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Underfunding Of ACA Risk Corridor Presents Risks To Market Stability, Says Report

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NEW YORK (Standard & Poor's) May 5, 2015--As one of the three stabilization pillars of the Affordable Care Act (ACA), the risk corridor may actually increase uncertainty in the market as the potential requirement to be budget neutral leaves a significant funding gap, noted Standard & Poor's Ratings Services in a report published May 1, 2015, titled "The Unfunded ACA Risk Corridor May Make The U.S. Insurance Market Less Stable, Not More." The report notes that insurers' aggregate risk-corridor payables are less than 10% of the aggregate risk-corridor receivables they reported in their 2014 annual financial statements.

As established by the ACA, the risk corridor requires insurers (based on a specific formula) to make payments into or receive payments from insurers based on the performance of their ACA business. With the budget neutrality provision, these two factors are supposed to offset and balance the risk corridor's funding, as outside funding is unavailable.

"There are really two questions that are raised by the budget neutrality provision," noted Standard & Poor's credit analyst Deep Banerjee. "The first is whether there will be enough insurers on both sides of the corridor to balance corridor collections and payments. The second is, if there isn't even money coming into the corridor, how significant is the impact of non-receipt of eligible corridor receivables on the credit quality of insurers and

ultimately on the final premium cost of the consumer?"

As consequent appropriation acts have resulted in self-sufficiency as a requirement for the ACA corridor, in our view it is unclear as to how the Center for Medicare and Medicaid Services can fund the program with the limited options available.

CMS has stated that it can use risk-corridor collections from 2015 to cover the unpaid amounts in 2014, under the premise that an excess in later years will cover the previous shortfall. However, we do not expect the individual exchange business in 2015 to be profitable enough to offset the deficit from the previous year.

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