



# PPACA

## Risk Corridors

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# PPACA – SEC 1342

- Establishes a three year Risk Corridor Program
  - 2014, 2015 and 2016
- Applies to all Qualified Health Plans (QHP)
- Not Funded

# Purpose

- Protect against uncertainty in rates for Qualified Health Plans (QHPs) by limiting the extent of issuers losses (and gains)

# 45 CFR PART 153

- Federal rules for reinsurance, risk corridors and risk adjustment
- HHS will administer risk corridor program
- Occurs after risk adjustment and reinsurance before MLR calculation
- Uses same definitions as MLR rules

# Definitions

- Administrative Cost = Non-Claims Costs Incurred By Issuer
- Allowable Administrative Cost = Administrative Cost Limited to 20% of Premium
- Allowable Cost = Sum of Incurred Claims + Activities to Improve Health Care Quality + Cost of QHP-related Health Information Technology
- Target Amount = Premium - Allowable Administrative Cost

# Formula – Carrier Payment

- If allowable cost:
  - 103%-108% of target amount
    - HHS pays 50% of allowable cost >103%
  - 108%+
    - HHS pays 2.5% of target amount +80% >108%

# Formula – Carrier Charge

- If allowable cost:
  - 92%-97% of target amount
    - Carrier pays 50% of target amount between 97% and allowable cost
  - < 92%
    - Carrier pays 2.5% of target amount + 80% of difference between 92% of target and the allowable cost

# Financial Implications of the Programs

- Risk Corridors

Target Amount					
Below -8%	-3% to -8%	-3%	+3%	+3% to +8%	Above +8%
80% HHS 20% Plan	50% HHS 50% Plan	No Payment	No Payment	50% HHS 50% Plan	80% HHS 20% Plan
← Below Target – Payments to HHS			Above Target – Payments from HHS →		

- Example: Claims for a QHP are at 110% of Target
 

Corridor 1:	100% to 103%	$0\% \times 3\% = 0\%$
Corridor 2:	103% to 108%	$50\% \times 5\% = 2.5\%$
Corridor 3:	108%+	$80\% \times 2\% = 1.6\%$
<b>Total QHP Risk Corridor Payment from HHS =</b>		<b>4.1%</b>

# Open Questions

- At what level is risk corridor applied?
  - Entity
  - Line of Business
  - QHP Plan
- Target Cost
  - Definition Clarification
  - Prospective – As Filed
  - Retrospective – Actual
- Timing Between 3Rs and MLR
  - MLR - June 1
  - 3Rs - June 30
- Where will the money come from if net payment occurs?