Planning and Establishing the North Carolina Health Benefit Exchange

In-Person TAG Meeting #3

February 16, 2012

MANATT HEALTH SOLUTIONS

MERCER

OLIVER WYMAN

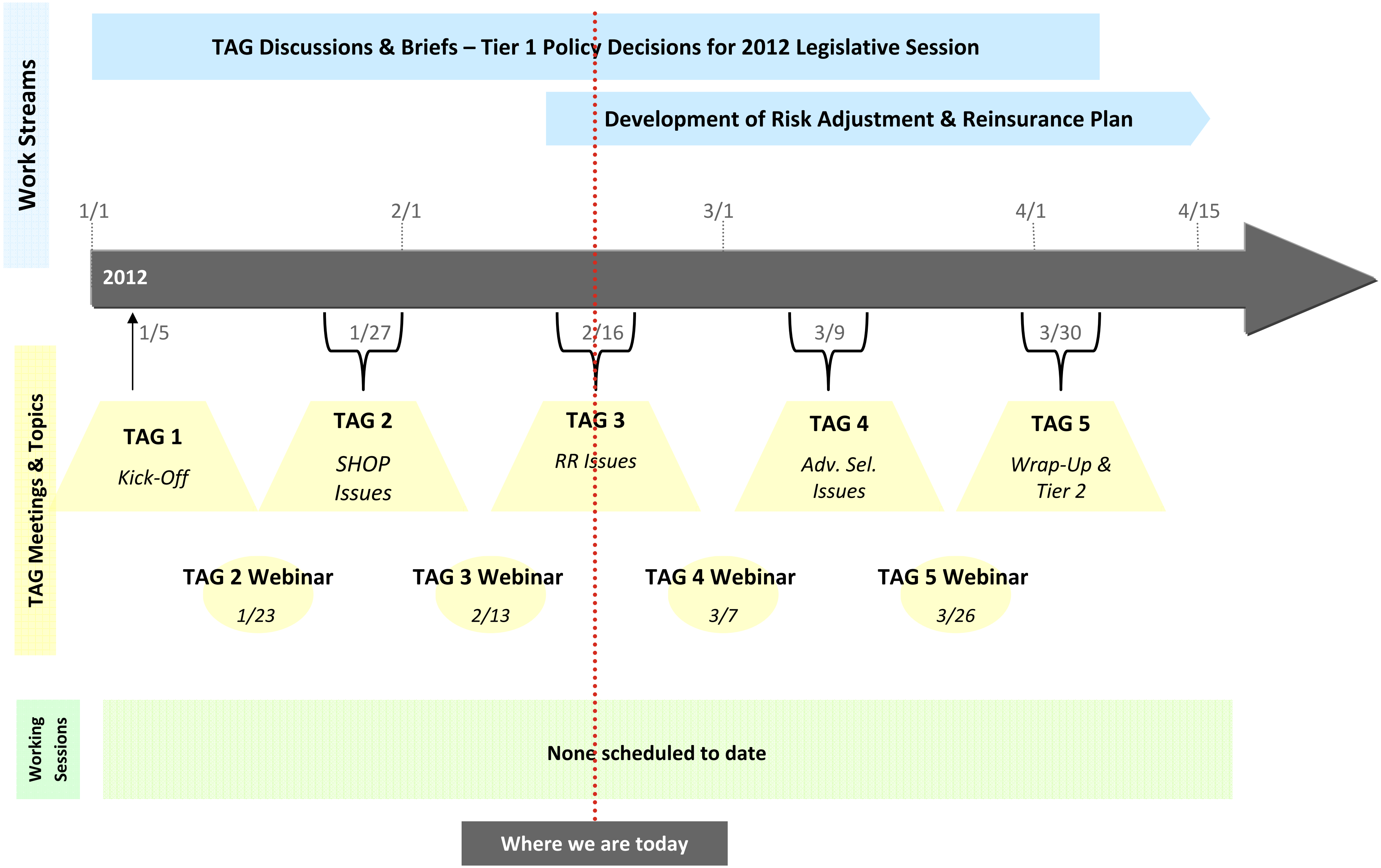
Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

TAG Deliberations – Work Plan for <u>2012</u> NCGA Session



Project Goal and Meeting Objectives

Project Purpose: *Develop policy options and considerations and identify areas of consensus to inform the NC DOI recommendations to the NCGA on Exchange-related market reform policies.*

(pursuant to North Carolina Session Law 2011-391)

"It is the intent of the General Assembly to establish and operate a State-based health benefits Exchange that meets the requirements of the [ACA]...The DOI and DHHS may collaborate and plan in furtherance of the requirements of the ACA...The Commissioner of Insurance may also study insurance-related provisions of the ACA and any other matters it deems necessary to successful compliance with the provisions of the ACA and related regulations. The Commissioner shall submit a report to the...General Assembly containing recommendations resulting from the study."

-- Session Law 2011-391

Goals for Today's Meeting

- Finalize statement of TAG Values
- Confirm TAG 2 meeting minutes
- Confirm Options and Decision Points for Each of the Policy Questions Related to Reinsurance and Risk Adjustment
- Identify Considerations for Each Policy Option
- Identify Any Points of Consensus Within Each Policy Question

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Statement of Values to Guide TAG Deliberations

The TAG will seek to evaluate the market reform policy options under consideration by assessing the extent to which they:

- Expand coverage;
- Improve affordability of coverage;
- Provide high-value coverage options in the HBE
- Empower consumers to make informed choices;
- Ensure predictability for market stakeholders, competition among plans and long-term sustainability of the HBE;
- Support innovations in benefit design, payment, and care delivery that can control costs and improve the quality of care; and
- Facilitate improved health outcomes for North Carolinians.

TAG Input: Coverage; affordability to consumers

TAG Input: Consumer empowerment & informed choice; affordability to consumers; ease of customer engagement; accountability through transparency

TAG Input: Stability for stakeholders; improved competition; HBE sustainability

TAG Input: Innovations in payment & care delivery

TAG Input: Improved care delivery & health outcomes

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Risk Adjustment, Risk Corridor, and Reinsurance Programs Overview

Program	Reinsurance	Risk Corridors	Risk Adjustment
Description	Eases impact of high risk individuals entering Exchange market	Protects against inaccurate rate-setting; encourages exchange participation	Protects against adverse selection issues both in and out of the Exchange
Administration	State or HHS[1]	HHS	State or HHS[2]
When	2014-2016; temporary	2014-2016; temporary	2014 and subsequent years
Plans Impacted	Non-Grandfathered Individual Plans[3]	Individual & Small Group	Non-grandfathered Individual & Small Group Plans
Market Focus	In & Out of Exchange	In Exchange	In & Out of Exchange

Managing Risk Under ACA

- Protects carriers from large losses & consumers from large premium increases
- Stabilizes premiums in the Exchange and reduces uncertainty for participating carriers
- Used together to reduce risk for carriers and help mitigate effects of adverse selection
- Helps establish a level playing field inside and outside the Exchange
- Encourages carrier participation by providing financial protection
- Eases transition into an Exchange environment

= Out of scope for TAG discussion; no decision points required at this time

[1]Must be administered by the state if the state elects to operate a state-based exchange

[2]Can be administered by the state OR the federal government if the state elects to operate a state-based exchange

[3]Payments funded by all commercial health insurers and TPAs of self-insured plans both in and out of the exchange, including grandfathered plans

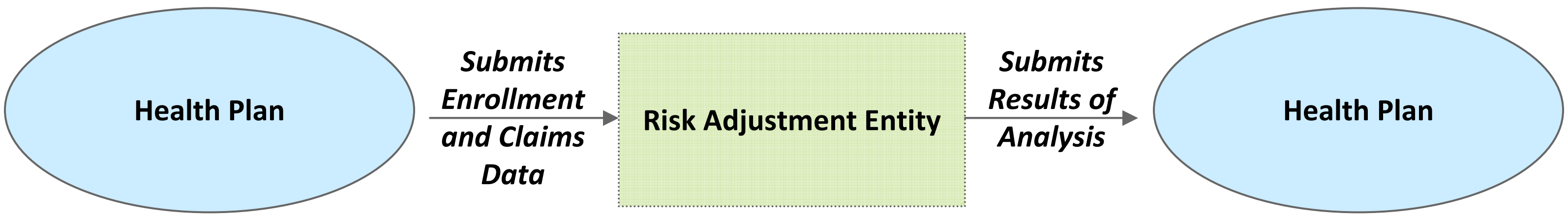
TAG Meeting #3 Issues for Discussion

Risk Adjustment and Reinsurance Market Discussion Items

- **Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision?**
- If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities?
- Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC?

Risk Adjustment Scenario

Risk adjustment is the process through which the actual health risk of the enrolled members is assessed across plans. Adjustments are made to compensate plans who have sicker than average members and to take funds away from those with healthier than average members.



- Sells policies either inside and/or outside of the exchange
- Notices that utilization is higher than anticipated

- Accepts data from all plans
- Applies the risk-adjustment model
- Identifies risk score and corresponding payment (or amount owed)

- Risk score comes back at 1.10 (Note: Average risk of market is 1.00)
- Plan does have higher risk (i.e.- sicker members than other plans in the market)
- Plan is eligible for a payment

Relevant Laws and Regulations

ACA and Federal Guidance:

- **ACA provides for a program of risk adjustment (RA) for all non-grandfathered plans in the individual and small group markets both in and out of the exchange.** (*PPACA Section 1343)*
- **HHS, in consultation with the states, must establish criteria and methods for RA** *(PPACA Section 1343(b))*. **To fulfill this requirement, a "federally-certified risk adjustment methodology" will be developed and authorized by HHS to be used by states in determining average actuarial risk.** *(Reinsurance & Risk Adjustment NPRM §153.320)*
- **States may develop an alternate RA methodology which may become a Federally-certified RA methodology through HHS certification.** *(Reinsurance & Risk Adjustment NPRM §153.320(a)(2))*

- A state's alternate RA methodology should offer similar or better performance in that state than the Federally-certified RA methodology as determined based on specified criteria. *(Reinsurance & Risk Adjustment NPRM §153.320(a)(2))*

-After HHS approves a state alternative RA methodology, that methodology is considered a Federally-certified RA methodology. *(Reinsurance & Risk Adjustment NPRM §153.320(a)(2))*

- To assist states in assessing a potential alternate RA methodology, HHS will publish the basic standards any alternate RA methodology must meet in forthcoming guidance. *(Reinsurance & Risk Adjustment NPRM §153.320(c))*

- **States operating risk adjustment programs must use one of the Federally-certified risk adjustment methodologies that HHS will publish in future guidance which will include a full description of the risk adjustment model.** *(Reinsurance & Risk Adjustment NPRM §153.320(b))*

Pending Federal Guidance:

- Reinsurance & Risk Adjustment Final Rule currently at Office of Management & Budget (OMB) for review; expected publication in February 2012.
- HHS will release details about the federal model and an advance notice on federal parameters in mid-October 2012. States will have 30 days to submit requests to HHS for alternative risk adjustment model review and certification. In mid-January 2013, HHS will respond to state alternative models and publish the final notice.

Requirements and Functions to Develop a Risk Adjustment Model

Developing a risk adjustment model requires:

- Selection of the preferred risk adjustment model (i.e. the baseline software tool) and the technical decisions around that tool
  - Prospective vs. Concurrent/Retrospective model; Inclusion/exclusion of pharmacy categories; Data fields to be used (e.g. first five diagnosis fields versus all available); Appropriate premiums to apply risk adjustment results, etc.
- A risk adjustment methodology (rating parameters, etc.)
- Data collection and submission, model calibration, risk score calculation and reporting, charge/payment calculation and processing etc.
- Accessing, collecting, storing and analyzing large volumes of enrollment and claims data
- Establishing a data warehouse or using an All Payer Claims Database (APCD)
  - Often requires considerable time (many years) and budget.
  - NC does not have an existing APCD.

Timing is critical to the success of state alternative risk adjustment models.
If NC is leaning towards a state-based risk adjustment model, planning and data collection should begin ASAP.

Considerations

Any state operating an exchange may establish a risk adjustment program. If NC chooses to develop a risk adjustment model, it will administer all the risk adjustment functions (data collection and submission, model calibration, risk score calculation etc). Establishing a new risk adjustment model will be difficult given the tight timeline, even for states that have an existing All Payer Claims Database or existing resources and data infrastructure.

Pros of Developing and Administering a NC-based RA model	Cons of Developing and Administering a NC-based RA model
▪ Reflect NC insurance market characteristics ▪ Improved integration with other state programs such as rate review, reinsurance programs, etc.	▪ Financial burden to develop and maintain the model ▪ May cause confusion and additional costs for multi-state issuers ▪ Lack of APCD will add to the burden of developing NC-based model ▪ Additional detail forthcoming in the final regulations and in plan notice may reveal full extent of the risk adjustment responsibilities ▪ Risk adjustment tasks will be challenging in the first few years as there is no robust data set to set risk scores

Administration costs are in addition to development costs, and could be funded by exchange operations or through other mechanisms.

Responses from Other States & Stakeholders

Other States' View Points and Approaches

- No states, thus far, have formally opted for a state-specific model. Massachusetts, Minnesota, Maryland, New York and Oregon appear to be the only candidates in a position to pursue this.
  - Massachusetts "greatly appreciate HHS's openness to allowing states that elect to operate a state-based Exchange to define their own risk adjustment model and methodology, subject to federal certification."[1]
  - Minnesota "is pleased that the proposed rule allows States with all payer claims databases the ability to propose an alternative State-based risk adjustment approach. However, we request that HHS be more specific about the validation requirements... We recommend that HHS develop a prospective risk adjustment model. We also suggest that HHS consider specific risk adjustment processes for the Native American population."[2]

[1]Massachusetts Letter to CMS, October 31, 2011; Comment Period on the Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Proposed Regulation.

[2]Minnesota Letter to CMS, October 31, 2011; Comment Period on the Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Proposed Regulation.

Discussion - Options and Considerations

Options	Considerations (Examples)
1. Defer to the Federal Risk Adjustment Model	• Would allow NC to focus on other important ACA-implementation requirements • Federal model would not reflect NC Insurance market characteristics
2. Defer to the Federal model now, but evaluate state specific model for later	• Allows NC to focus on other important ACA- implementation requirements, while also moving forward in planning and/or analysis for a state-model option in the future • Federal model would not reflect NC Insurance market characteristics
3. Explore development and administration of a NC-based risk adjustment model	• Allows NC to use a risk adjustment model that will reflect NC Insurance market characteristics • Timeframe and cost associated with pursuing this option may be prohibitive in the short-run
4. Other?	• TBD

Options and Action Steps

Options	Action Steps
1. Defer to the Federal Risk Adjustment Model	• Wait for the federal model details that will be available October 2012 • Implement the model in NC (to be discussed next)
2. Defer to the Federal model now, but evaluate state specific model for later	• Re-evaluate decision at a later date after federal risk adjustment implementation

3. Explore development and administration of a NC-based risk adjustment model	• Start planning process for risk adjustment methodology now
	• Develop a broad work plan, which would include items such as:
	  ▪ Establishing a data warehouse
	  ▪ Selecting a vendor and develop NC-specific model
	  ▪ Selecting an entity to administer the NC-specific risk adjustment program
	• Meet the federal timelines and requirements

4. Other	• TBD?

TAG Meeting #3 Issues for Discussion

Risk Adjustment and Reinsurance Market Discussion Items

- Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision?
- **If NC defers to the federal model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities?**
- Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC?

Relevant Laws and Regulations

ACA and Federal Guidance:

- States operating HBEs are eligible to establish risk adjustment programs; HHS will run the risk adjustment program for states that elect not to establish an exchange and/or not to administer a risk adjustment program. *(Reinsurance & Risk Adjustment NPRM §153.310)*
- State may elect to have an entity other than the exchange perform the risk adjustment functions provided that the selected entity meets the requirements for eligibility to serve as the exchange as proposed in §155.110 of Exchange Establishment NPRM. *(Reinsurance & Risk Adjustment NPRM §153.310)*

  - Eligible entities include entities incorporated under and subject to the laws of one or more states that has demonstrated experience on a state or regional basis in the individual and small group markets and in benefits coverage and is not a health insurance issuer. Eligible entities include state Medicaid agencies. The entity must also meet specified requirements related to the structure of its governing board and related governance principles. *(Exchange Establishment NPRM §155.110)*

Requirements to Perform Risk Adjustment

- Risk adjustment expertise to administer the program and ensure accuracy of calculations/federal model administration
- Ability to receive and transmit data, data validation and maintain compliance with all applicable privacy and security standards
- Coordination with reinsurance, rate review and other programs, as needed
- Ability to make claim and encounter data available to HHS
  - Provide HHS with de-identified data for recalibrating Federally certified risk adjustment models
  - Provide HHS with summarized claim costs for verifying risk corridor submissions
  - Provide reinsurance entity with summarized claim data for payment verification, and individual level data for reinsurance audit purposes
- Ability to receive and make risk adjustment payments to insurers

Considerations

If NC does not develop a NC-based risk adjustment model, it can choose to administer the risk adjustment program or defer it to HHS. If NC opts to administer the risk adjustment program they must collect the data and meet other federal requirements. The state can select qualified entities such as state exchanges, insurance departments or a new state entity.

Pros of Deferring	Cons of Deferring
▪ Allows NC to focus on other areas of health reform implementation ▪ Takes advantage of federal resources and experience in risk adjustment programs ▪ Easier compliance with federal rules	▪ Less than ideal coordination with reinsurance, rate review and other state programs ▪ NC state resources may still be needed beyond risk adjustment administration (e.g. audit data, provide a data warehouse etc.)

There may be costs associated with deferring the program to HHS. At this time, it is unclear how to weigh these costs against administration of the federal risk adjustment model at the state level.

Responses from Other States & Stakeholders

Other States' Perspectives and Approaches

To date, no states who are operating a state-based exchange have formally deferred risk adjustment to the federal government.

- States, such as Arkansas, who have elected a federal exchange will have their risk adjustment program administered by the feds.
- Massachusetts "The Health Connector strongly supports HHS's perspective that an intermediate State-level approach in which claims data is collected and aggregated at the state level is the most balanced option for states that elect to implement a state-based risk adjustment process."[1]

Excerpts of National Dialogue

- **American Academy of Actuaries:** "Because the risk-adjustment mechanism will be administered at the state level, perhaps often by the states themselves, it could be argued that the data collection decision should be left to the states. A centralized approach can be viewed as vulnerable to data privacy issues; however, the advantage of a centralized national approach is that it facilitates uniformity across states, economies of scale for the administering agency/agencies, and a lowering of administrative expenses for multi-state issuers."[2]
- **Center of Budget and Policy Priorities:** "The Secretary should establish uniform basic standards for how states shall determine the entity that will administer risk adjustment. Possibilities include state exchanges, insurance departments, a new state entity, or the federal government."[3]

[1]Massachusetts Letter to CMS, October 31, 2011; Comment Period on the Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Proposed Regulation.

[2]AAA Letter to CMS, October 28, 2011; Comment Period on the Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Proposed Regulation.

[3]CBPP Ensuring Effective Risk Adjustment: An Essential Step for the Success of the Health Insurance Exchanges and Market Reforms under the Affordable Care Act. May 18, 2011.

Discussion - Options and Considerations

Options	Considerations (Examples)
1. Defer the risk adjustment program administration to HHS	• Allow NC to focus on other important ACA-implementation requirements
2. Administer the risk adjustment program at the state level	• Allows better coordination of risk adjustment with other state-administered programs, such as reinsurance
3. Work on a hybrid approach with other states for administration	• Would spread administrative costs; likely lower costs to NC
4. Work on a hybrid approach with the feds for administration	• Enables state to participate in select areas of risk adjustment, which may help ease transition into taking on full risk adjustment operations later on
5. Other	• TBD

Options and Action Steps

Options	Action Steps
1. Defer the risk adjustment program administration to HHS	• Cede all administration responsibilities to the feds • Start planning coordination with HHS on any state responsibilities under this option
2. Administer the risk adjustment program at the state level	• Do not defer any functions to the federal government; administer entirely at the state level • Determine risk adjustment program details such as financing, governance and oversight • Select a qualified entity to perform the risk adjustment functions
3. Work on a hybrid approach with other states for administration	• Pursue hybrid approach with other states, via a multi-state partnership ▪ Reach out to other states to explore partnership opportunities
4. Work on a hybrid approach with the feds for administration	• Pursue hybrid approach with the federal government based on partnership options allowed at the federal level (Details TBD) ▪ Determine which functions are preferred to be done in NC vs. at the federal level ▪ Negotiate with CMS in terms of shared responsibility
5. Other	• TBD

Discussion - Entities Suited for Risk Adjustment Administration

- Incorporated under state laws, experienced with small group and individual markets and not a health insurance issuer
- A neutral risk adjustment administrator with no conflict of interests
- Has risk adjustment expertise to administer the program, or be well-positioned to hire or contract for that expertise
- Has authorization and budget to administer the risk adjustment program
- Provides operational transparency, including a hotline for issuer questions and maintenance of records for audits
- Complies with any regulatory requirements potentially subject to oversight by responsible agency

- *TAG to insert examples of entities here*
- *??*
- *??*
- *??*

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

TAG Meeting #3 Issues for Discussion

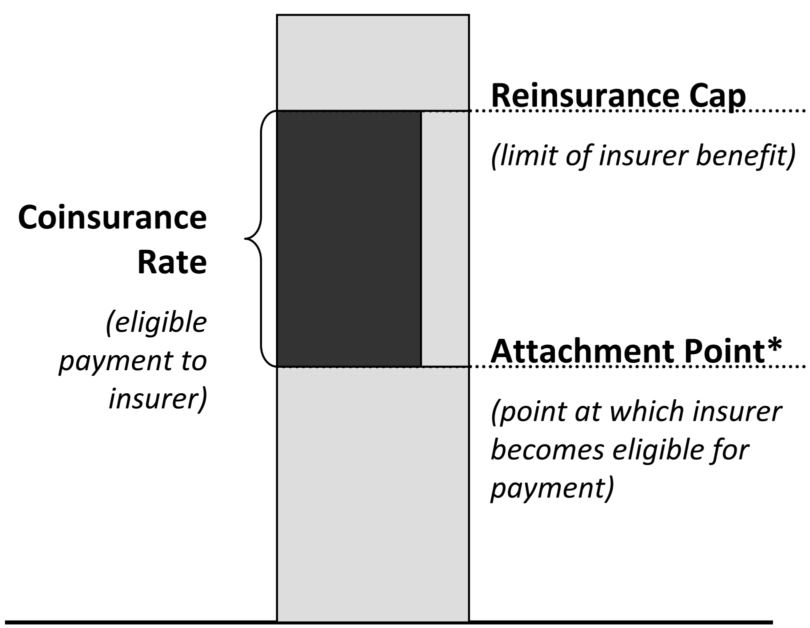
Risk Adjustment and Reinsurance Market Discussion Items

- Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision?
- If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities?
- **Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC?**

Reinsurance Details

The reinsurance is __funded__ by all commercial health insurers and TPAs of self-insured plans both in and out of the exchange, including grandfathered plans. Benefits are __paid__ to non-grandfathered individual market plans in or outside of the exchange.

Payment Model for Reinsurance



Reinsurance Model

= Paid by Reinsurer **= Paid by Health Insurer**

Sample Reinsurance Calculation

Reinsurance Parameters	
Attachment Point	$50,000
Coinsurance Rate	80%
Reinsurance Cap	$150,000
Insurer Liability if Total Claims Cost is $200,000	
Initial Claims Up to Attachment Point	$50,000
Claims Cost Up to Reinsurance Cap	$20,000 (20% x $100,000)
Claims in Excess of Reinsurance Cap	$50,000
Total Claims Cost Insurer	**$120,000**
Total Reinsurance Benefit	**$80,000**

*Attachment point is met when expenses for items and services within the essential health benefit package meet a certain $ amount

Source: Manatt Analysis; Wakely Consulting, *Analysis of HHS Proposed Rules on Reinsurance, Risk Corridors and Risk Adjustment*, July 2011

Relevant Laws and Regulations

ACA and Federal Guidance:

- By January 1, 2014 each state must establish a transitional reinsurance program to help stabilize premiums for coverage in the individual market during the first three years of exchange operation. *(PPACA Section 1341)*
- States must enter into a contract with an existing "applicable reinsurance entity" or establish an applicable reinsurance entity to administer the reinsurance program. *(PPACA Section 1341(a))*
  - "Applicable reinsurance entity" means a "not-for-profit organization the purpose of which is to help stabilize premiums for coverage in the individual market in a State during the first 3 years of operation of an exchange." *(PPACA Section 1341(c))*
  - PPACA allows state flexibility in selecting an applicable reinsurance entity and proposed regulations do not provide more specific guidelines. *(Reinsurance & Risk Adjustment NPRM Preamble)*
- States may have more than one reinsurance entity. *(PPACA Section 1341(c)(2)*)
  - States that choose to have more than one reinsurance entity must publish information regarding geographic divisions between applicable entities; these divisions must be distinct and, together, cover the entire individual market in the state. *(Reinsurance & Risk Adjustment NPRM §153.210(a)(2))*
- Applicable reinsurance entities may operate reinsurance programs for more than one state, provided the entity maintains separate risk pools for each state's program. *(PPACA Section 1341(c)(2) and Reinsurance & Risk Adjustment NPRM §153.210(b))*

North Carolina Statute:

- Small Group Reinsurance Pool Statute (*NCGS 58-50-150; no longer in effect*), NC Motor Vehicle Reinsurance Facility Act (*NCGS 58-37*), Mandatory or Voluntary Risk Sharing Plans (*NCGS 58-42*), Life and Health Guaranty Association Statute (*NCGS 58-62*) are all statutes which address establishment of reinsurance programs within the state.

Key Functions of the Reinsurance Entity

- Receiving and transmitting data, data validation and protecting the confidentiality of data
- Conducting financial transactions, such as funds collection, management and disbursement
  - Reconciliation of data and financial transactions, such as contribution and payments
- Adjusting payments upon request to address shortfalls and excess contributions
- Analyzing and reporting, such as providing reports and data to the DOI, issuers, CMS
- Completing detailed financial analyses and projections on current and expected future federal contributions, attachment point, coinsurance rate and reinsurance cap
- Issuing annual notification on state parameters if different from federal parameters
- Providing a hotline for issuer questions, maintenance of records for 10 years
- Meeting transparency standards, such as disclosing any conflict of interest and being subject to financial audit
- Mitigating conflict of interest with any subcontractors

Reinsurance Entity Characteristics in Current NC Law

- North Carolina has established reinsurance entities through statute in the past.*
- Statutes generally establish basic parameters for the organizational and governance structure of the entity and set forth its functions and duties, while providing flexibility to the entity to establish specific operational processes.
- Statutes generally specify:
  - Organizational form (i.e., non-profit)
  - Basis for participation, including whether participation is mandatory and whether exemptions exist
  - Form of governing board (e.g., number of members, board representation, appointment process, length of terms, etc.)
  - Requirement that bylaws be established
  - Requirement that "Plan of Operations" be created, with high-level operational processes that must be addressed in plan, subject to Commissioner approval
  - Participation requirements (e.g., submission of data to entity)
  - Funding mechanisms/fee assessment amounts
  - Requirements for financial audits

* Relevant Statutes include: Small Group Reinsurance Pool Statute (*NCGS 58-50-150*), NC Motor Vehicle Reinsurance Facility Act (*NCGS 58-37*), Mandatory or Voluntary Risk Sharing Plans (*NCGS 58-42*), Life and Health Guaranty Association Statute (*NCGS 58-62*).

Discussion- Reinsurance Policy Decisions

- Setting state-specific reinsurance payment parameters such as attachment point, coinsurance and reinsurance cap amounts
- Dealing with shortfalls and excess reinsurance contributions
- Increasing the carrier assessment above what is federally required or leaving the assessment "as is"
- Establishing a roadmap for transition of high risk pools into the individual exchange
- Sorting through the complexities associated with specific requirements (such as data submission standards for claims and enrollment for each benefit year and setting up a schedule for submission of data and payments to issuers/US Treasury)
- Establishing compliance monitoring tools, mechanisms and processes and reporting results

TAG to discuss who should have the authority to make reinsurance policy decisions. Examples for consideration include a state entity (such as the DOI), the legislature, and/or the reinsurance entity

- *??*
- *??*

Discussion- Technical or Operational Capacity

- Ability to collect contributions, process claims and make payments promptly
- Familiarity with reinsurance programs
- Capacity to house significant amounts of data for a long period of time to comply with federal auditing standards
- Sufficient longevity to pay reinsurance claims after 2016
- Use of HIPAA transaction standards for data collection
- Low administrative costs
- Authority to collect contributions

The TAG will discuss what technical or operational capabilities the non-profit entity who will have responsibility for the administration of reinsurance must possess.

- *??*
- *??*

Discussion- Governance and Organizational Characteristics

- Non-profit entity versus a non-profit subsidiary of a for-profit entity
- Existing entity versus new entity
- Single state entity versus multi-state entity (for administration only)
- Governing board composition and representation
- The role of the state in governance, oversight and/or policy-making
- Audit requirements
- Establishment of by laws or operational plans

The TAG will discuss what governance and organizational characteristics are important to have in the non-profit entity who will have responsibility for the administration of reinsurance as well as which entities meet these characteristics.

- *??*
- *??*

Agenda

9:00 – 9:10	**Welcome and Introductions**
9:10 – 9:15	Project Timeline and Goals/Objectives of Today's Discussion
9:20 – 9:35	Review of TAG #2 Meeting Minutes
9:35 – 9:45	Statement of Values for TAG
9:45 – 10:30	Issues for Discussion in TAG Meeting #3 ▪ Should NC explore development and administration of a NC-based risk adjustment model? What issues influence this decision? (15 mins) ▪ If NC does not develop its own model, what role should NC play in administering the federal risk adjustment model at the state level? What entities are best suited to take on these administration responsibilities? (30 mins)
10:30 – 10:45	*Break*
10:45 – 11:45	Issues for Discussion in TAG Meeting #3, continued ▪ Who should make reinsurance policy decisions in NC? What characteristics should the non-profit entity responsible for the administration of reinsurance in NC have? What, if any, existing entities could administer reinsurance in NC? (60 mins)
11:45 – 12:00	Wrap Up and Next Steps

Next Steps

- **Review meeting minutes once released**
  - Minutes reflect points of consensus and considerations discussed during today's meeting, which will be used to develop issue briefs
  - Email comments or thoughts on additional considerations or options to agarcimonde@manatt.com
- **Attend next webinar on Wednesday, March 7th 2012 from 12PM to 1PM**
  - Dial in information forthcoming from the NC DOI
  - Topics will be related to Leveling the Playing Field to Mitigate Adverse Selection
    - 1. How should rating areas be defined?
    - 2. Should insurers be required to participate in the exchange?
    - 3. What participation level should be required, if any, for insurers operating in the exchange? (e.g. across each metal tier)
    - 4. What participation level should be required, if any, for insurers operating in the exchange and outside of the exchange? (e.g. offering catastrophic coverage outside the exchange may require some level of exchange participation)
- **Attend next in person meeting on Friday, March 9th 2012 from 9:30AM to 12:30PM**