White Paper

Healthcare Utilization Varies Widely Among Enrollees in Individual Market for Health Insurance

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Altegra Health was acquired by Change Healthcare in 2015. Change Healthcare recently announced the formation of a new company with McKesson Technology Solutions dedicated to products and services that reduce healthcare costs, improve patient access and outcomes, and accelerate the transition to value-based care.

Change Healthcare Analysis Shows Plan Averages Diverge Up to 450%

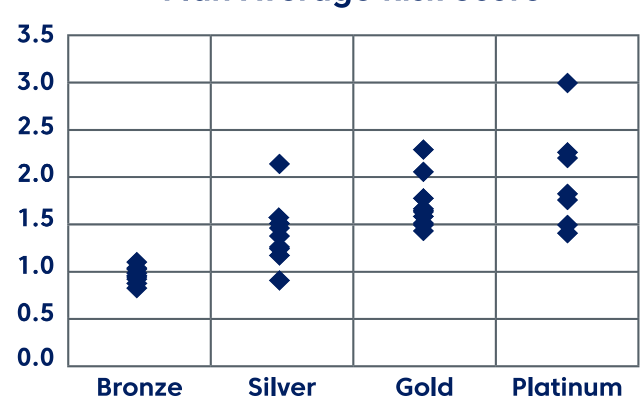
Risk adjustment is a tool utilized to ensure that insurers receive appropriate revenue for the healthcare costs of the population they are insuring. Recent studies demonstrate the critical role that risk adjustment plays in ensuring insurance premiums and benefit designs do not discriminate against individuals with significant health needs and preserving a competitive private market for health insurance.

In fact, a new analysis of proprietary data by Change Healthcare shows that plans sold in the individual health insurance market attract enrollees with widely different levels of health, with plans attracting the sickest patients projected to have health costs at least 450% higher than plans attracting the healthiest patients. The Change Healthcare analysis demonstrates the value of risk adjustment to ensure access to affordable health coverage to all enrollees, regardless of their health status.

Findings

Individual health insurance coverage is sold at one of four metal levels, reflecting the overall average cost-sharing burden that is imposed on an enrollee, with bronze plans having the highest cost-sharing and lowest premiums, and platinum plans the lowest cost-sharing and highest premiums. The illustration below shows the range of average risk scores from the Altegra Health analysis for each metal level for ten different insurers who collectively enroll more than 1.4 million in the individual market.

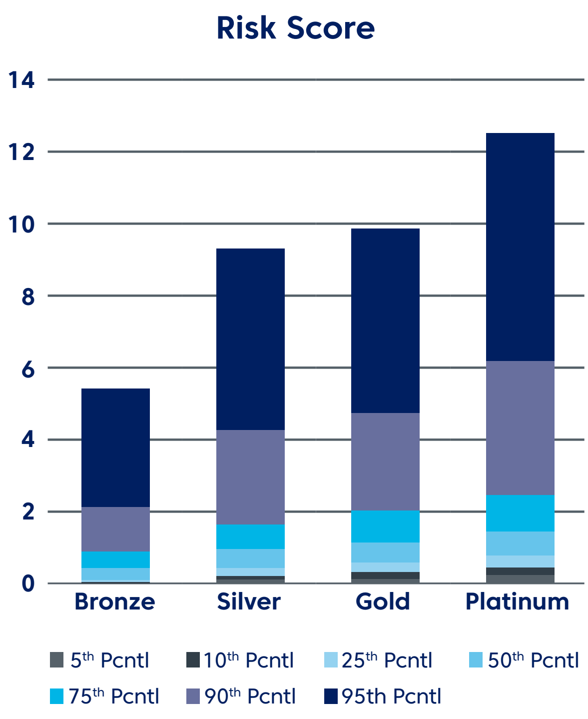
Plan Average Risk Score



The risk score is a measure of the estimated healthcare costs for each enrollee, with 1.0 intended to be the statewide average. The Altegra Health analysis shows that the average risk score varies by as much as 450% across insurers and metal levels and 150-250% across insurers within a metal level.

In light of the high cost-sharing in bronze plans, it is not surprising that individuals who expect to be healthy (and have, on average, low risk scores) enroll in bronze. However, for all other metal levels, the wide variation in risk score is an indication of the wide variability of medical conditions and related costs within this population.

The next chart illustrates the risk scores for all 1.4 million in the Altegra Health data set, sorted by metal level and percentile. This shows that, as expected, at an individual enrollee level, risk scores diverge even more widely than insurer-level averages. The risk score for enrollees in the 90th percentile are 15-18 times higher than those in the 10th percentile. Similarly, the risk score for enrollees in the 75th percentile are 3-4 times higher than those in the 25th percentile.



The dramatic variability at the enrollee level in this data shows the risks that small insurers especially face in enrolling unusually costly enrollees, without offsetting lower risk enrollees. However, as the first chart demonstrates, insurer- level averages moderate the variability only somewhat, making this market risky for larger insurers as well.

Discussion

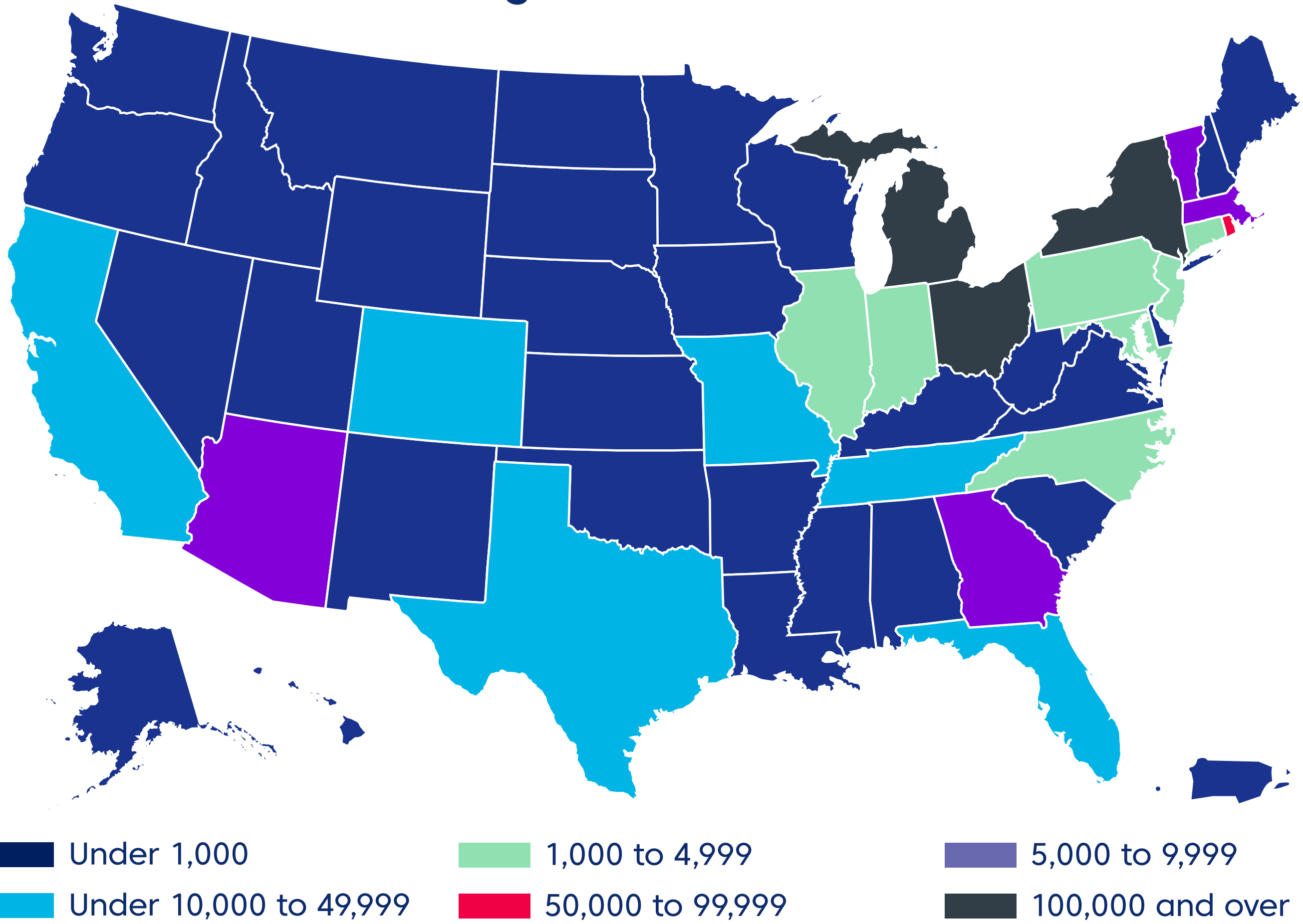
Under provisions from the Affordable Care Act (ACA) that have broad support, insurers in the individual market are not permitted to vary premiums by a particular enrollee's health status. Instead, risk adjustment compensates insurers for the particular health risks of their enrollees.

Without risk adjustment, plan premiums would be higher, reflecting the risk that charging an average premium would not fairly compensate for such widely variable enrollee health statuses.

If insurers were required to charge a single premium rate, without risk adjustment, insurers with sicker enrollees would risk having claims costs exceed premium revenue. These insurers would quickly exit the market in order to survive, or charge higher premiums, which will force enrollees to drop coverage.

The dynamic is similar in states where Medicaid managed care plans receive risk-adjusted payments. Risk adjustment is necessary to ensure managed care entities participate in this program, especially in states where enrollment in managed care is mandatory for Medicaid beneficiaries. Compensation from risk adjustment also assures that state and federal matching funds ultimately flow to those residents with the highest medical needs.

Altegra Plan Members

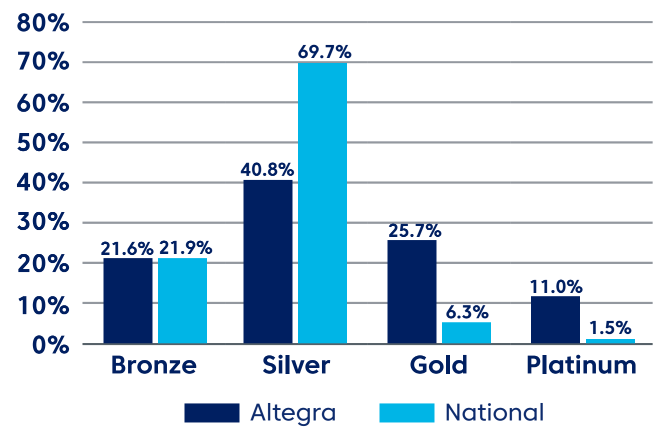


Methodology

Change Healthcare's Altegra Health business provides risk adjustment, quality reporting, government program assistance, and advisory services to more than 120 MA, Medicaid, and commercial insurers operating in all 50 states, as well as the District of Columbia.

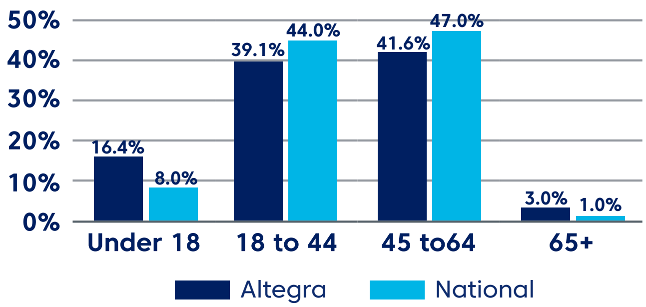
This analysis is based upon Change Healthcare data from 10 insurers that covered more than 1.4 million enrollees in ACA-compliant individual health insurance coverage in 2016. The enrollees spanned the US, but were concentrated in 22 states.

The enrollees were more concentrated in the higher risk metal levels of Gold and Platinum compared to 2016 national data from the Kaiser Family Foundation (KFF). The KFF data is limited to individuals who enrolled in ACA coverage via a state or federal insurance exchange, whereas the Change Healthcare data spans the individual market, both on and off the exchange.



While public debate focuses on the exchanges, the same health insurance regulations, including community rating and risk adjustment, apply throughout the individual market. By design, silver plans are more popular on the exchange market, so it is not surprising that Change Healthcare's data set, which includes both on-exchange and off- exchange enrollees, is not as heavily concentrated in silver plans as the KFF data. It is important that policy proposals take into consideration the impact on both on-exchange and off-exchange coverage.

The Change Healthcare data had a smaller proportion of enrollees aged 18 to 64, and substantially more enrollees under age 18 when compared to the 2016 KFF national data.



Change Healthcare's View

Change Healthcare works closely with insurers to ensure that they obtain accurate risk scores for their enrollees and supports policies that strengthen risk adjustment programs. Our services begin with proprietary technology and expertise to assist insurers in converting their source data and managing errors to facilitate timely and accurate submission to the HHS risk adjustment data gathering system, known as an EDGE server. Change Healthcare adds proprietary technology and analytics that are utilized by insurers to evaluate the documented health status of their enrollees and identify gaps between health status, provider documentation, and reported quality and risk scores.

Our findings add to the growing body of research that supports the value of risk adjustment in stable insurance markets. While the Department of Health and Human Services (HHS) continues to improve its risk adjustment methodology for individual health insurance coverage, as it has already done in its Notices of Benefit and Payment Parameters for the 2017 and 2018 plan years, it is critically important that Congress maintain the statutory authority for HHS to administer the risk adjustment program.[1] This will allow HHS to take the necessary steps to continue to stabilize the individual market and preserve access to affordable, quality health insurance.

Further, HHS and the Congress should ensure that appropriate steps are taken to implement effective risk adjustment in other health coverage markets, including Medicaid managed care, in order to preserve stable and affordable coverage. Medicare Advantage (MA) and the Medicare prescription drug benefit program (Part D) have robust and effective risk adjustment programs that have created affordable competitive markets. The ACA references Medicare risk adjustment as a model for risk adjustment in the individual market.

Need more information on risk adjustment? Ask your Change Healthcare government affairs representative for our FAQ.

[1] ACA §§ 1321, 1343, 42 USC §§ 18041, 18063

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