2016 HHS Risk Adjustment Model Changes: Update for Final Rule

The Department of Health and Human Services (“HHS”) recently published its Final Rule to recalibrate the risk adjustment model for the Commercial ACA population. The Final Rule confirms HHS’s intent to use a three-year blended approach in calculating risk weights for the model. In the Proposed Rule (released November 2014), HHS published risk weights calibrated using 2010-2012 data with the option of using more recent data (if available). The Final Rule confirms that 2011-2013 data will be used to calibrate the 2016 risk weights and that the weights will be updated each year with the most recent three years of available data. As HHS indicated in the Proposed Rule, the intent is to better align the risk factors with more recent treatment patterns and cost.

Our initial assessment\(^1\) based on the Proposed Rule was that each health plan will be impacted differently depending on the risk profile, age and product mix of its ACA membership. This assessment also holds true for our review of the final risk weights.

Although there are some key differences in risk weights between the Proposed and Final Rules, our analysis shows that directionally the impact is consistent with our original analysis. However, the shift to the final risk weights further increases the value of diagnostic risk vs. demographic, as well as the value of specific high risk and high cost conditions.

The following are key insights from our comparison of the current (2014) risk weights and the final 2016 weights, with some key changes between the Proposed and Final Rules highlighted.

Changes won’t impact every health plan equally.

Changes in risk factors by hierarchical condition category (“HCC”) vary greatly, from an 80% increase for chronic hepatitis (vs. 62% in the Proposed Rule) to a 58% decrease for cerebral palsy (same as the Proposed Rule). Amongst the more prevalent conditions, certain conditions saw a modest decline in risk weights (e.g., Asthma), while others saw a significant increase (e.g., Rheumatoid Arthritis, HIV/AIDS). It is worth noting that the increase in some conditions was much greater in the final rule than it was in the proposed rule\(^2\).

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\(^1\) 2016 HHS Risk Adjustment Model Changes (Proposed Rule)

\(^2\) References the silver metal adult model from Health and Human Services, “Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2016”, November 26, 2014.
Plans with a disproportionate share of certain conditions, relative to the market, could see in excess of a 200 basis point impact to plan level risk scores. For a health plan with 100,000 ACA members, a 200 basis point decrease in plan level risk score relative to the market can reduce their transfer payment by over $5 million.  

Additional Key Insights:

| Risk Factor Updates by Metal Level | Risk weight updates vary across metals; and in some cases certain metals increased while others decreased  
| | e.g., Miscarriage – 1.7% increase for Silver, while Platinum increased 5.7%, and Bronze decreased 2.3%  
| | The spread between metal levels increased as compared to Proposed Rule  
| | In general, Platinum level risk weights saw the greatest increase |

| Significant Changes Made to Demographic Risk Factors | The share of demographic risk decreased, however still makes up 30-35% of a plan’s risk score  
| | Males 35-39 decreased the most with a reduction of 9-23% based on metal level |

| Infant model adjustments result in net decrease due to lack of birth claims | HHS confirmed that newborn infants with no birth claims will be treated the same as a 1 year old infant  
| | Net impact of this change is a 6-7% reduction in risk within the Infant Model  
| | Infant demographic risk scores increased 13-67% and most severity multiples increased as well (some as high as 15%) |

Impact Quantification Analysis:

Due to the significant impact of risk adjustment to health plan revenue and profitability, understanding the implications of these model changes will be critical for the following:  
- Rate Setting for ACA Products (i.e., Risk Adjustment Assumptions for Index Rates)  
- Product Design and Placement Decisions  
- Financial Management for ACA Book of Business (i.e., Risk and Revenue Management)  
- Financial Forecasting and Estimation of Intra-Plan and External Transfer Payments

HealthScape Advisors has developed a model that can estimate an issuer’s financial impact due to the 2016 risk adjustment model changes. Our analysis includes the following components:  
- Executive Summary with Transfer Payment Impact by Entity  
- Projected PMPM Risk Adjustment Estimates by Issuer (for Issuer Level Index Rate Calculation)  
- Financial Summary for Each Issuer, State and Risk Pool  
- Impact Comparison for Each Issuer vs. the Market  
- Detailed Prevalence and Risk Impact Report by Issuer, State and Risk Pool vs. the Market

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3 Assumes a health plan with 25% market share and a $300 state-wide average premium