Minuteman Health™

August 14th, 2015

Adjustments Needed for Risk Adjustment

There is a key element of the Affordable Care Act that is driving unintended consequences. This is the Risk Adjustment program. The idea is simple enough – insurance companies should not be able to make money by simply enrolling healthier people. The program is intended to even out the relative sickness of all health plans' populations. So if one plan started off with healthier members it would turn around and pay a plan that started off with sicker members.

Risk adjustment programs have been around for many years. In the private sector, large companies, brokerage firms, and insurance companies voluntarily agree to operate risk adjustment programs to ensure an equitable and well-functioning market with predictable and credible outcomes. Public programs like Medicare Advantage and managed Medicaid also utilize versions of risk adjustment. These have all begun at different times, use different data, and address different populations. But they all share a common trait – they have all evolved over time as new data becomes available. Most were gradually rolled out over time and iterated towards their current successful operation.

The ACA's version 1.0 of Risk Adjustment unsurprisingly has the same need to be adjusted that all other kinds of Risk Adjustment have had. The difference is that the ACA's version 1.0 was not staged in but rather implemented in one fell swoop. The unintended consequences are therefore felt much more dramatically.

As we look around the country, we find that health plans that are smaller, higher-growth, lower-cost, and with focused provider relationships and networks appear to be disproportionately harmed by the Risk Adjustment version 1.0. In Massachusetts, the state-specific version drives even more dramatic results. Minuteman Health was assessed an astounding 71% of premium due to this immature program. This is money that was held aside for our members but instead has now been taken from them.

Minuteman has filed a 'request for reconsideration' with the Connector, the state agency administering Risk Adjustment. A copy of that more detailed document is on Minuteman's website. While that is pending, we did pay the full contested amount of $3M and did record the payment in our publicly-available financials.

Furthermore, Minuteman is working with other innovative community-based health plans around the country to build continue to bolster the data set and provide the analysis needed to help rapidly move Risk Adjustment version 1.0 towards something that better reflects the policy intent. To this end, Minuteman partnered with two other plans to commission an actuarial study from Wakely Consulting that highlights concerns with the current methodology. That report and its executive summary are also available on our website.

There is an urgency to this exercise. Community-based plans cannot maintain their footing when they are inappropriately subsidizing large insurance companies. For example, 40% of all the money that Minuteman Health is paying out under Risk Adjustment version 1.0 *has nothing to do with the health status of the population*. Recall, that is the purpose behind Risk Adjustment. Instead, this extra pile of cash is payable *simply because Minuteman sells more affordable plans.* Policymakers at the state and federal levels are becoming increasingly aware of this issue, and we look forward to continuing to work with them to address the shortcomings in Version 1.0 and put the required fixes in place.

In the meantime, however, the proper way to run a health plan is to do so conservatively. Minuteman has filed the second quarter financial information required of all health plans, and in that filing we fully accounted for the current flawed Risk Adjustment model. Until repaired, it is the standard in place.

This resulted in a charge of over 25% of premium – over $5M -- to establish a reserve in the event that the Company does need to again pay a huge amount to one or two very large competitors. This calculation was based upon the contested 2014 results. That is only a single data point – and one the Company believes is flawed – but it is the only data point available. We believe that a properly administered Risk Adjustment program would reflect significantly lower liability. As more data becomes available – and if any additional guidance regarding fixes to Risk Adjustment becomes available – this will be updated in future quarters. We expect a high degree of volatility on Risk Adjustment for the Company and indeed all smaller, higher-growth, lower-premium plans in the Commonwealth and operating under the Federal methodology.

Massachusetts has been in a unique position in the national efforts to reform healthcare. Acting in a bi-partisan fashion and including all stakeholders, the Commonwealth achieved virtually universal coverage years ago. The focus has shifted to making healthcare more affordable, and many fundamental drivers of that reform have begun to take root. As a plan that delivers lower premiums because of our partnership with high-efficiency providers, Minuteman has been proud to be a part of this key public policy imperative.

We at Minuteman are grateful for the leading role the MA Division of Insurance and other state and federal officials have taken in highlighting the unintended consequences of the administration of the current Risk Adjustment program. This program needs significant fixes and needs them soon. The good news, however, is that successful Risk Adjustment programs do exist. Those examples and a rigorous review of the data now available can help policymakers evaluate the reality of the version 1.0 outcomes held up against the theory of the intended design.

Aside from the Risk Adjustment changes noted above, Minuteman's results continue to track with both Q1 and the Company's internal 2015 budget. Minuteman is honored to be able to partner with high quality physicians and health systems to deliver for our members, and look forward to continuing to serve our community.

Sincerely,

Tom Policelli, CEO of Minuteman Health