

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201



Date: February 13, 2015

Subject: Timing of Reconciliation of Cost-Sharing Reductions for the 2014 Benefit Year

To enhance the accuracy of reconciliation of cost-sharing reduction payments to issuers, and to fully reimburse issuers for reductions in out-of-pocket expenses provided to eligible low- and moderate-income enrollees, and American Indian/Alaska Native enrollees in 2014, the Centers for Medicare & Medicaid Services (CMS) will reconcile 2014 benefit year cost-sharing reductions for all issuers in April 2016, rather than in April 2015.

The Affordable Care Act requires issuers of qualified health plans (QHPs) to provide cost-sharing reductions to eligible enrollees in such plans, and provides for issuers to be reimbursed for the value of those cost-sharing reductions. Under implementing regulations, monthly advance cost-sharing reduction payments to issuers were authorized starting in 2014, and a process was provided for issuers to reconcile these advance payments to actual cost-sharing reductions provided to these enrollees.¹

Advanced payments of cost-sharing reductions are reconciled by comparing the cost sharing that an enrollee pays under a cost-sharing reduction plan variation of the QHP to the cost sharing the enrollee would have paid under the standard plan. The cost sharing that would have been paid under the standard plan is most accurately calculated by adjudicating an enrollee's claims history for the year through the standard plan cost-sharing parameters, a process sometimes referred to as "double adjudication," and referred to under CMS regulations as the "standard methodology." Under CMS regulations, as a transitional measure, issuers were permitted to elect either to calculate cost sharing that an enrollee would have paid under the standard plan using the standard methodology – the most accurate approach – or to estimate that cost sharing using a simplified methodology based on actuarial estimates of certain key cost-sharing parameters.

When enrollment in a QHP standard plan is insufficient (under CMS regulations, 12,000 member months among a particular subset of enrollees within the standard plan is the minimum required enrollment) to derive statistically credible estimates of these actuarially derived cost-sharing parameters, issuers that elected the simplified methodology must use a formula based on the plan variation's actuarial value to calculate cost-sharing reductions provided. This formula, known as the actuarial value methodology or "AV methodology" may result in inaccurate payments to issuers compared to the amount of cost-sharing reductions they actually provided to enrollees.

¹ The process for reconciling advanced payments for cost-sharing reductions is detailed at 45 CFR 156.430. We established standards for the administration and payment of cost-sharing reductions in the HHS Notice of Benefit and Payment Parameters for 2014 final rule published in the March 11, 2013 **Federal Register** (78 FR 15410) and in the Amendments to the HHS Notice of Benefit and Payment Parameters for 2014 interim final rule, published in the March 11, 2013 **Federal Register** (78 FR 15541). The provisions established in the interim final rule were finalized in the second Program Integrity Rule published in the October 30, 2013 **Federal Register** (78 FR 65046).

It has come to our attention that many issuers using the simplified methodology are falling short of the 12,000 member month credibility threshold for a particular subgroup more frequently than anticipated – and will be required to use the simplified “AV methodology,” which may yield inaccurate estimates of cost-sharing reductions provided to eligible enrollees in those plans. It has also come to our attention that many issuers using the standard methodology are continuing to have difficulty upgrading their systems in time for reconciliation of advanced payments of cost-sharing reductions under this “double adjudication” method, putting at risk the accuracy of those calculations.

Therefore, to enhance the accuracy of reconciliation of reductions in out-of-pocket expenses that issuers provided to eligible low- and moderate-income enrollees and American Indian/Alaska Native enrollees, **CMS will permit issuers that selected the simplified methodology to switch to the more accurate standard methodology, and will reconcile 2014 benefit year cost-sharing reductions for all issuers beginning on April 30, 2016.** This new reconciliation deadline for all issuers will promote accurate reimbursement of cost-sharing reductions by permitting issuers that switch to, or previously selected, the more accurate standard methodology to complete their operational upgrades.

Issuers that are switching from the simplified methodology to the standard methodology will be permitted to notify CMS of that switch upon submission of the required cost-sharing reduction reconciliation files on April 30, 2016. Issuers that do not switch to the standard methodology must use the simplified methodology, including using the “AV methodology,” as applicable. Issuers that selected the standard methodology last year may not switch to the simplified methodology. Because these changes will help promote accurate payments for cost-sharing reductions, they will not alter the ultimate liability for cost-sharing reductions from issuers or the federal government.

CMS provided the data elements for cost-sharing reduction reconciliation in June 2014, via a collection of information authorized under the Paperwork Reduction Act titled, “Cost-Sharing Reduction Reconciliation, (CMS-10526),” approved by the Office of Management and Budget in December 2014. We continue to provide technical assistance to issuers and, in advance of pilot testing for 2016 cost-sharing reduction reconciliation data submission for benefit years 2014 and 2015, we will provide technical data submission standards and appropriate instruction.

This guidance supersedes earlier guidance on the submission of data for cost-sharing reduction reconciliation.