



# State-based Risk Adjustment in Minnesota’s Small Group and Individual Health Insurance Markets—A Feasibility Assessment

## Background

In 2013, the Minnesota State Legislature directed the Minnesota Department of Health (MDH) to assess the feasibility and potential costs and benefits of conducting state-based risk adjustment in Minnesota’s small group and individual health insurance markets.<sup>1</sup> MDH was directed to:

- (1) Evaluate the extent to which Minnesota’s All-payer Claims Database (MN APCD) data could be used for conducting state-based risk adjustment;
- (2) Collect data needed for the study;
- (3) Conduct modeling to determine if a Minnesota-based risk adjustment model can perform better and be more cost-effective than the federal risk adjustment model; and
- (4) Submit a report to the Legislature outlining the study recommendations by October 1, 2015.

MDH retained the actuarial services firm Milliman, NY to conduct key aspects of the legislatively required study. Milliman brings to the project significant relevant experience including working with the Commonwealth of Massachusetts on developing and implementing the only federally certified alternative state-based risk adjustment methodology.

## What does this study mean for Minnesota?

Recent changes in state and federal law have considerably changed the landscape of the individual and small group health insurance markets and risk adjustment is a key method to

ensure smooth functioning of health insurance markets. The effectiveness of the federal risk adjustment methodology to disincentivize risk selection and support access to coverage for all, independent of their health risks, is still unknown. But there is the potential that a risk adjustment solution customized to Minnesota can overcome potential shortfalls of a national “one-size fits all” approach.

The study will assess the potential of a Minnesota-specific methodology and implementation strategy to:

- Create transparency and predictability in the insurance market by providing regular and timely feedback to carriers on risk differentials and relative data quality;
- Align risk adjustment with health plan aims to improve enrollee and population health;
- Accommodate innovative approaches to accountability in insurance design and care delivery through payment, care network, and delivery system reforms;
- Develop efficient approaches to risk management, including through reinsurance solutions;
- Reduce potential incentives to select against Minnesotans with chronic conditions and disability;

<sup>1</sup> Laws of Minnesota 2013, chapter 108, article 1, section 65.

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- Customize the approach to Minnesota's unique market characteristics, including in support of Minnesota's Basic Health Program;
- Identify administrative efficiencies, including in the production of data and use of risk adjusters across the market; and
- Be less costly, or not more costly, to operate than the federal risk adjustment solution.

**Risk adjustment** is a budget neutral mechanism to transfer funds between plans with relatively lower risk enrollees and plans with relatively higher risk enrollees, to protect against adverse selection. It is a necessary tool to create a "balanced playing field" in an insurance market with community rating.

### Next Steps

A critical priority of this study is to conduct it in a space of transparency and with input from stakeholders across the state. MDH plans to consult with the public, stakeholders, and insurance carriers at three points during the study:

1. At the onset of the research initiative, in April, to obtain input on key questions to consider. MDH will issue a Request for Information and conduct a public forum at which to present background information, describe the approach and obtain direct feedback from participants;
2. At the mid-point, in July 2015, to assess the initial takeaways from the implementation of the federal risk adjustment approach. MDH will consult primarily with carriers about their experience and assessment of the federal approach; and
3. In approximately September 2015, prior to finalizing the results and presenting them to the Minnesota Legislature, MDH will host a webinar for public feedback on draft results and recommendations.

In addition to consultation at these three points, MDH will be partnering with health insurance carriers throughout the study on filling data collection needs

for the study, as authorized by statute, and on assessing results related to data quality and risk adjustment model performance.

### Request for Information

The Request for Information (RFI) will solicit stakeholder input on the design of a risk adjustment methodology, policy considerations, and desirable operational features and incentives. This will include feedback on, among other things:

- Calibrating the methodology to the MN market experience and accounting for state-specific characteristics related to care costs, network design, auto renewal, and interaction across different public programs;
- Considering the set of medical conditions accounted for in the risk adjustment model to achieve higher accuracy while creating proper incentives for effective medical management; and
- Leveraging the state flexibility for risk adjustment data validation to achieve administrative simplicity and improve carrier experience, while maintaining statistical validity of the program.

MDH will use the findings to inform each step of the project. In addition to obtaining public and insurance carrier feedback, the work of MDH and Milliman will be supported by an interagency workgroup staffed by the Departments of Commerce and Human Services, and by MNsure.

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For more information, contact:  
Stefan Gildemeister, Director  
Health Economics Program  
(651) 201-3550 or  
[Stefan.Gildemeister@state.mn.us](mailto:Stefan.Gildemeister@state.mn.us)

Anne Krohmer, Project Lead  
Health Economics Program  
(651) 201-3764 or  
[Anne.Krohmer@state.mn.us](mailto:Anne.Krohmer@state.mn.us)