Minimum Value and Actuarial Value Determinations Under the Affordable Care Act

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AMERICAN ACADEMY *of* ACTUARIES

Presenters

- John Stenson –Introduction
- Jo Erwin – Plan designs not accommodated by the MV / AV calculators
- Dale Yamamoto – Safe harbor checklists, actuarial reports, certifications, and qualifications
- John Stenson – Illustrative example

Purpose

- PN is intended for actuaries with a beginning or intermediate knowledge of the minimum value and actuarial value (MV/AV) determination process
- PN is intended to be used as a reference tool only. It is not a substitute for legal analysis of the statutes.
- PN does not cover issues unresolved as of August 2013
- The actuary should recognize subsequent federal and/or state actions are likely

MV / AV Introduction

John Stenson, MAAA, FSA

Introduction

- Practice note is intended for actuaries who prepare or review MV / AV calculations in accordance with the Affordable Care Act (ACA).
- There are conceptual and mathematical overlaps between AV and MV.
- The differences relate to covered populations, benefit plans, underlying data, and required thresholds.

Introduction

- The AV and MV calculations help support important provisions of the ACA
- Many assumptions will need to be made as these important calculations are developed
- The actuarial profession will need to revisit these assumptions as data become available.

Introduction

- AV and MV similarities
  - The intent of the calculations is to illustrate the percentage of services covered by a benefit plan for an overall "standard" population
  - The calculations account for varying plan designs
  - Many variables need to be considered, such as the impact of plan design on resource demand and new and emerging plan designs that incorporate features to maximize value and promote efficiency

Introduction

Differences Between Actuarial Value and Minimum Value		
	Actuarial Value	**Minimum Value**
Covered Populations	Individuals and small groups expected to be insured in 2014. There will be some migrations from uninsured, Medicaid, and ESI into the populations that will purchase individual and small-group coverage in 2014 and beyond.	ESI for all employers. There will be some potential migration in and out of this population but likely not to the same extent as for individual and small group.
Benefit Plans	The metal plans need to cover the essential health benefits as outlined per regulation. There will be some benefit plan differences, but there may be more standardization within metal tiers than exists in the large-group market.	Current ESI has more significant benefit variations that need to be considered than the defined metal plans for individual and small group. Also, ESI plans do not need to cover all essential health benefits.
Underlying Data	Based on claims data reflecting small-group plans, allowing input for various plan design parameters to determine metal AV.	Based on claims data reflecting self-insured employer plans, allowing inputs for the plan's benefits, coverage of services, and cost-sharing provisions.
Thresholds	There are four metal levels with a de minimis +/- 2 percent range.	There is a strict 60 percent or greater threshold requirement.

Introduction

- For actuaries reviewing employer-sponsored insurance (ESI) plans for compliance with the MV requirements as stipulated by the ACA, the Internal Revenue Service (IRS) proposed rule on MV for eligible employer-sponsored plans outlined three ways that MV may be determined:
  1. The use of an MV calculator
  2. The application of safe-harbor provisions
  3. An independent actuarial certification

Introduction

- The IRS proposed rule also provided initial guidance on safe-harbor plan designs
- This practice note is based on the information in the proposed rule, which is subject to change once finalized
- The actuary should review regulatory material to ensure compliance with final guidance on this issue
- It is anticipated that the MV determination of most plans will be accommodated by either the MV Calculator or the safe-harbor provisions

Introduction

- AV and MV calculators have been released by CCIIO and used by health actuaries
- It is anticipated that situations will arise in which the calculators can't be used directly and actuarial judgment will be required
- The practice note addresses three areas in more detail:
  - Adjustments for a non-standard plan design that can be calculated using the data contained in the calculator;
  - Adjustments for a non-standard plan design when the calculators do not contain the necessary data; and
  - Value-based insurance designs, tiered copays or other cost sharing, and wellness benefits.

Introduction

- Definitions
  - Metal AV
  - MV
  - Federal AV/MV
- Induced demand
- Prices and pricing
- Standard population

Plan Designs Not Accommodated by the MV / AV Calculators

Jo Erwin, MAAA, FSA

Plan Designs Not Accommodated by the MV / AV Calculators

- Causes:
  - Calculator limitations
  - Unique or innovative plan design features
- Considerations:
  - Adjustments to input or output
  - Material effect
  - Data hierarchy
- Examples
- Value-based plan designs
- Technical guidance

Plan Designs Not Accommodated by the MV / AV Calculators

- Adjustments to input or output
  - In most cases, it should be clear from a calculation perspective whether to adjust the input or the output
  - It is probably less likely that an actuary would be in a situation in which he or she could choose between calculating an adjustment to the input *or* to the output
  - Actuarial judgment and documentation will be required

Plan Designs Not Accommodated by the MV / AV Calculators

- Material effect
  - A non-standard plan design feature has a material effect if it changes the metal tier or if it changes whether the plan meets the MV threshold
  - AV has +/- 2% range for metallic value determination. Expected magnitude and calculator output needs to be considered
  - MV has a minimum threshold; proximity to the threshold and estimated design value need to be considered

Plan Designs Not Accommodated by the MV / AV Calculators

- Data hierarchy
  - If the actuary determines that an additional calculation is necessary, the actuary will need to evaluate potential data sources
  - The following data hierarchy is suggested
    - MV/AV Calculator continuance tables
    - Market data (e.g., data from consultant standard pricing model)
    - Carrier-specific data
  - Data choices should be impacted by materiality considerations

Plan Designs Not Accommodated by the MV / AV Calculators

- Examples that contain all data required for adjustment
  - **Example 1**—Plans with copays (instead of coinsurance) that apply after the annual deductible. Common high-deductible health plans (HDHP) have pharmacy copays that apply after the deductible
  - **Example 2**—Plans with coinsurance payments on prescription drugs that are either floored or capped at a set amount per script

Plan Designs Not Accommodated by the MV / AV Calculators

- Examples that do not contain all data required for adjustment
  - **Example 1**—Plans with a flat dollar copay that applies to outpatient (OP) surgery
  - **Example 2**—Plans with an office visit copay limit that applies to the combination of primary care physician (PCP) and specialist visits
  - **Example 3**—Plans with an aggregate family deductible, in which the costs for all members of a family accumulate to one common deductible

Plan Designs Not Accommodated by the MV / AV Calculators

- Value-based plan designs
  - Condition-based plan provisions (e.g., reduced cost sharing to encourage diabetes monitoring/treatment)
  - Treatment decisions by insured (e.g., place of service) impacting benefit levels
  - Wellness incentives in plan design, including employer contributions to health reimbursement accounts (HRAs) or health savings accounts (HSAs) that vary based on member involvement in a wellness program.

Plan Designs Not Accommodated by the MV / AV Calculators

- Technical guidance
  - Select a close plan design for which you feel the calculator yields logical results
  - Apply a calculation using appropriate data from the data hierarchy to estimate the impact of the plan design in question
  - See the practice note for other specific information on calculator usage

Design-Based Safe Harbor Checklists

Dale Yamamoto, MAAA, FCA

Design-Based Safe Harbor Checklists

- Notice 2012-31 and 45 CFR 156.145(a) provide guidance indicating that, in addition to use of the MV calculator, MV may be determined by using certain design-based safe harbors
- The safe harbors may be updated over time by the IRS
  - The actuary would need to ensure that he or she is referencing the most current definition of MV as defined by the IRS
- Note that a plan not meeting safe harbor requirements for MV does not necessarily mean that the plan does not meet MV requirements
  - Plans not meeting safe-harbor requirements potentially could meet MV requirements through use of the MV Calculator or separate actuarial certification

Design-Based Safe Harbor Checklists

- The three safe harbor plans for 2014:
  - A plan with a $3,500 integrated medical and drug deductible, 80 percent plan cost-sharing, and a $6,000 maximum out-of-pocket limit for employee cost-sharing
  - A plan with a $4,500 integrated medical and drug deductible, 70 percent plan cost-sharing, a $6,350 maximum out-of-pocket limit, and a $500 employer contribution to an HSA
  - A plan with a $3,500 medical deductible, $0 drug deductible, 60 percent plan medical expense cost-sharing, 75 percent plan drug cost-sharing, a $6,350 maximum out-of-pocket limit, and drug copays of $10/$20/$50 for the first, second and third prescription drug tiers, with 75 percent coinsurance for specialty drugs

Actuarial Reports, Certification Language, and Qualifications

Dale Yamamoto, MAAA, FCA

Actuarial Reports

- An actuarial report is required when the AV or MV is not calculated directly from the calculator or the MV does not use the design-based safe-harbor provisions
- Actuarial reports written to communicate federal MV/AV calculations are actuarial communications subject to ASOP No. 41, *Actuarial Communications*
- The plan sponsor or the qualified health plan (QHP) issuer should retain the actuary's reports supporting the certification for a period that is required by law or regulation
  - It would be prudent for an actuary to retain copies of the reports as well

Certification Language

- MV certification is required for employer-sponsored plans with non-standard plan features that preclude the use of the MV Calculator or if MV cannot be determined using the safe-harbor checklist
- AV certification is required for non-grandfathered health plans offered in the individual and small-group markets when the plan design is not compatible with the AV calculator
- The practice note contains recommended certification language

Qualifications

- Certification of the metal AV for the individual and insured small-group health market or the MV for employers is a statement of actuarial opinion. As such, the signing actuary is subject to the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* (including continuing education requirements) promulgated by the American Academy of Actuaries
  - Under the U.S. Qualification Standards (as may be revised or amended periodically), the actuary must satisfy requirements for basic education, experience, and continuing education in the practice area related to the statement of actuarial opinion before issuing a statement of actuarial opinion
- Since AV analysis as prescribed in the law and regulations is considered health benefit pricing analysis, the actuary's work experience and continuing education should include health benefit system pricing and analysis

Illustrative Example

John Stenson, MAAA, FSA

Illustrative Example

- Separate pharmacy and medical deductible
- Counter-intuitive AV Calculator results
- Approach and calculation
  - Calculating the impact of the pharmacy deductible
  - Calculating the impact of copays and coinsurance
  - Calculating the impact of maximum out of pocket
  - Calculating a final adjusted AV

Illustrative Example

User Inputs for Plan Parameters

Use Integrated Medical and Drug Deductible?	☐
Apply Inpatient Copay per Day?	☑
Apply Skilled Nursing Facility Copay per Day?	☑
Use Separate OOP Maximum for Medical and Drug Spending?	☐
Indicate if Plan Meets CSR Standard?	☐
Desired Metal Tier	Silver

HSA/HRA Options		Narrow Network Options	
HSA/HRA Employer Contribution?	☐	Blended Network/POS Plan?	☐
Annual Contribution Amount:		1st Tier Utilization: 2nd Tier Utilization:	

	Tier 1 Plan Benefit Design			Tier 2 Plan Benefit Design		
	Medical	Drug	Combined	Medical	Drug	Combined
Deductible ($)	$3,000.00	$100.00				
Coinsurance (%, Insurer's Cost Share)	100.00%	100.00%				
OOP Maximum ($)	$6,250.00					
OOP Maximum if Separate ($)						

Click Here for Important Instructions

Type of Benefit	Tier 1 Subject to Deductible?	Tier 1 Subject to Coinsurance?	Tier 1 Coinsurance, if different	Tier 1 Copay, if separate	Tier 2 Subject to Deductible?	Tier 2 Subject to Coinsurance?	Tier 2 Coinsurance, if different	Tier 2 Copay, if separate
Medical	☐ All	☐ All			☑ All	☑ All		
Emergency Room Services	☐	☐		$150.00	☑	☑		
All Inpatient Hospital Services (inc. MHSA)	☑	☐		$500.00	☑	☑		
Primary Care Visit to Treat an Injury or Illness (exc. Preventive, and X-rays)	☐	☐		$30.00	☑	☑		
Specialist Visit	☐	☐		$45.00	☑	☑		
Mental/Behavioral Health and Substance Abuse Disorder Outpatient Services	☐	☐		$30.00	☑	☑		
Imaging (CT/PET Scans, MRIs)	☐	☐		$75.00	☑	☑		
Rehabilitative Speech Therapy	☐	☐		$30.00	☑	☑		
Rehabilitative Occupational and Rehabilitative Physical Therapy	☐	☐		$30.00	☑	☑		
Preventive Care/Screening/Immunization	☐	☐	100%	$0.00	☐	☐	100%	$0.00
Laboratory Outpatient and Professional Services	☐	☐		$30.00	☑	☑		
X-rays and Diagnostic Imaging	☐	☐		$45.00	☑	☑		
Skilled Nursing Facility	☑	☐		$500.00	☑	☑		
Outpatient Facility Fee (e.g., Ambulatory Surgery Center)	☑	☑	67%		☑	☑		
Outpatient Surgery Physician/Surgical Services	☑	☐			☑	☑		
Drugs	☐ All	☐ All			☑ All	☑ All		
Generics	☐	☐		$10.00	☑	☑		
Preferred Brand Drugs	☑	☐		$25.00	☑	☑		
Non-Preferred Brand Drugs	☑	☐		$40.00	☑	☑		
Specialty Drugs (i.e. high-cost)	☑	☑	60%		☑	☑		

Options for Additional Benefit Design Limits:

Set a Maximum on Specialty Rx Coinsurance Payments?	☐	
Specialty Rx Coinsurance Maximum:		
Set a Maximum Number of Days for Charging an IP Copay?	☑	
# Days (1-10):		4
Begin Primary Care Cost-Sharing After a Set Number of Visits?	☐	
# Visits (1-10):		
Begin Primary Care Deductible/Coinsurance After a Set Number of Copays?	☐	
# Copays (1-10):		

Output

Calculate

Status/Error Messages:	Error: Result is outside of +/- 2 percent de minimis variation.
Actuarial Value:	73.6%
Metal Tier:	

Illustrative Example

User Inputs for Plan Parameters

Use Integrated Medical and Drug Deductible?	☐
Apply Inpatient Copay per Day?	☑
Apply Skilled Nursing Facility Copay per Day?	☑
Use Separate OOP Maximum for Medical and Drug Spending?	☐
Indicate if Plan Meets CSR Standard?	☐
Desired Metal Tier	Silver

HSA/HRA Options		Narrow Network Options	
HSA/HRA Employer Contribution?	☐	Blended Network/POS Plan?	☐
Annual Contribution Amount:		1st Tier Utilization:	
		2nd Tier Utilization:	

	Tier 1 Plan Benefit Design			Tier 2 Plan Benefit Design		
	Medical	Drug	Combined	Medical	Drug	Combined
Deductible ($)	$3,000.00	$500.00				
Coinsurance (%, Insurer's Cost Share)	100.00%	100.00%				
OOP Maximum ($)	$6,250.00					
OOP Maximum if Separate ($)						

Click Here for Important Instructions

Type of Benefit	Tier 1 Subject to Deductible?	Tier 1 Subject to Coinsurance?	Tier 1 Coinsurance, if different	Tier 1 Copay, if separate	Tier 2 Subject to Deductible?	Tier 2 Subject to Coinsurance?	Tier 2 Coinsurance, if different	Tier 2 Copay, if separate
Medical	☐ All	☐ All			☑ All	☑ All		
Emergency Room Services	☐	☐		$150.00	☑	☑		
All Inpatient Hospital Services (inc. MHSA)	☑	☐		$500.00	☑	☑		
Primary Care Visit to Treat an Injury or Illness (exc. Preventive, and X-rays)	☐	☐		$30.00	☑	☑		
Specialist Visit	☐	☐		$45.00	☑	☑		
Mental/Behavioral Health and Substance Abuse Disorder Outpatient Services	☐	☐		$30.00	☑	☑		
Imaging (CT/PET Scans, MRIs)	☐	☐		$75.00	☑	☑		
Rehabilitative Speech Therapy	☐	☐		$30.00	☑	☑		
Rehabilitative Occupational and Rehabilitative Physical Therapy	☐	☐		$30.00	☑	☑		
Preventive Care/Screening/Immunization	☐	☐	100%	$0.00	☐	☐	100%	$0.00
Laboratory Outpatient and Professional Services	☐	☐		$30.00	☑	☑		
X-rays and Diagnostic Imaging	☐	☐		$45.00	☑	☑		
Skilled Nursing Facility	☑	☐		$500.00	☑	☑		
Outpatient Facility Fee (e.g., Ambulatory Surgery Center)	☑	☑	67%		☑	☑		
Outpatient Surgery Physician/Surgical Services	☑	☐			☑	☑		
Drugs	☐ All	☐ All			☑ All	☑ All		
Generics	☐	☐		$10.00	☑	☑		
Preferred Brand Drugs	☑	☐		$25.00	☑	☑		
Non-Preferred Brand Drugs	☑	☐		$40.00	☑	☑		
Specialty Drugs (i.e. high-cost)	☑	☑	60%		☑	☑		

Options for Additional Benefit Design Limits:

Set a Maximum on Specialty Rx Coinsurance Payments?	☐	
Specialty Rx Coinsurance Maximum:		
Set a Maximum Number of Days for Charging an IP Copay?	☑	
# Days (1-10):		4
Begin Primary Care Cost-Sharing After a Set Number of Visits?	☐	
# Visits (1-10):		
Begin Primary Care Deductible/Coinsurance After a Set Number of Copays?	☐	
# Copays (1-10):		

Output

Calculate

Status/Error Messages: Error: Result is outside of +/- 2 percent de minimis variation.

Actuarial Value: 74.3%

Metal Tier:

Illustrative Example

Illustrative Calculations for Generic Drugs (Silver Continuance Table – AV Calculator)

A Up to	XA Cumulative Enrollees	XB Generics Cumulative Dollars	XC Generics by Bucket	XD Generics Cumulative Scripts	XE Generics Scripts by Bucket
$0	115,374	$0	$0	1,538	1,538
$100	201,280	$3,254,807	$3,254,807	231,010	229,473
$200	237,666	$7,318,961	$4,064,154	450,069	219,059
$300	261,677	$11,488,708	$4,169,747	647,675	197,606
	:	:	:	:	:
$500,000	432,961	$90,902,954	$174	2,850,493	6
$1,000,000	432,963	$90,904,163	$1,209	2,850,518	25