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Dewonkify – Risk Corridors Re: Affordable Care Act

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*The **Patient Protection and Affordable Care Act** –commonly referred to as "the ACA"—is a law that reformed nearly twenty-percent of the economy through modifications to regulations and changes to existing law. Its primary goals were to expand health care coverage and control rising costs. Among a number of reforms, the ACA mandated that all citizens have health insurance for a minimum of nine months of the year (or face a penalty); allowed children to remain on their parents plan until the age of 26; created health insurance market places where anyone can shop for health insurance; and banned insurance companies from denying coverage on the basis of pre-existing conditions.*

Word: Risk Corridors

Used in a sentence: "Risk corridors, a provision of the ACA, limits both the amount of money that a health-insurance plan can make and lose during the first three years it is sold on the new health-care exchanges. Related programs that mitigate risk for insurance companies are also being targeted by conservative Republicans." –Rep. Tom Cole quoted in The Washington Post.

Definition: Risk corridors are a component of the ACA that limit the risk borne by qualified health plans on the insurance marketplaces. Risk Corridors are a mechanism to minimize the year-end losses of insurers who covered a disproportionate share of sicker, often older, insured customers. The federal government, through the Department of Health and Human Services, agrees to cover 50% of the excess costs borne by insurers if those costs exceeded premiums by 3-8%. In the event those losses amount to greater than 8%, the government will defray 80% of those losses. However, if insurance companies see similar gains then the situation is reversed and the federal government is the beneficiary of those excess funds. This is the risk adjustment portion of the ACA where "healthier" insurance companies help ones shouldering more expensive populations.

History: Ideally, insurance is a system whereby a company manages risk by distributing moneys from a sizeable portion of healthy participants—needing minimal to moderate medical services—to a much smaller portion of sicker participants that need a lot more medical services. This results in a margin or profit where premiums exceed the medical costs of the consumers participating in a given plan. This is a simplified way of explaining what actuaries do every year. They take consumers in a given plan and compare their likelihood to use medical services with the expected revenues from monthly insurance premiums and other out-of-pocket costs like yearly deductibles. However, the advent of the ACA brought on this new frontier of health insurance marketplaces where no one could

be denied care due to pre-existing conditions: previous surgery, diabetes, HIV, cancers, benign tumors, hypertension, etc.

Although, risk was managed by mandating that everyone be covered, this did not completely allay the fears of private insurers. Actuaries remained nervous. Anyone from the individual market—usually those not eligible for Medicaid/Medicare or employer sponsored coverage—could enter the exchanges and purchase insurance coverage. This uncertainty could have resulted in excessive premiums to consumers. To mitigate that risk and help with the possibility that consumers would be sicker and older—and thus more likely to use many costly medical procedures—the authors of the law created risk corridors. This would be a temporary program to help insurers on the insurance market places for three years.

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