

**TO:** Risk Adjustment Methodology

**FROM:** Board of Directors, Colorado Health Benefit Exchange and Commissioner of Insurance  
Jim Riesberg

**DATE:** June 25, 2012

**RE:** **Additional Topics for Consideration in the Development of Risk Adjustment system**

The Division of Insurance and the Colorado Health Benefit Exchange have reviewed the information provided to date on the risk adjustment system. Both organizations appreciate the extensive time and care taken in the development of the risk adjustment system to date. Both organizations do have some concerns about the system that may be addressed with minor changes.

Our primary concern stems from the information available in 2014. As mentioned in our concerns about pricing, the proposed risk methodology may become more stable starting in 2016 when pricing and risk information is more available. However, we have significant concerns about year-end reserves in 2014. Because of the amount of information needed for a risk adjustment reserve estimate, we do not believe that carriers will be able to hold a non-zero reserve in 2014. While carriers may be able to share health status data, sharing premium information may raise significant antitrust concerns. A non-zero reserve may be particularly dangerous given the increased chance of mispricing in 2014 leading to potential solvency issues in the middle of 2015.

The lack of risk adjustment reserves would also distort the reserves held for the risk corridor. A plan would use only a reinsurance estimate and incurred claims for developing risk corridor reserves. The risk corridor reserves may be significantly overstated if the risk adjustment system performs as anticipated moving funds from low risk plans with excessive gains before risk adjustment to high risk plans that have losses before risk adjustment.

We ask that in states where HHS administers the risk adjustment program HHS releases interim risk adjustment results. While these results would not determine funds transfer and would change throughout the year, the results would be enough for carriers to establish reserves for risk adjustment and help minimize the possibility of a solvency action when the final adjustment invoices are created.