

# Financial Management 101



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
CENTERS for MEDICARE & MEDICAID SERVICES  
Center for Consumer Information and Insurance Oversight



State Exchange Grantee Meeting  
September 19-20, 2011



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# Introduction

- Presentation contains a mix of policy and operations
- Information from three main sources:
  - Affordable Care Act (*policy*)
  - Standards Related to Reinsurance, Risk Corridors and Risk Adjustment Notice of Proposed Rulemaking (*proposed policy*)
  - Financial Management Business Architecture Supplement (*operations*)
- As proposed by Exchange Notice of Proposed Rulemakings (NPRMs), certain functions are mandatory for Exchange certification, while others are optional.

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# Overview of Business Areas

- Advance Payments of the Premium Tax Credit and Cost Sharing Reductions
- Premium Processing
- Premium Stabilization (reinsurance, risk adjustment, and risk corridors)
- Data Collection
- Issuer Payment Transfers (including the flow of funds for payments and charges for the premium stabilization programs)

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# Advance Payments of the Premium Tax Credit and Cost Sharing Reductions

- Advance payments of the premium tax credits will assist qualifying individuals participating in the Exchange with premiums.
- Cost sharing reductions will limit the cost burden for out-of-pocket spending for qualifying individuals, or
- The Exchange will determine the advance payment of the premium tax credit and/or cost sharing reduction of the qualifying individual.
- The Exchange will record and submit this information to CMS so that payments can be made on behalf of the qualifying individual to the issuer.

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# Premium Processing

Encompasses all the Exchange functions required to:

- Collect SHOP premiums from employers on behalf of issuers
- Resolve invoice discrepancies with individuals and employers
- Aggregate premium receipts and distribute these to issuers
- Collect individual premiums on behalf of issuers (*optional Exchange function*)

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# Exchange Financing

- Beginning in 2015, States electing to operate an Exchange will finance the administrative costs of operating an Exchange.
- States may charge assessments or user fees to participating issuers in the Exchange.

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# Risk Spreading: *Reinsurance, Risk Corridors, and Risk Adjustment*

Standards related to reinsurance, risk corridors, and risk adjustment are proposed in the Premium Stabilization NPRM

Overall goals:

- Mitigate the impacts of potential adverse selection
- Stabilize premiums in the individual and small group markets
- Stabilize plan participation in the individual and small group markets
- Maintain viability of the Exchange

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# Risk Spreading: Reinsurance, Risk Adjustment, and Risk Corridors

Program:	Reinsurance	Risk Adjustment	Risk Corridors
What:	Provides funding to plans that cover highest cost individuals	Transfers funds from lowest risk plans to highest risk plans	Limit issuer loss (and gains)
Who Participates:	All issuers and Third Party Administrators contribute funding; non-grandfathered individual market plans (inside and outside the Exchange) are eligible for payments	Non-grandfathered individual and small group market plans, inside and outside the Exchange	Qualified Health Plans (QHPs)
When:	Throughout year 2014-2016	After end of benefit year 2014 and subsequent years	After reinsurance and risk adjustment 2014-2016

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# Risk Spreading: Reinsurance

- State options for establishing a reinsurance program
  - States operating an Exchange will establish a reinsurance program
  - States not operating an Exchange may choose to establish a reinsurance program
  - HHS will establish a reinsurance program in States not operating an Exchange
- Statute directs States to establish or contract with a nonprofit entity to administer reinsurance
- Reinsurance funded from collections from all health insurance issuers and third-party administrators for self-insured plans
  - Reinsurance contributions will total \$10 billion in 2014
  - The NPRM proposes that HHS establish a national contribution rate to be set as a percent of premium and seeks comment on this approach
- Reinsurance payments based on medical cost experience.
  - The NPRM proposes a portion of costs paid above an attachment point, subject to a cap
  - States have flexibility to modify these parameters

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# Risk Spreading: Risk Adjustment

- State options for establishing a risk adjustment program:
  - States operating Exchanges may choose to establish risk adjustment
  - States not operating Exchanges may not establish risk adjustment
  - HHS will run risk adjustment for all non-electing States
- NPRM proposes a Federally-certified risk adjustment methodology
  - HHS-developed methodology
  - Any State proposing to use an alternative methodology will have that methodology certified by HHS
  - Any HHS-approved method may be used by other States
- Risk adjustment methodology will be published in a Federal Notice of Benefit and Payment Parameters with opportunity for public comment.

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# Risk Spreading: Risk Corridors

- Federally-administered program with no State variation; specified in the Affordable Care Act.
- HHS will pay a Qualified Health Plan (QHP) issuer when its claims costs are greater than 103% of its cost projections.
- HHS will receive payments from a QHP issuer when its claims costs are less than 97% of its cost projections.

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# Data Collection

Encompasses all the State functions required to:

- Collect claims and encounter data from the small group and individual markets for use by the State in risk adjustment calculations.
- Collect enrollee and rate data from outside the Exchange for use by the State in risk adjustment calculations.
- NPRM recommends that data be collected in a consistent format, but allows States to vary the amount and type of data collected.
- Data may also be used to support validation of other business processes, such as risk corridors or reinsurance payments.
- NPRM seeks comments on data efficiencies and reducing reporting burden.

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# Issuer Payment Transfers

- The programs described previously require financial transfers occurring periodically between different parties, including States, reinsurance entities, Exchanges, CMS, issuers, employers, and individuals.
- Issuer payment transfers encompasses the State and Exchange functions that are required to:
  - Collect payments from health insurance issuers
  - Pay issuers
  - Verify payment amounts and reconcile issuer invoice and payment discrepancies
  - Collect user fees (*optional*)

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# Next Steps

- For more information, review the Financial Management Business Architecture Supplement (available on the Collaborative Application Lifecycle Tool)
  - **Engage** in discussions regarding approaches and integration points to support the operation of the Exchange, the Reinsurance Entity, or the State risk adjustment program with appropriate stakeholders
  - **Identify** opportunities for business service reuse across State and Federal health programs
- Also review the Risk Adjustment Implementation Issues white paper (draft available on CMS website)
- Comments for Premium Stabilization NPRM due 9/28/2011
- Questions?

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