

Guidance on Risk Adjustment for 2018 Rates

The Department of Financial Services (DFS) is issuing this guidance to assist insurers in developing 2018 premium rate assumptions related to risk adjustment (RA) in light of the new DFS RA regulations.

DFS Regulation. DFS intends to promulgate a new market stabilization regulation that will be applicable to both the individual and small group markets for plan years 2018 and thereafter. This regulation will authorize the Superintendent to make a uniform adjustment to the aggregate federal risk adjustment transfers and establish separate market stabilization pools for the individual and small group markets pursuant to which transfers determined under the federal RA methodology (both payments and receipts) will be decreased by the uniform adjustment amount. For plan year 2018, the uniform percentage adjustment for each insurer in the individual and small group markets may be expected to be, but will not exceed, 26 percent of the amount to be received from or paid into the federal risk adjustment program, in addition to the 14 percent adjustment previously announced by CMS for the removal of non-claims based administrative expenses.

Guidance for 2018 Rates. For the purpose of developing 2018 premium rates with respect to assumptions regarding liabilities or receipts related to RA transfers, insurers should assume that DFS will make a uniform adjustment to the anticipated final 2018 aggregate federal RA pool transfers of 26 percent, in addition to the anticipated 14 percent adjustment due to CMS removing non-claims based administrative expenses from the risk adjustment formula. For example, if CMS determines that a carrier has a \$10 million RA liability for 2018, DFS will recognize that this amount represents a 14 percent reduction from \$11.63 million. DFS will then adjust the carrier's liability to \$6.98 million (a 40 percent reduction from \$11.63 million). Accordingly, carriers should be applying a factor of 0.6977 (calculated as the ratio of 0.60/0.86) to their expected 2018 CMS RA transfer.