

# MINNESOTA HEALTH INSURANCE EXCHANGE WORK GROUP REPORT

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## Adverse Selection and Encouraging Market Competition/Value

April 20, 2012

### Work Group Focus

The work group will discuss issues related to adverse selection, options for addressing those issues, and describe advantages and disadvantages of various options. The Exchange Task Force will use this information to inform their recommendations to the Commissioner of Commerce.

### Issues for Discussion

The work group has been tasked with providing the Advisory Task Force with information about the following issues:

The Adverse Selection Work Group will minimally address the following questions:

- What should the market rules be inside and outside the Exchange?
- What should the participation rules be for insurers and health benefit plans inside and outside the Exchange?
- What should the participation rules and options for consumers and employers/employees be inside the Exchange?
- Should the definition of small group be defined as 50 or 100 from 2014 to 2016?
- Should Minnesota use federal risk adjustment methodology or propose a state option?
- What options should Minnesota consider for reinsurance?
- Should the individual and small group market risk pools be merged?
- What options should Minnesota consider to encourage market competition and value?

In addition to these issues, the Task Force may refer additional issues to this work group for additional assistance and input.

### Meeting Update

The work group met most recently on April 12 and discussed the following:

- Overview of final premium stabilization rules and their impact on Minnesota's approach to risk adjustment and reinsurance
- Discussion topics for potential rules for individual and employer participation in the Exchange
- Update on formation of Plan Certification and Risk Adjustment subgroups and re-evaluation of need for Risk Adjustment subgroup in light of changes to risk adjustment rules

## **Upcoming Meeting Topics**

May 2012

- Update on information from May 7-8<sup>th</sup> public meeting convened by HHS on federal risk adjustment methodology development and recommendation on near-term strategy for pursuing state-based risk adjustment
- Potential rules for individual and employer participation in the Exchange

June 2012

- Discuss other options to promote market competition and value

July 2012

- Discuss how policy makers can monitor the presence of adverse selection, the stability of risk pools and risk sharing, and premium variability and what data sources are necessary to do so

## **Recommendations**

Work Group members discussed the advantages and disadvantages of pursuing state-based risk adjustment and reinsurance programs given HHS final rules and have the following recommendations:

- Work Group members agreed that given the temporary (three-year) nature of the reinsurance program and the lack of entities available to perform these services, it makes more sense for Minnesota to have HHS run the federal reinsurance program on the state's behalf than for Minnesota to expend the time and effort to set up state-based reinsurance.
- Work Group members also generally agreed the potential benefits of pursuing state-based risk adjustment without authority to use the state's all-payer claims database will likely not outweigh the effort associated with developing that methodology. The disadvantage of not pursuing any state-based approach is that we lose the opportunity for risk adjustment to work as well as it can given Minnesota's unique characteristics, especially in the first year or two of Exchange operation when adverse selection can begin to materialize.

Work Group members would like more information about how the federal methodology is shaping up before making a formal recommendation about whether the state should pursue its own methodology or engage in some level of methodological development work this year. To that end, Work Group members would like to hear an update on the federal risk adjustment methodology following a May 7<sup>th</sup>-8<sup>th</sup> public meeting convened by HHS in Washington DC.