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?

Stan Dorn
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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
- Healthier people stay out of market and sicker people join the market

Result: Higher premiums market-wide

Risk selection against a particular plan
- Plans attract members who are sicker than those in other plans

Result: Plans may lose money serving sicker members

Carriers compete by avoiding risk
- Carriers discourage enrollment by unhealthy people and encourage enrollment by healthy people

Results:
- Competition based on risk avoidance
- High-cost consumers not well served
# Risk-Mitigation Measures in the Individual Market

<table>
<thead>
<tr>
<th>Measure</th>
<th>Basic operation</th>
<th>Key goals</th>
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| **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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