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Stabilizing the Individual Health Insurance Market

What is the Role for Risk Adjustment and Risk Mitigation

#RAHelpsStability

Stabilizing the Individual Health Insurance Market: What is the Role for Risk Adjustment and Risk Mitigation?

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Project overview

Topics of summit

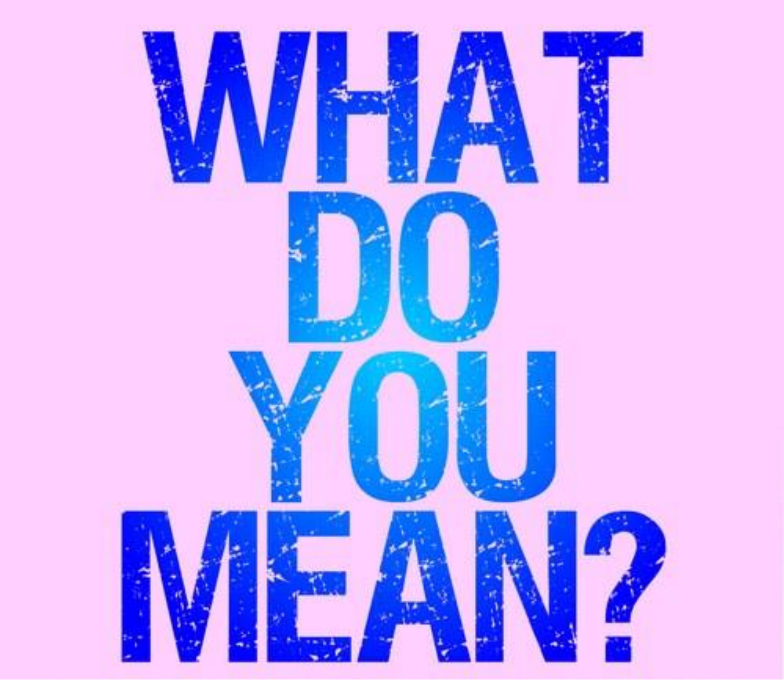
- What are the main objectives of risk adjustment (RA) and related risk-mitigation mechanisms?
- Past practice and lessons learned
- Changes to improve RA and risk mitigation for current individual market
- Structuring RA and risk mitigation under scenarios for a very different individual market

Not on the agenda:

- The wisdom of particular approaches to regulating the overall individual market

Issue brief released today

Today's panelists attended the summit



Definition of “communication”:

“A process by which information is exchanged between individuals through **a common system of symbols, signs, or behavior**”

Merriam-Webster dictionary

Multiple forms of risk selection

Risk selection against the market	Risk selection against a particular plan	Carriers compete by avoiding risk
Healthier people stay out of market and sicker people join the market	Plans attract members who are sicker than those in other plans	Carriers discourage enrollment by unhealthy people and encourage enrollment by healthy people
Result: Higher premiums market-wide	Result: Plans may lose money serving sicker members	Results: • Competition based on risk avoidance • High-cost consumers not well served

Risk-Mitigation Measures in the Individual Market

Measure	Basic operation	Key goals
Risk adjustment	Compensates for difference between members' risk and premiums	1. Insurers don't compete by avoiding risk 2. Consumers at all risk levels offered appropriate coverage
Reinsurance	Pays a percentage of claims > "attachment point"	1. Can lower market-wide premiums 2. Promotes stability, encourages carrier participation by limiting costs for very expensive members
Risk corridors	Plans are paid or pay if claims depart from targets by > specified percentages	1. Protects carriers from mispricing the market 2. Limits carrier exposure to unpredictable risks 3. Balances risks and rewards of market participation
High-risk pools	Public dollars help fund plans for high-cost members	1. Offers high-cost consumers appropriate coverage 2. Lowers premiums in remaining individual market

Selected points from summit

RA is important and hard to do well

- Federal staffing and ongoing attention will remain important

In current individual market, consider converting RA from zero-sum to guaranteed

If the individual market changes substantially

- Hard to price premiums
  - Something like guaranteed risk-corridors may be needed for robust carrier participation
- Significant interstate variation could challenge sound policymaking

For risk mitigation to lower premiums, significant external funding needed

- For attracting young and healthy enrollees, is risk mitigation the most effective use of finite dollars? Would higher subsidies, marketing, in-person enrollment assistance, etc., give better “bang for the buck”?

Funding for this project

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http://www.urban.org/about/funding-and-annual-reports


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