Covered California Continues to Attract Sufficient Enrollment and a Good Risk Mix Necessary for Marketplace Sustainability

This issue brief is heavily excerpted from a recent Health Affairs blog post and provides an extended discussion of Covered California's 2017 Risk Profile.*

Introduction

One of the ongoing concerns about the Patient Protection and Affordable Care Act and the status of the exchanges involves the average health status of enrollees in these state marketplaces. While the Affordable Care Act has helped reduce the uninsured rate to record lows and increased access to needed care, the law, the Obama administration and the Supreme Court granted states flexibility in implementation (Furman, 2015; Sommers et al., 2015). States could choose whether to operate a state-based marketplace, whether to expand Medicaid eligibility, and whether to immediately transition to Affordable Care Act-compliant products. That autonomy has been one important factor in some state marketplaces' thriving while other states struggle. Across the nation, most consumers faced double-digit premium increases in 2017 as the Transitional Reinsurance program expired and several states were limited to one insurer in some regions. These shortcomings require attention, to be sure, but do not mean that the Affordable Care Act marketplaces are "collapsing" or facing "death spirals."

If the individual market were in a death spiral, one would expect the aforementioned premium increases to create significant declines in enrollment. However, as Fiedler (2017) has shown, during the most recent open enrollment there was no relationship between premium changes and sign-up changes. In fact, on a national basis, there has only been a slight decline in enrollment in the 2017 open-enrollment period (12.2 million in 2017 versus 12.7 million in the same period in 2016). Some commentators have noted that the relatively small difference in enrollment could have been the result of reduced federal-exchange advertising in the last two weeks of open enrollment in January 2017 (Fiedler, 2017).

* http://healthaffairs.org/blog/2017/05/15/amid-aca-uncertainty-covered-californias-risk-profile-remains-stable/

Highlights:

- Amid national concerns of premium spikes in the individual market, new data suggests that Covered California continues to attract a healthy mix of enrollees.
- Based on available data for Covered California enrollees, statewide mean risk scores declined from 1.11 in 2016 to 1.09 in 2017. Available diagnosis data suggests this may be driven in part by an improvement in the share of enrollees with no chronic conditions.
- Mean risk scores increased as plan actuarial value increased. This increase confirms that consumers are selecting a plan metal tier that provides financial coverage for their expected health care needs.
- New enrollees in 2017 have an approximately 16 percent lower mean risk score than renewing enrollees — an improvement of 4 percent between 2016 and 2017. This suggests that Covered California is successful in attracting new, healthy enrollees to stabilize the risk pool.

This analysis was prepared by Covered California for its ongoing planning and to inform policy making in California and nationally.

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A death spiral involves adverse selection in which less-healthy individuals enroll in or maintain coverage at higher rates than healthier individuals, thereby driving up premiums and causing healthier enrollees to leave the market. As such, one way to measure whether marketplaces attract a balanced risk mix is to analyze the prevalence of chronic conditions among enrollees over time. Two data sources that routinely document patient diagnoses are medical claims and encounter data, which record health care services delivered to enrollees that are reimbursed on a capitated basis. In California, hospitals are required to submit inpatient discharge and emergency-department visit data to the Office of Statewide Health Planning and Development (OSHPD). These publicly available datasets from OSHPD allow researchers and policymakers to garner insight on utilization trends, quality and outcomes, and hospital financing, regardless of the source of coverage (including the uninsured with no third-party payer).

Since 2014, Covered California has used OSHPD datasets to measure the relative risk of new and continuing members (Bindman et al., 2016; Goldman et al., 2015). For example, an analysis of the 2014 and 2015 enrollment cohorts (enrollees) found that statewide risks for Covered California plans were trending toward a mean risk score of 1.0, which meant that all plans were becoming increasingly likely to enroll consumers that are both "low" and "high" risk for health care spending.

Risk-profile data is valuable to both Covered California leadership and to the participating plans. By measuring the risk early in 2017, Covered California leadership is better prepared to conduct premium negotiations with all 11 plans, knowing their specific risk mixes. For the plans, each receives confidential information about their own risk mix, so they can prepare the most competitive but adequate set of premium rates.

This issue brief provides updated anonymous risk scores for plans of individuals who enrolled during the most recent open-enrollment period for 2017 coverage, including new and renewing enrollees as of April 1, 2017. With the availability of multiple years of data on risk scores, Covered California was interested in answering the following questions:

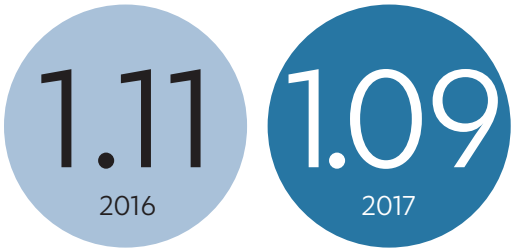
1) *How do the Covered California qualified health plan (QHP) enrollee risk profiles for 2017 compare to the prior year?*
2) *How do risk scores vary by carrier and metal tier?*
3) *How do the risk profiles of new enrollees compare with renewing enrollees?*

In the next section, the methodology and approach for calculating mean standardized risk scores are discussed. The issue brief then presents results from the most recent open-enrollment period for 2017 that suggest Covered California continues to maintain a risk mix of healthy and less-healthy individuals that is similar to the prior year. These findings indicate that Covered California's risk profile remains stable and strong, and provide many important lessons for exchanges to consider.

Methodology and Approach

In 2014, Covered California collaborated with the Department of Health Care Services (DHCS) and Dr. Andrew Bindman at University of California, San Francisco, to use a concurrent risk-score model using encounter data from the Office of Statewide Health Planning and Development (OSHPD) and the Chronic Illness and Disability Payment System (CDPS). This model is used by many states for evaluating their Medicaid program enrollment. CDPS calculates risk scores using an individual's age, gender and chronic-condition diagnoses (e.g., diabetes) listed in the following clinical encounters: hospitalizations, emergency department (ED) visits and ambulatory care. Since ambulatory data is not currently available in OSHPD, Covered California uses hospitalization and ED visits because these two categories have a 70 percent correlation with patient morbidity among Medicaid

Figure 1
Statewide Risk Trend



beneficiaries (Bindman et al., 2016). Encounter data from OSHPD includes an annual file of all hospitalizations and ED visits at acute care hospitals in California, regardless of payer (including the uninsured with no third-party payer). An encounter can include up to 25 diagnoses, and if there is a CDPS chronic condition, it will be included to calculate the enrollee's risk score.

For this analysis, individual-level unique identifiers (name, Social Security number and date of birth) were used to cross-reference Covered California 2017 enrollees with 2015 OSHPD encounter data. If a patient match occurred, the enrollee's risk score was then calculated with CDPS using the following inputs: the individual's age, gender and diagnoses documented in the OSHPD encounter data. If no encounters were found for a Covered California enrollee, then the risk score was calculated using only the individual's age and gender.

Risk scores were then standardized by dividing the unadjusted score for each health insurance carrier by the mean risk score for Covered California's entire population. The resulting adjusted risk score normalized the distribution to 1.00 for the Covered California enrollment such that scores below 1.00 are relatively lower risk than scores above 1.00. This, in turn, allowed us to compare mean risk scores across a number of dimensions, including enrollment cohorts and health insurance plans. This analysis does not include enrollees in the individual market outside of Covered California.

Results

The following data includes results from the 2016 and 2017 risk modeling. Multi-year comparisons use the year-specific risk scores from each run of the model in 2016 and 2017. A two-year trend is also presented to evaluate how mean risk scores changed from 2016 to 2017.

2017 Enrollment Is Slightly Healthier and Has Fewer Chronic Conditions Compared to 2016 Enrollees

For the total population of 2017 Covered California enrollees, about one-tenth (10.6 percent) were matched to 2015 OSHPD encounters. Across 2016–17, the share of Covered California enrollees with OSHPD encounters increased by 9.3 percent. During the same timeframe, the share of OSHPD encounters with no chronic conditions improved from 42 percent to 44 percent. This trend suggests that although Covered California enrollees may have more hospitalization and emergency-department visits in 2017, the population has fewer chronic conditions (as measured by the CDPS methodology) and is healthier than the population enrolled in 2016.

Table 1

	2016		2017	
	Number	*Share*	*Number*	*Share*
Total Enrollment	**1,440,360**	**100%**	**1,412,862**	**100%**
No OSHPD Encounters	1,301,119	90.3%	1,263,268	89.4%
OSHPD Encounters	139,241	9.7%	149,594	10.6%
Had no chronic conditions	58,783	42.2%	66,191	44.2%
Had at least one chronic condition	80,458	57.8%	83,403	55.8%

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At an aggregate level, Figure 1 shows that the statewide average risk score for enrollees who matched to the OSHPD dataset declined from 1.11 in 2016 down to 1.09 in 2017, a reflection of the 2017 enrollee population's having fewer chronic conditions than their 2016 counterparts. Taken together, these results reveal encouraging news, for amid national concerns of premium spikes, it suggests Covered California continues to attract a healthy mix of enrollees.

2017 Risk Scores Show Variation by Carrier

Figure 2 shows the 2016 and 2017 mean risk scores by carrier. Overall, six carriers saw their mean risk score decline, four carriers saw their mean risk score increase and one remained the same. For 2016, mean risk scores by carrier ranged from a low of 0.78 to a high of 1.36. For 2017, mean risk scores by carrier range from a low of 0.79 to a high of 1.26. The same carriers had the low and high value for each respective year, with the high-value carrier improving its risk mix by 7.4 percent in 2017.

Figure 2
Risk Score by Carrier

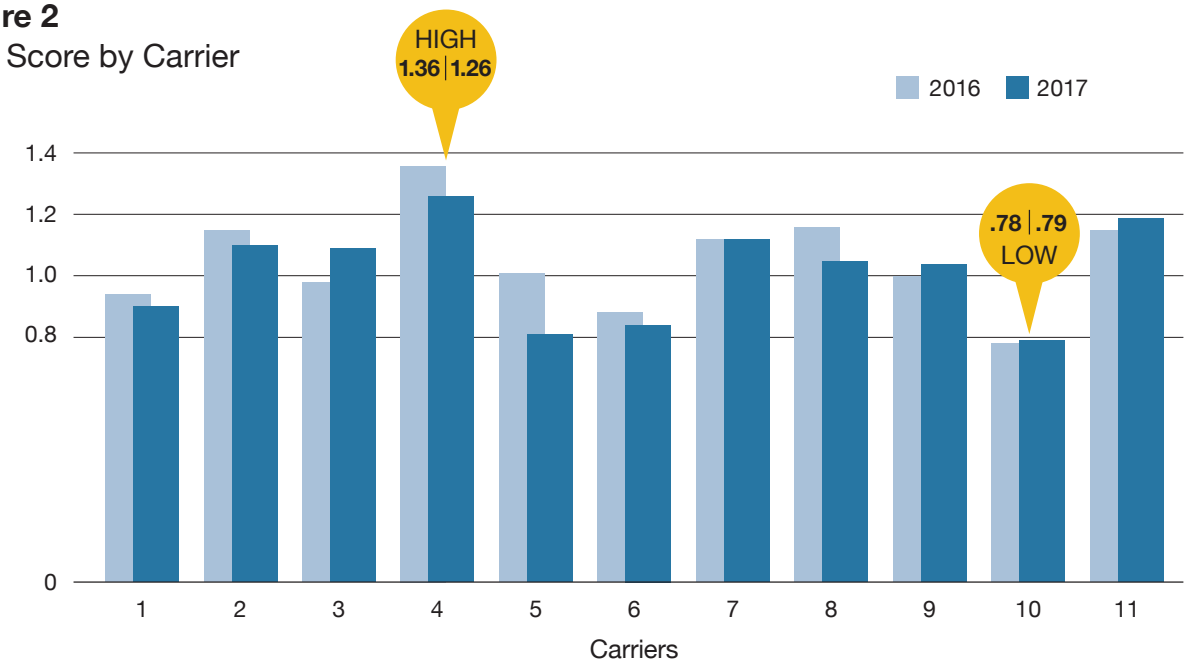
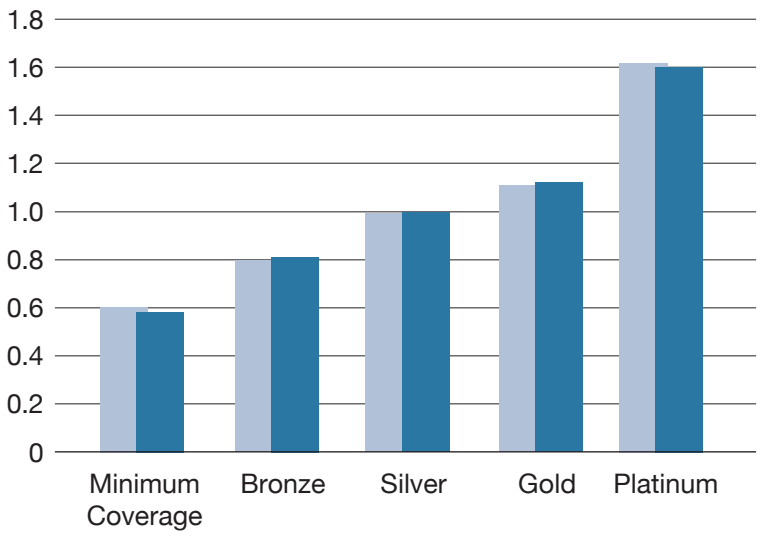


Figure 3
Risk Score by Metal Tier



Enrollees Are Selecting Plans That Provide Financial Protection Commensurate With Expected Health Care Needs

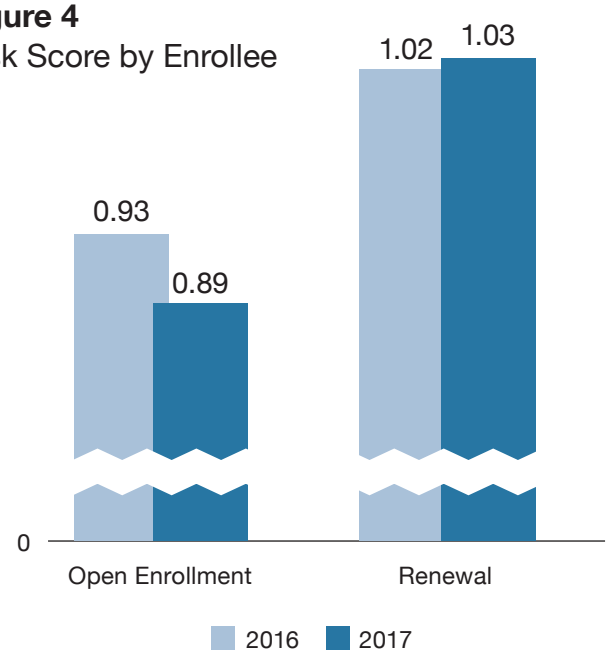
For both the 2016 and 2017 enrollment cohorts, Figure 3 shows that mean risk scores increased as plan actuarial value increased. This means that consumers are selecting a plan metal tier that provides financial coverage for their expected health care needs. In 2017, mean risk score by metal tier is lowest (0.58) for those enrolled in minimum coverage plans ("catastrophic" plans) and highest (1.60) for those enrolled in Platinum plans.

Healthy New Enrollees Contribute to Marketplace Stability

Analyzing open-enrollment cohorts is an important way to measure a marketplace's effectiveness in attracting a balanced risk mix. During open enrollment, new consumers obtain coverage for the coming year and existing enrollees renew their coverage.[1] Figure 4 shows that new enrollees in 2017 have a 15.7 percent lower mean risk score than renewing enrollees — an improvement of 4.3 percent between 2016 and 2017. At the same time, renewing members have consistently had a mean risk score of ~1.03 from year to year and the 2017 cohort has fewer chronic conditions than the 2016 cohort, which suggests that Covered California is successful in attracting new, healthy enrollees to stabilize the risk pool.

Covered California attracted this good risk in the context of an average 13.2 percent rate increase in 2017, suggesting that the availability of tax credits to defray the cost of health insurance is a significant driver of enrollment. The premium increase for 2017 follows two years of markedly lower premium increases of 4.2 percent and 4.0 percent, respectively, in 2015 and 2016. In 2016, 87 percent of Covered California enrollees were eligible for subsidies. Because premium tax credits are benchmarked to the second-lowest-cost Silver plan in an individual's rating region, this helps ensure that consumers are able to purchase a typical plan in their local market. Effectively, this regional benchmark insulates subsidy-eligible consumers from rate increases.

Figure 4
Risk Score by Enrollee



[1] To simplify year-to-year enrollment, Covered California automatically renews existing consumers into the same coverage at the end of the renewal period if they do not actively change their health plan. Consumers are notified of their option to change plans during the open-enrollment period should their preferences change.

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Discussion

Similar to the way health care payers and providers aggregate claims and clinical data to understand the underlying health of the populations they serve, marketplaces too can leverage such data to assess the risk mix and stability of the risk pool. Thus far, Covered California has relied on OSHPD encounter data to estimate the chronic condition burden among enrollees. While this approach has allowed Covered California to gain critical insight on enrollee utilization, there are limitations because the OSHPD data is lagged by two years, does not include enrollees who did not have an emergency department or inpatient encounter, and does not capture diagnosis information from ambulatory care and prescription-drug utilization. To more fully leverage health care data, Covered California launched the Healthcare Evidence Initiative, the goal of which is to use utilization and claims data to:

1. *Provide actionable information supporting Covered California's operations and policy: improving care, lowering costs and improving health.*
2. *Provide evidence to inform public and private policies so that purchasing strategies and benefit designs can improve quality, access and value throughout the health care delivery system.*

Through this initiative, Covered California has contracted with Truven Health Analytics to provide analytics tools and a database of enrollment, encounters, medical and pharmacy claims and capitation data from January 2014 forward, as well as expert support for research planning, governance and project management. Covered California has begun to utilize Healthcare Evidence Initiative output in various activities, including data modeling, health plan certification and medical-quality initiatives. Covered California anticipates an acceleration of work in this area in fiscal year 2017–18 to support its risk modeling and health care quality initiatives, and to inform the ongoing national health care conversation.

Beyond making continued investments in analytics, which include assessing quality, costs, potential health care disparities and vehicles to improve health care value, Covered California continues to make investments that it believes are important contributors to fostering better enrollment and a healthier risk mix, leading to lower premiums. Covered California continues to assess the extent to which different factors contribute to a better risk mix and relative premium stability, including:

- The role of the extensive marketing and outreach directly supported by Covered California and coordinated with the contracted health plans.
- Patient-centered benefit designs, which allow consumers to shop with greater ease and may foster better retention of healthier individuals since high deductibles are rarely impediments to consumers getting needed routine care.
- Policy decisions, such as the choice in 2014 to eliminate plans in the individual market that were not compliant with the Affordable Care Act.

Covered California looks forward to continuing to use this information for its efforts to foster a consumer-centric market in California and inform the ongoing national health care policy discussions.

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About Covered California

Covered California is an independent part of the state government whose job is to make the health insurance marketplace work for California's consumers. It is overseen by a five-member board appointed by the governor and the Legislature. For more information about Covered California, please visit CoveredCA.com.