Appendix 2

Comments on the Exposure Draft and Responses

The exposure draft of this ASOP, *The Use of Health Status Based Risk Adjustment Methodologies*, was issued in April 2011 with a comment deadline of July 31, 2011. Ten comment letters were received, some of which were submitted on behalf of multiple commentators, such as by firms or committees. For purposes of this appendix, the term "commentator" may refer to more than one person associated with a particular comment letter. The Health Risk Adjustment Task Force of the Health Committee of the Actuarial Standards Board carefully considered all comments received, and the Health Committee and ASB reviewed (and modified, where appropriate) the changes proposed by the Task Force.

Summarized below are the significant issues and questions contained in the comment letters and the responses.

The term "reviewers" in appendix 2 includes the Task Force, the Health Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in this final version.

GENERAL COMMENTS	
Comment	One commentator stated that the ASOP should describe the core knowledge an actuary needed to have in order to perform analysis using risk adjustment methods.
Response	ASOPs do not include qualification requirements. The reviewers refer the commentator to Precept 2 of the *Code of Professional Conduct* and the U.S. Qualification Standards promulgated by the American Academy of Actuaries.
Comment	Several commentators stated that the ASOP should provide more guidance and noted specific areas where they thought guidance should be provided. In many instances, the commentators suggested adding technical details and more specificity, including examples. In addition, one commentator stated that the ASOP did not provide meaningful standards of practice, only a list of considerations.
Response	The reviewers believe the ASOP provides sufficient guidance. Additional details might be appropriate for a practice note or textbook. The reviewers did add additional guidance concerning specific issues around the timing of models, as discussed below.
Comment	Several commentators stated that the ASOP should list reference material.
Response	The reviewers believe it is not appropriate for this ASOP to list reference material since material in this area can quickly become out of date. Therefore, no change was made to the ASOP.
Comment	One commentator stated that many of the considerations in the ASOP were not practical or significant, particularly for employer-specific health plan analyses. The commentator stated that the ASOP briefly mentioned practical considerations, but requested that examples of where the ASOP was not applicable be documented.
Response	The reviewers believe the scope of the ASOP is clearly defined, and that section 3.1.9, Practical Considerations, provides sufficient weight to practical considerations. Therefore, no change was made to the ASOP.

Comment	One commentator suggested adding a section on uncertainty.
Response	The reviewers note that section 3.1.7, Predictive Ability, requires the actuary to consider the predictive ability of the model; and ASOP No. 41, *Actuarial Communications*, requires the actuary to communicate any cautions related to uncertainty. Therefore, no change was made to the ASOP.
Comment	Several commentators suggested adding additional examples under several sections.
Response	The reviewers believe the examples provided are sufficient, and note that the material in appendix 1 was expanded to provide additional background.
Comment	A commentator stated that actuaries should be required to educate intended users on the purpose of risk adjustment, the models available, their different uses, and the advantages and disadvantages.
Response	The reviewers believe ASOP No. 41 provides sufficient guidance on communication. Therefore, no change was made to the ASOP.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment	One commentator suggested adding "publicly available" to "commercial or other."
Response	The reviewers agreed and added "publicly available" to the list in section 1.2.
SECTION 2. DEFINITIONS	
Comment	Two commentators suggested that definitions for data collection period, estimation period, and claim run-out period be added.
Response	A definition for estimation period was added to the definitions section. In section 3.1.5, "data collection period" was modified to "incurral period." Appendix 1 was expanded to include additional discussion on timing issues.
Comment	Several commentators suggested adding definitions and guidance regarding prospective and concurrent models, and making the distinction between "risk adjustment" and "risk assessment."
Response	The reviewers agreed and added discussion of these topics to the appendix.
Section 2.8, Health Status Based	
Comment	One commentator suggested that the definition of "health status based" be expanded to specifically list pharmacy claims.
Response	The reviewers believe this explicit recognition of pharmacy claims would be useful in understanding the definition and added pharmacy claims to the definition.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment	One commentator suggested making the terminology referring to risk adjustment model and risk adjustment methodology consistent with the proposed rules under the Affordable Care Act.
Response	The reviewers believe the terms are appropriate as included. Terminology in various ASOPs is sometimes different from that used in regulations. ASOPs are generally developed so that they do not need to be revised as new laws and regulations are proposed, passed, and changed. Therefore, no change was made to the ASOP.

Section 3.1.1, Intended Use	
Comment	One commentator suggested that section 3.1.1 could be interpreted to have a "yes" or "no" answer when the more typical situation involved a degree or spectrum of closeness.
Response	The reviewers agreed and replaced "whether" with "the degree to which."
Section 3.1.3, Model Version	
Comment	One commentator stated that compliance with the requirement that a comparison to prior versions be conducted may not always be possible.
Response	The reviewers agreed that the language in the ASOP may unintentionally imply too high of a standard. Further language was added clarifying that the information may not be readily available and that the actuary should consider comparing results under different versions.
Section 3.1.7, Predictive Ability	
Comment	One commentator suggested that the actuary should consider who may have accountability to monitor predictive ability on an ongoing basis.
Response	The reviewers believe such a requirement is unnecessary. Therefore, no change was made to the ASOP.
Section 3.1.8, Reliance on Experts	
Comment	One commentator suggested that a statement such as the following be added: "the actuary should consider, if appropriate, relying on outside expertise if aspects of the model are not readily understood by the actuary." The commentator used an example of an actuary not fully understanding the clinical input used to develop a model and seemed to suggest the actuary should understand such clinical input and aspects before using a model. Another commentator stated that the reliance on experts section was potentially too prescriptive and stated that it would be impossible to know if the model developer was an expert if they were deceased. Another commentator had a concern similar to the second one listed here and asked if a reliance statement from the expert would be necessary.
Response	The reviewers believe actuaries relying on others can assess the expertise of those individuals. The reliance on experts language in this ASOP is consistent with the relevant requirements in ASOP No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*. Therefore, no change was made to the ASOP.
Section 3.2, Input Data	
Comment	One commentator stated that actuaries may not have access to input data used to develop a model and therefore could not asses the consistency of the model development and the application of the model.
Response	The reviewers believe this section needed further clarification and additional flexibility for practicing actuaries. This section has been edited to address these issues.
Comment	One commentator stated that actuaries should have a deep understanding of the data used to develop the model and be aware of any hidden variables such as race or income.
Response	The reviewers believe the revised section 3.2 places an appropriate level of responsibility on the actuary. Therefore, no change was made to the ASOP.
Comment	One commentator suggested adding other input data such as income level or socioeconomic information, self-reported health data (health-risk assessments), and lifestyle-related data.
Response	Sections 3.2.1, 3.2.2, and 3.2.3 talk about specific data issues that may exist in widely used models. The reviewers believe including discussion of variables not widely used may unnecessarily complicate the ASOP. If used in a model, the ASOP (specifically, section 3.2) requires the actuary to consider consistency of these variables even if they are not specifically listed. Therefore, no change was made to the ASOP.

Section 3.2.3, Coding and Other Data Issues	
Comment	One commentator suggested that the term coding be included in the definitions.
Response	The reviewers agreed and added the definition in section 2.2.
Comment	One commentator suggested adding data validation to the section 3.2.2 heading and further detail and requirements regarding considering differences in coding.
Response	The reviewers believe the suggested changes are unnecessary and may overlap with other sections where data issues are also discussed. Therefore, no change was made to the ASOP.
Section 3.4, Assigning Risk Scores to Individuals with Limited Data	
Comment	One commentator requested that the discussion of assigning risk scores to individuals with limited experience be more explicit.
Response	The reviewers agreed and added "such as a minimum number of months of eligibility in the incurral period."
Comment	One commentator suggested that excluding individuals from the analysis did not dampen the results.
Response	The reviewers removed the word "effectively" and added "while also" since the intent in the example was an active dampening of the results, not that excluding the individuals would automatically dampen the results.
Section 3.5, Addressing Model and Methodology Limitations	
Comment	Two commentators suggested that, while existing communication standards require certain communications, this ASOP reinforce requirements in specific areas including adjustments to address model and methodology limitations.
Response	The reviewers note ASOP No. 41 includes the following statement regarding required documentation in section 3.6: "Such documentation should identify the data, assumptions, and methods used by the actuary with sufficient clarity that another actuary qualified in the same practice area could evaluate the reasonableness of the actuary's work." Therefore, no change was made to the ASOP.
Section 3.6, Recalibration	
Comment	One commentator suggested that an actuary should consider the extent to which an actuary could recalibrate the model because of a lack of transparency.
Response	The reviewers agreed the level of transparency would affect an actuary's ability to recalibrate a model, and added transparency in the list of considerations in this section.
Comment	One commentator suggested that actuaries be required to recalibrate when there are inconsistencies between model development and model application or communicate uncertainty if recalibration is not performed.
Response	The reviewers disagree and believe the ASOP requires the appropriate level of review and communication. Therefore, no change was made to the ASOP.
APPENDIX 1—BACKGROUND AND CURRENT PRACTICES	
Comment	One commentator noted that the background and current practices section of the appendix stated that risk adjustment has been an important tool in the health insurance marketplace since the 1970s while the background section in the exposure draft's transmittal memorandum referenced the 1980s.
Response	The reviewers note that the 1970s was the correct reference.