adjustment provision transfers funds from lower risk plans to higher risk plans for non-grandfathered individual and small group market plans, inside and outside the Exchanges. This program is intended to deter insurance plans from intentionally targeting only healthy enrollees and protects companies that may attract sicker customers. Unlike Reinsurance, which ended on December 31, 2016, Risk Adjustment is permanent.

HHS developed a methodology to be used for Risk Adjustment by states or by HHS on behalf of states. The risk scores for eligible insurers (measures of each company's potential medical expenses based on its book of business) are

compared with the average risk score per geographical area. This assessment determines which plans will be paid or charged by HHS.

Reinsurance and Risk Adjustment were designed to provide stability in the early years of health care reform, with Risk Adjustment continuing over the long-term. These complementary programs had similar goals of seeking to mitigate incentives for plans to attract healthier individuals and compensate those that enroll a disproportionately sick population. On June 30, 2017, HHS, through the Centers for Medicare & Medicaid Services (CMS), released a report detailing the 2016 results of both the Reinsurance and Risk Adjustment programs. The report, “[Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2016 Benefit Year](#)”, can be accessed from the CMS.gov website. Subscribers to Mark Farrah Associates’ Health Coverage Portal™ may access key data found in this report with the benefit of NAIC company codes mapped to HIOS codes used for government reporting by health plans.

Focusing on the individual market, MFA analyzed the three years of the Reinsurance and Risk Adjustment programs, summarizing some key findings found within the HHS data, as well as presenting a high-level look at performance of the plans most impacted by these programs. In order to broadly assess Reinsurance and Risk Adjustment results, our analysts aggregated plan data by parent organization (e.g. Aetna, Anthem) and summarized the findings over the three years of the programs.

Top 10 Recipients of Transitional Reinsurance \$				
Company	2014	2015	2016	Program Total
Health Care Service Corp.	\$942,867,316	\$1,059,085,036	\$296,274,124	\$2,298,226,476
Anthem	776,743,060	670,661,782	467,615,891	1,915,020,733
Humana	521,151,430	529,318,401	267,815,544	1,318,285,375
Aetna	359,446,599	380,902,722	217,076,577	957,425,898
Blue Shield of CA	363,050,265	282,280,001	200,597,193	845,927,459
UnitedHealthcare	102,234,892	408,004,573	332,182,123	842,421,588
GuideWell (BCBS FL)	331,125,953	255,810,270	168,604,322	755,540,545
Kaiser	300,149,830	252,687,305	140,772,653	693,609,788
BCBS of NC	263,657,627	222,501,830	94,120,592	580,280,049
Assurant	255,536,083	288,519,725	*	544,055,808
Total	\$4,215,963,055	\$4,349,771,645	\$2,185,059,019	\$10,750,793,719

Source: Health Coverage Portal™, Mark Farrah Associates, & HHS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients. * Assurant left the health insurance market at the end of 2015

The HHS data, aggregated by group, indicates Health Care Service Corporation (HCSC) led the country in Reinsurance receipts from HHS over the three years of the program. HCSC has struggled with profitability within the individual segment, reporting almost \$2.3 billion in losses over the past three years. Anthem, Humana, Aetna, and Blue Shield of California rounded out the top five Reinsurance recipients.

Transitional Reinsurance \$ Received per Individual Member Month				
Company	2014	2015	2016	3 Year Average
Health Care Service Corp.	\$53.32	\$50.55	\$19.30	\$42.57
Anthem	33.92	30.52	21.57	28.77
Humana	36.56	34.43	23.39	32.09
Aetna	30.48	27.49	16.69	24.77
Blue Shield of CA	55.23	37.40	22.99	37.03
UnitedHealthcare	9.96	28.78	19.97	20.51
GuideWell(BCBS FL)	48.11	34.66	16.88	31.16
Kaiser	37.52	24.81	12.55	23.59
BCBS of NC	42.12	33.73	18.75	32.46
Assurant	59.20	67.76	*	63.45
Industry Average	\$38.82	\$35.24	\$18.11	\$30.48

Source: Health Coverage Portal™, Mark Farrah Associates, Supplemental Health Care Exhibit as reported in the NAIC Annual Financial Statement, California Department of Managed Health Care, & HHS summary report. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients. * Assurant left the health insurance market at the end of 2015

Analyzing member months allows analysts to gain a better understanding of the impact the Reinsurance program had on health plans. Assurant, which left the health insurance market in 2015 due to losses in the health segment of its insurance business, had the largest per member month impact amongst the top 10 recipients of reinsurance funds. HCSC and Blue Shield of CA also received above average amounts of Reinsurance funds from the HHS program over the three-year period. Conversely, Aetna, UnitedHealthcare, and Kaiser received below average reinsurance funding.

Top 5 Risk Adjustment Recipients - Individual Segment

Company	2014	2015	2016	Program Total
GuideWell (BCBS FL)	\$258,462,842	\$452,993,024	\$446,538,698	\$1,157,994,564
Blue Shield of CA	135,212,708	181,516,599	265,442,825	582,172,132
UnitedHealthcare	115,690,360	91,021,414	306,203,465	512,915,239
Assurant	105,682,742	214,093,579	*	319,776,321
Cigna	108,588,419	157,832,219	12,876,357	279,296,995
Total	\$723,637,071	\$1,097,456,835	\$1,031,061,345	\$2,852,155,251

Source: Health Coverage Portal™, Mark Farrah Associates, & HHS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients. * Assurant left the health insurance market at the end of 2015

Looking at the leading recipients of Risk Adjustment payments, four out of the top five were also on the list of top recipients of Reinsurance payments. The only exception was Cigna, whose three-year, combined, total Reinsurance receipts were \$407K. GuideWell, which received \$1.2 billion in Risk Adjustment funding over the three-year period, reported net underwriting gains in the Individual segment for both 2015 and 2016.

Individual Segment Risk Adjustment \$ Received per Individual Member Month				
Company	2014	2015	2016	Program Total
GuideWell (BCBS FL)	\$37.56	\$61.37	\$44.71	\$47.75
Blue Shield of CA	20.57	24.05	30.42	25.48
UnitedHealthcare	11.27	6.42	18.40	12.49
Assurant	24.48	50.28	*	37.30
Cigna	32.25	60.74	6.01	34.45
Industry Average	\$8.06	\$14.91	\$20.25	\$14.47

Source: Health Coverage Portal™, Mark Farrah Associates, NAIC Annual Financial Statement, California Department of Managed Health Care, & HHS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients. * Assurant left the health insurance market at the end of 2015

With the exclusion of UnitedHealthcare, the top recipients of Risk Adjustment funding received amounts that were well above the industry average of \$14.47 per member month. GuideWell stands out on the list after receiving an average of \$47.75 per member month over the course of the three year program. Since the onset of the ACA, GuideWell has been the most profitable insurance company in the individual segment.

Top 5 Risk Adjustment Payers - Individual Segment				
Company	2014	2015	2016	Program Total
Aetna	(\$198,331,897)	(\$425,972,410)	(\$374,485,675)	(\$998,789,982)
Molina	1,735,967	(254,078,304)	(543,630,805)	(795,973,142)
Centene	(44,581,094)	(111,804,454)	(342,549,271)	(498,934,819)
Kaiser	53,933,838	(146,423,808)	(355,163,239)	(447,653,209)
Fidelis Care	(37,511,467)	(56,655,139)	(72,347,373)	(166,513,979)
Total	(\$224,754,653)	(\$994,934,115)	(\$1,688,176,363)	(\$2,907,865,131)

Source: Health Coverage Portal™, Mark Farrah Associates, & HHS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients.

On the flipside, Aetna and Molina lead the industry in terms of payments made into the Risk Adjustment program. Centene, Kaiser, and the New York State Catholic Health Plan round out the top five. Aetna, which has struggled with growing underwriting losses within the Individual segment since 2014, recently announced a full exit from the exchanges for 2018.

Individual Segment Risk Adjustment \$ Paid per Individual Member Month				
Company	2014	2015	2016	Program Total
Aetna	(\$16.82)	(\$30.74)	(\$28.79)	(\$25.84)
Molina	10.89	(98.26)	(81.44)	(84.49)
Centene	(55.94)	(61.18)	(44.02)	(47.95)
Kaiser	6.74	(14.37)	(31.66)	(15.22)
Fidelis Care	NA	NA	NA	NA
Industry Average	(\$12.24)	(\$22.17)	(\$25.62)	(\$20.62)

Source: Health Coverage Portal™, Mark Farrah Associates, NAIC Annual Financial Statement, California Department of Managed Health Care, & HHS Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers. MFA aggregated HHS Reinsurance Transfer payments by NAIC Parent organizations to identify top recipients.

On a member month basis, Molina and Centene stand out with Risk Adjustment payments well above the average of \$20.62. Both Molina and Centene have greatly expanded their Individual segment membership since 2014 but, like Aetna and Kaiser, have struggled with financial losses. Fidelis Care did not report financial or membership information to the NAIC, therefore no calculation was completed to determine its Risk Adjustment payment per member month.

About our analysis

For this analysis brief, Mark Farrah Associates sourced member month information as reported from the Supplemental Health Care Exhibit found in the NAIC Annual

Financial Statements and quarterly financial statements for California HMOs managed by the California Department of Managed Health Care. In a small number of cases, member month information was not available for plans impacted by HHS Reinsurance and Risk Adjustment payment activity. These plans were excluded from the calculation of the industry average Reinsurance per member month and Risk Adjustment per member month. All data used for this analysis is available in Mark Farrah Associates' Health Coverage Portal TM.

Conclusion

As discussed earlier, the purpose of the Reinsurance and Risk Adjustment programs was to stabilize the insurance market for both consumers and health insurers. Were the programs successful? While the full answer to that question is outside the scope of this analysis brief, it is clear that the market for individual health insurance has had many challenges for both consumers and insurers over the past three years. Health insurers provided the funding for both the Reinsurance and Risk Adjustment programs. These funds were redistributed back to insurers based upon the specifics of the two programs. Clearly some insurers benefited while others did not, driving some plans out of business and others to reduce their Individual insurance plan offerings to consumers. While the Reinsurance program ended with 2016, Risk Adjustment is a permanent ACA program and will most likely continue to impact insurers in the future.

Glossary

Attachment point – Eligible insurance plans will receive Reinsurance payments when the plan's cost for an enrollee crosses a certain threshold (\$45,000 in 2014 & 2015 & \$90,000 in 2016).

Average risk scores – The average risk score is the weighted average of all enrollees' individual risk scores, and represents the plan's predicted expenses (based on the demographics of enrollees).

Coinsurance Rate – The percentage of the costs above an attachment point and below the Reinsurance cap that will be reimbursed through the Reinsurance program (100 percent in 2014, 55.1 percent in 2015, and 50 percent in 2016).

Individual risk scores – based on each individual's age, sex, and diagnoses – are assigned to each enrollee. Diagnoses are grouped into a Hierarchical Condition Category (HCC) and assigned a numeric value that represents the relative expenditures a plan is likely to incur for an enrollee with a given category of medical diagnosis.

Reinsurance cap – A dollar-amount threshold, above which the insurer is no longer eligible for Reinsurance (\$250,000).

Sources

Kaiser Family Foundation , *“Explaining Health Care Reform: Risk Adjustment, Reinsurance, and Risk Corridors” August 17, 2016*, <http://www.kff.org/health-reform/issue-brief/explaining-health-care-reform-risk-adjustment-reinsurance-and-risk-corridors/>

About Mark Farrah Associates (MFA)

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