

November 4, 2013

Health Insurance Issuer Representative

Re: Wakely 2014 Risk Adjustment Reporting

The Wakely National Simulation Project provided estimates of issuer risk scores relative to the market average using historic data and available information about the HHS model and methodology earlier this year. Wakely ran the simulation in 26 states, with broad participation from both large national and local issuers. We believe that HHS will not be providing interim risk score calculations (including market averages) to issuers during 2014 – and this information is needed at a sufficient level of detail to help issuers record estimates for payables/receivables, and also to aid in actuarial pricing for 2015 and 2016. We have reached out to the issuers that participated in the 2012/2013 simulations to gauge interest for 2014 reporting and have received broad support, including strong interest in adding new states and markets.

Like we did for the simulation project, Wakely will provide programming code in SQL and SAS that allows issuers to report only summary level information back to Wakely – no individually identifiable records will be reported back. Wakely will deliver market level summaries, with reports that show valuable detail including prevalence by HHS Risk Adjustment model demographic and condition category, metal tier detail, data diagnostics and other important information¹. Wakely has and will continue to carefully protect the confidentiality of the information provided to Wakely by the issuers using secure uploads and cypher identification. We will also use participation requirements that ensure the results are reliable, and that individual issuer information is not discoverable.

Wakely is proposing up to six simulations in 2014, subject to workgroup discussions and additional feedback from participants. For each interim risk adjustment report with partial data, we will report relativities as calculated from the HHS model without adjustment, but also those that utilize HHS risk score forecasting models developed by Wakely. These are important for 2014 in order to make consistent risk score comparisons and estimate year-end relativities.

Pricing is dependent on how many markets and states an issuer participates in. We plan on discounting pricing compared to the initial simulation project given expected economies of scale.

¹ Sample reports from the Simulation project are available. Wakely anticipates reports for the 2014 Reporting Project to be similar. Please contact Ross Winkelman (RossW@Wakely.com or 720 226-9801) for a copy of the sample reports.

Insurance companies participating in this project will receive the following benefits:

1. Estimates of issuer specific risk scores by state and market for purposes of pricing products in 2015 and 2016, and setting payables / receivables during 2014.
2. Data diagnostics to assess potential data issues prior to final CMS calculations, so they can be corrected.
3. Detailed reports that show the key drivers behind risk scores.
4. Insight into key ACA risk adjustment provisions including but not limited to the exclusion of policies prior to their first renewal in 2014, ICD10 issues, interaction of rating variables, and the exclusion of diagnostic procedure diagnoses.

Our goal is to get feedback and to hopefully hear back that your organization is interested in participating. Because this is a voluntary effort which depends on broad participation, early commitment is very important.

BACKGROUND & TECHNICAL APPROACH

Wakely has issued several papers related to the risk adjustment and reinsurance provisions of the Affordable Care Act (ACA)². We believe it is critical for issuers to estimate market average risk scores in early 2014 to price individual and small group products for 2015, and to estimate issuer level risk scores relative to the market for financial reporting throughout 2014, and especially at the end of 2014 for 2016 pricing and year end valuation.

We are using a distributed approach to risk adjustment reporting, just like we did for the Simulation project, where each issuer will run the Federal Risk Adjustment model code provided by Wakely and will send the summary, non-PHI results to Wakely.

Wakely will compile the results at a state and market level and provide those results compared to issuer results to each issuer that participates in a particular state / market.

Wakely will review the results for each issuer for reasonability and only include issuer results in the state / market total if reasonable. We will contact issuers that submit unexpected results and work with them to identify and resolve any issues.

² Analysis of HHS Proposed Rules on Reinsurance, Risk Corridors and Risk Adjustment – *State Health Reform Assistance Network*; Link: <http://www.rwif.org/files/research/20110812wakelystatenetwork.pdf>

FEE STRUCTURE

Fees for the 2014 Reporting Project will be discounted relative to the fees for the simulation project. For issuers that participated in the simulation project, the fees will be equal to the per report, per market fee, discounted based on economies of scale that are yet to be determined. However, Wakely expects to discount fees at least 25%.

WEB PLATFORM AND OTHER TECHNOLOGY

Wakely has a secure web platform for downloading the software, and uploading and downloading results, including updated state level summaries. We will send automatic emails when updated state level results are available. There will be no additional charge for updates. All uploaded files will be encrypted.

LEGAL CONSIDERATIONS

Wakely requires a consulting services agreement (CSA) that contains confidentiality and indemnification provisions. For issuers that signed a CSA for the simulation project, we have a draft addendum to that agreement for the 2014 Reporting Project that you can share with your legal department.

TIMING

The schedule below proposes five reporting runs (2013, Initial Filing, 2nd Qtr, 3rd Qtr and Year end) in all states with a supplemental run with data through March 30th in states that would allow updates through May 31, 2014 but not through June 30, 2014. The Test Run is only for purposes of testing the process, code, and input files. Market averages would not be shared and it would not be counted as a run for determining Wakely's fees.

Wakely 2014 Risk Adjustment Reporting Proposed Reporting Runs and Timing

Description	Service Dates	Paid Through	Output Sent to Wakely	Final Output From Wakely
2013	1/1/2013 - 12/31/2013	12/31/2013	1/31/2014	2/28/2014
Test Run	1/1/2014 - 1/31/2014	1/31/2014	2/28/2014	3/31/2014
Initial Filing	1/1/2014 - 2/28/2014	2/28/2014	3/31/2014	4/30/2014
Supp. Pricing run	1/1/2014 - 3/31/2014	3/31/2014	4/30/2014	5/31/2014
2nd Qtr 2014	1/1/2014 - 4/30/2014	4/30/2014	5/31/2014	6/30/2014
3rd Qtr 2014	1/1/2014 - 7/31/2014	7/31/2014	8/31/2014	9/30/2014
Year End 2014	1/1/2014 - 10/31/2014	10/31/2014	11/30/2014	12/31/2014

WHY WAKELY

Wakely is uniquely qualified to complete this project because we have nationally recognized experts, have proven our capabilities through the Simulation Project, have experience in designing government program risk adjustment methodologies, and have extensive experience working for issuers on risk adjustment methodologies. Therefore, we have a unique combination of expertise, credibility, and experience from federal, state and issuer perspectives. This experience and expertise is not the combination of hundreds of consultants from a huge national firm, but from a relatively small, focused actuarial and information technology team at Wakely (approximately 10 individuals) who will be dedicated to this project for the remainder of 2013 and throughout 2014.

CONCLUSION

Thank you for taking the time to read this project overview. We are very excited about this project. Please contact me at RossW@Wakely.com or (720) 226-9801 if you are interested in learning more about this important project.

Sincerely,


Electronic Signature

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Senior Consulting Actuary
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