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# Considerations for Health Risk Adjustment in the Basic Health Program in Program Year 2015

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Centers for Medicare & Medicaid Services  
Office of the Actuary and the Center for  
Medicaid and CHIP Services

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## **Overview**

This paper provides information for states interested in the Basic Health Program (BHP) option of retrospective risk adjustment. The Centers for Medicare & Medicaid Services (CMS) outlined in its final payment methodology issued on March 12, 2014 the process by which states can pursue this risk adjustment methodology. This paper provides more specifics about the certified methodology that CMS would require for risk adjustment calculations that would help adjust payments based on the differences in anticipated versus actual health status of the population in the BHP program.

## **Introduction**

Section 1331 of the Affordable Care Act provides for the establishment of BHP, which is available to states to operate at their option. BHP provides affordable health benefits coverage for individuals under age 65 with household incomes between 133 percent and 200 percent of the Federal poverty level (FPL), who are not otherwise eligible for Medicaid, the Children's Health Insurance Program (CHIP), or affordable employer sponsored coverage. Federal funding is available for BHP based on the amount of premium tax credit (PTC) and cost-sharing reductions (CSR) that BHP enrollees would have received had they been enrolled in QHPs through the Marketplace. CMS published a BHP final rule and a payment methodology, the "Basic Health Program; Federal Funding Methodology for Program Year 2015" on March 12, 2014 (CMS-2380-FN) that outlines more specifics of the BHP program requirements and the funding methods.

As described further in the BHP final rule, CMS will publish, on an annual basis, a proposed and final payment notice with the Federal funding methodology in a given BHP program year. The notices will contain the methodology and data sources CMS will use to determine the Federal BHP payments in a given program year. The certified BHP funding methodology for program year 2015 includes an option for states to develop a protocol, subject to CMS approval, to collect data and effectively measure the relative health risk between BHP enrollees and Marketplace consumers and the potential effect such risk has on Federal payments. While the state has flexibility in determining how to conduct such an analysis, the certified Federal funding methodology for program year 2015 includes several requirements states must follow when submitting their protocols.

As part of the certified methodology for program year 2015, states implementing BHP have the option to propose and implement, as part of the certified methodology, a retrospective adjustment to the Federal BHP payments to reflect the potential difference in health status, or health risk, between BHP enrollees and consumers in the Marketplace. This health risk adjustment, based on data accumulated during program year 2015, would allow for an adjustment to the population health factor in the payment methodology thereby adjusting (either upwards or downwards) the Federal BHP payments for program year 2015. This population health factor would account for potential differences in health status between BHP enrollees and consumers in the individual market, including those obtaining coverage through the Marketplace,

and is intended to reflect how the premiums would have changed if BHP enrollees were enrolled in plans in the Marketplace instead of BHP.

CMS acknowledged in the final methodology that there is notable uncertainty with respect to this factor due to the lack of experience of qualified health plans (QHP) in the Marketplace and other payments related to the individual market, such as the reinsurance and risk adjustment payments. There is also uncertainty regarding whether the Basic Health Program (BHP) enrollees will pose a greater or lesser risk compared to QHP enrollees in the individual market, how best to measure such risk, and as noted earlier, the potential effect that such risk would have had on other individual market payments. As such, we have certified the funding methodology for BHP program year 2015 that includes a value for the population health factor which assumes no difference in the health status of BHP enrollees and QHP enrollees in the individual market.

In addition to the following requirements, CMS strongly encourages states submitting a protocol to address the considerations described in this white paper to provide for a more efficient review of the state's protocol. As specified in the final Federal methodology, the protocol must:

1. Include how the state will collect the necessary data to determine the adjustment, including any contracting contingencies that may be in place with participating standard health plan offerors;
2. Be submitted to CMS by August 1, 2014 in order for CMS to begin the review and approval process;
3. Receive CMS approval no later than December 31, 2014.

Finally, the state must complete the population health status adjustment at the end of 2015 based on the approved protocol. After the end of the 2015 program year, and once data is made available, CMS will review the state's findings, consistent with the approved protocol, and make any necessary adjustments to the state's Federal BHP payment amount. If CMS determines that the Federal BHP payments were less than they would have been using the final adjustment factor, CMS would apply the difference to the state's quarterly BHP trust fund deposit. If CMS determines that the Federal BHP payments were more than they would have been using the final reconciled factor, CMS would subtract the difference from the next quarterly BHP payment to the state.

### **Specific Considerations**

In order to facilitate CMS' review of a state's risk adjustment protocol, we expect that the following elements to be included in the protocol. The elements listed below include information that we would like to see during an initial review of the state's protocol. We anticipate further discussions with the state after the initial review has been completed.

1. Data

We expect that the protocol would provide information on the data that would be used to calculate the health risk adjustment. This would include the following information:

- The source or sources of data used to measure the relative health status or risk of BHP enrollees and QHP enrollees in the individual market;

- The type of data that will be used to measure the relative health status or risk;
- How the state will collect any data from the BHP plans used for the health risk adjustment;
- How the state will ensure data quality and validity for any data that it collects.

We would expect that the data collected for BHP enrollees and QHP enrollees in the individual market would be similar enough to calculate the average health status or risk consistently across the two populations. While CMS will not require it, we believe that using data similar to what is collected and used to calculate health status for QHPs in the individual market would be a reasonable option for this methodology.

We also expect that the protocol describe any data security requirements to protect enrollees' personal and health information.

## 2. Model

We expect that the protocol would specify the model that would be used to calculate the health risk adjustment. This would include the following information:

- The specific model that is being used to measure the relative health status or risk of BHP enrollees and QHP enrollees in the individual market;
- A general description of the model.

We would expect that the same model would be used to measure the average health status or risk for both BHP and QHP enrollees in the individual market. In addition, we would expect that the data collected and used would be consistent with the model selected.

While there are a number of risk models in use today, we believe that a reasonable option would be to adopt the risk adjustment methodology when HHS operates risk adjustment (Links to publications related to the Marketplace risk adjustment methodology are provided later in this paper).

## 3. Calculation

We would expect that the protocol would describe in detail how the calculation of the health risk adjustment will be made. It would be incorrect to calculate the health risk adjustment as a ratio between the average health status or risk of the BHP enrollees and that of the QHP enrollees in the individual market.

- a. The population health factor (PHF), as described in the payment notice, should be calculated as the ratio of the average health status or risk of the combined BHP and QHP enrollee population in the individual market to the average health status or risk of the QHP enrollee population in the individual market, and in consideration of the adjustments we describe later in this section. This would best reflect the impact that the addition of BHP enrollees to the individual market would have had on average QHP premiums.

- b. We would expect the protocol to consider how to adjust for factors that affect the risk scores and the BHP payment. In particular, this would include the enrollees' age. As age is a factor both in determining health status and in determining BHP payments, the protocol should describe how this will be addressed in the methodology.
- c. We would expect the protocol to consider the actuarial value of the BHP plan and silver level QHPs in the individual market, including the effect of cost-sharing reduction subsidies for eligible persons enrolled in QHPs, to the extent that any differences exist. We would also expect the protocol to ensure that differences in benefits between the BHP plans and the QHPs in the individual market would not affect the calculation of the average health status or risks of the populations.
- d. We also expect that the calculation would be done statewide and across all age groups. We do not intend to implement different adjustments by geographic area or by other rating factors (such as age or coverage category).

#### 4. Population health factor (PHF)

The PHF is defined as part of the BHP funding methodology in section III.D.2 of the 2015 final Federal methodology. The PHF is used to calculate the adjusted reference premium, which is used to calculate both the estimated PTC and estimated CSRs in the BHP funding methodology.

For a state with an approved protocol to calculate the health risk adjustment for 2015, that protocol will be used to calculate the PHF. The BHP payment will then be recalculated using this value for the PHF (the payment methodology otherwise specifies a value of 1.00 for the PHF in 2015). If the PHF has a value less than 1, it would indicate that the BHP enrollees are measured to have a lower health status than the QHP enrollees, and the BHP payment would be reduced. If the PHF has a value greater than 1, it would indicate that the BHP enrollees are measured to have a higher health status than the QHP enrollees, and the BHP payment would be increased.

#### 5. Health risk adjustment process

The state should also discuss the process for calculating the health risk adjustment. This description should include the schedule for each step in the calculation of the adjustment (e.g., data collection and submission, data analysis, calculation of average health status or risk, etc.), along with other relevant information about the process.

#### 6. Standard health plan contracts

The state should describe any anticipated or negotiated terms and conditions with standard health plan offerors providing coverage as part of the BHP related to the health risk adjustment. These terms and conditions may include risk adjustments to payments to the plans or adjustments to the payments that are dependent on the BHP health risk adjustment that is part of the protocol.

## 7. Process for submitting and approving health risk adjustment protocol

As noted earlier, the state must submit its proposed health risk adjustment protocol to CMS by August 1, 2014. Please send the health risk adjustment protocol as well as any requests for technical assistance to:

Christopher Truffer at [Christopher.Truffer@cms.hhs.gov](mailto:Christopher.Truffer@cms.hhs.gov) and Jessica Schubel at [Jessica.Schubel@cms.hhs.gov](mailto:Jessica.Schubel@cms.hhs.gov).

While the considerations included in this paper are not necessarily required elements addressed in the protocol, they will help CMS during the initial review of the submitted protocol. We envision working closely with those states that have submitted protocols in order to finalize the protocol by December 31, 2014.

## 8. Resources

There are several resources that may be useful to states developing a health risk adjustment protocol. First, the preamble of the HHS Notice of Benefit and Payment Parameters for 2014 describes the HHS Risk Adjustment Methodology. The proposed and final notices can be found at:

Proposed:

<http://www.gpo.gov/fdsys/pkg/FR-2012-12-07/pdf/2012-29184.pdf>

Final:

<http://www.gpo.gov/fdsys/pkg/FR-2013-03-11/pdf/2013-04902.pdf>

CMS will not require states to follow the requirements in this notice for the purposes of BHP, but the documents may be a helpful resource for states.

In addition, instructions on risk adjustment and an Excel spreadsheet that could be used in developing a risk adjustment model or calculations have been provided by CCIIO and are available at the following links:

<http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/ra-instructions-4-16-13.pdf>

[http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/ra\\_tables\\_04\\_16\\_2013xlsx.xlsx](http://www.cms.gov/CCIIO/Resources/Regulations-and-Guidance/Downloads/ra_tables_04_16_2013xlsx.xlsx)