Small Insurers Feel the Pain Under ACA's Risk-adjustment Program

One of the most popular aspects of the Affordable Care Act (ACA) from the perspective of the consumer is the fact that insurers cannot use preexisting medical conditions to either deny coverage or to h premiums. This, of course, makes it one of the least popular aspects from the perspective of insurance companies.

Whether coverage for people with preexisting conditions will continue under the future GOP plan is still anyone's guess. But fo now, the financial burden of covering expensive conditions is still a pressing issue for insurers. And the ACA contains provisio that address it.

Ostensibly, it's a zero-sum game

According to newly-released data by the Centers for Medicare & Medicaid Services (CMS), among the more than 700 insurer participating in the ACA's risk-adjustment program, the smaller insurance companies and co-ops are again on the receiving e substantial burdens.

Risk adjustment under the ACA seeks to prevent insurers from selectively choosing the healthiest consumers as customers. T so-called zero sum game shifts money from one healthcare plan to another within the same state: plans enrolling a higher rati healthy individuals must pay into plans that cover enrollees with more costly and chronic conditions. The program uses patien scores as means of assessing relative health or illness; in addition to medical conditions, the risk score also takes demograph data into account.

This might work well on paper, but some small, regional companies or young cooperatives have complained that making high payments toward risk adjustment is an extreme burden for them, whereas their larger, well-established, national peers have n problem coming up with whopping sums. Also, the smaller plans say that because they have far less claims data than the mega-systems, it's easy to misperceive their members as being in better health than they actually are, thereby unfairly skewin their risk-adjustment bill upward.

Co-ops go to court

These complaints have fueled lawsuits. For example, New Mexico Health Connections, Minuteman Health of Massachusetts, Maryland's Evergreen Health (all co-ops formed under the ACA), brought suits against the government last year, asking for a waiver of the millions of risk-adjustment dollars owed.

The aforementioned plaintiffs might have gotten an "E" for effort in bringing their complaints to court, but they are still stuck wi their respective risk-adjustment bills. The CMS reported that New Mexico Health Connections is required to pay $8.9 million fo calendar year 2016, Minuteman Health will have to come up with $25.4 million to cover risk-adjustment charges, and Evergre Health's risk-adjustment bill is $9.4 million.

However, Evergreen's amount due will be offset by the $2.5 million the co-op will receive from the reinsurance program, a

temporary program set up to prevent insurers from sinking under exorbitant claims. The CMS says that over 400 insurers will receive reinsurance money for plans sold in 2016; total reinsurance payments amount to around $4 billion.

Co-ops in particular have seemed to struggle in the ACA marketplaces and therefore their numbers have dwindled. Although Healthy CT is one of the few still doing business, it has a risk-adjustment bill of $8 million for 2016. Land of Lincoln Health, an Illinois co-op that did not survive, is still on the hook for $21.7 million in risk-adjustment charges, though it will receive more th $9 million in reinsurance money.

Despite the little-guy crunch, the CMS says that risk adjustment performs as it should: health systems that paid relatively low claims on average should expect to pay into the program, systems that paid relatively high claims on average should expect t receive money back.

Blue Cross and Blue Shield in the winner's circle

Of course, this doesn't mean that larger insurers aren't feeling the pinch of covering costly medical conditions. For instance, th Kaiser Foundation Health Plan owes nearly $438 million toward risk adjustment for its ACA plans in the California exchange. However, it is owed nearly $100 million in reinsurance payments.

Still, that pay/receive ratio can't compete with Blue Cross and Blue Shield's: the insurance giant, despite (and perhaps becaus of) having a high number of sick insureds on its rosters, didn't need to break a sweat regarding 2016's risk- reconciliation, tha not only to the permanent risk-adjustment program, but also in part to the temporary reinsurance program.

For example, Blue Cross and Blue Shield of Florida will be in receipt of the largest amount from the reinsurance and risk-adjustment programs, a total of more than $615 million. Blue Cross and Blue Shield of North Carolina is ready to receive $264.6 million earmarked from these programs. And here at home, Anthem Blue Cross of California will get over $473 million from the reinsurance and risk-adjustment programs, and Blue Shield of California is owed $572 million.