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# CHOICES

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## For Immediate Release

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## Impact of Risk Adjustment on Carriers' 2015 Financial Performance in the Individual Market

**Washington, D.C., July 29, 2016** — Today, the Consumers for Health Options, Insurance Coverage in Exchanges in States (CHOICES) released an unprecedented study of the risk adjustment program's impact on the individual market. The CHOICES coalition has long advocated for certain structural changes in the Affordable Care Act's risk adjustment program. While the coalition recognizes the importance of a well-functioning risk adjustment program in this marketplace, the current model contains clear biases and inaccuracies.

In the present analysis, CHOICES' economist and actuary team have compared carriers' risk adjustment transfers to their 2015 state individual market filings and identified concerning correlations between carrier financial status and the risk adjustment program. These correlations illustrate the unintended market impacts of a flawed risk adjustment program and its threat to the sustainability of the individual and small group markets.

The [analysis](#) identified inaccuracies and negative impacts of the risk adjustment program that should be promptly addressed by policymakers, including:

- A correlation between risk adjustment payments and indicators of high-risk members exists, but the data show a concerning number of outliers that do not fit this pattern;
- Carriers with relatively low market share in a state are much more likely to have large and distorted risk adjustment transfers per member;
- Carriers with smaller market shares are likely to experience more volatility in year over year risk adjustment liability; and,
- A strong association exists between carriers' risk adjustment transfers and their margins, with the largest positive margins reflecting large positive risk adjustment receipts, and a similar correspondence between negative risk adjustment transfers and negative margins.

For the individual insurance market to function correctly, carriers must have confidence that the fundamental constructs of the risk adjustment program are consistent with sound market objectives. With several carriers leaving the market for the 2017 plan year, and other carriers delaying entrance, we believe it is mission-critical to redress the core challenges with this program now.

CMS has indicated it will continue to adapt and make changes to the risk adjustment program over time, but it is critical for regulators to assess current results to ensure known problems with the methodology are not creating imbalances that will reduce competition.

We strongly encourage federal and state regulators to review and address the market challenges related to the risk adjustment program in order to ensure ongoing market stability.

### About CHOICES

Consumers for Health Options, Insurance Coverage in Exchanges in States (CHOICES) members are non-profit and investor-owned, health system-sponsored and independent, and startups as well as companies with decades of experience as members of their local communities.