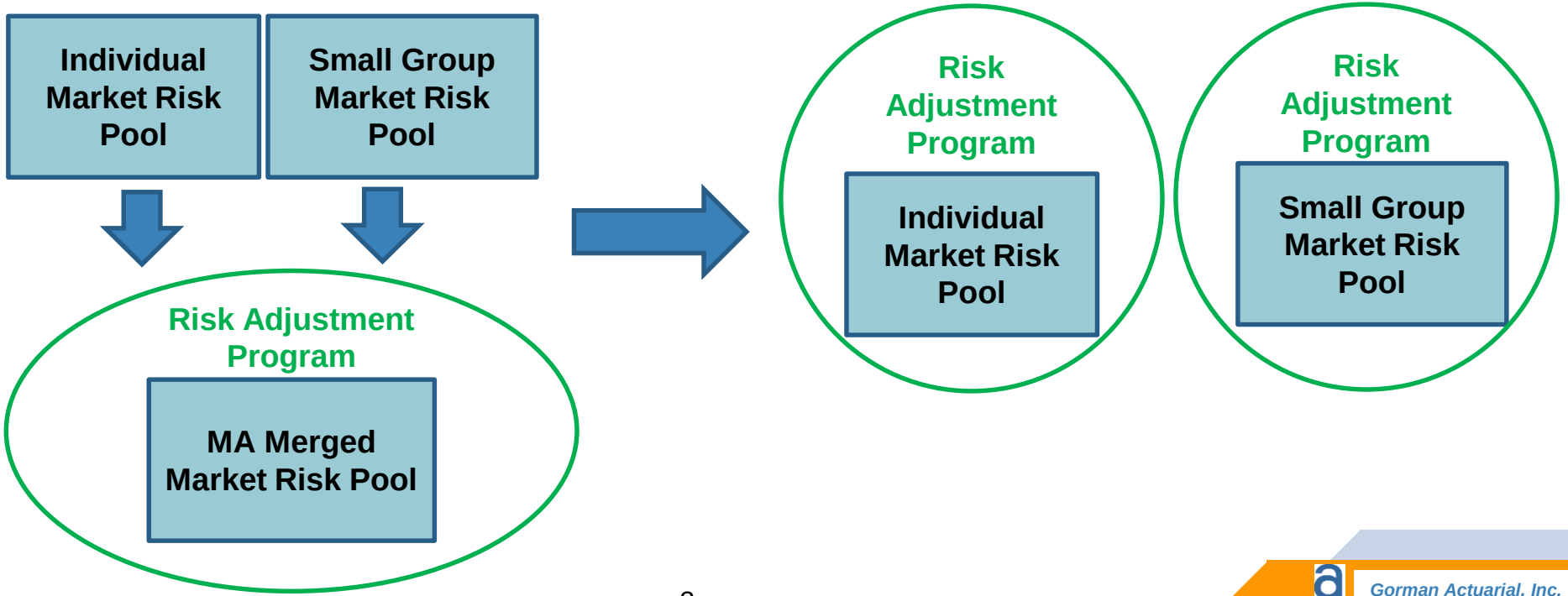
Demerging Markets & Reinsurance Programs November 4, 2020

Bela Gorman, FSA,MAAA

Gorman Actuarial, Inc.

What does it mean to demerge individual and small group markets? Legislative Changes Required



What does it mean to demerge individual and small group markets? Legislative Changes Required

- Rating Changes
  - Insurance premiums developed separately.
  - Sole proprietors included as part of the individual market under the ACA.
  - No longer cross subsidization among markets **within** each insurer.
  - No group size adjustment – as the surcharges are predominantly on groups of 1.

- Risk Adjustment Changes
  - Each market has its own risk adjustment program.
  - No longer cross subsidization among markets **across** insurers and **within** insurers.
  - Highest risk individual market insurers subsidized by lowest risk individual market insurers.
  - Highest risk small group market insurers subsidized by lowest risk small group market insurers.

What does it to demerge individual and small group markets? Legislative Changes Required

- Insurer Market
  - Insurers participating in small group market may no longer be required to participate in individual market and vice versa.
  - May see insurers exit one market.
  - May see national insurers enter a market.

- Plan Options
  - Plan options in the small group market may not be required to be available to the individual market and vice versa.
  - Insurers may choose to offer certain products in one market but not the other.

Demerge market modeling approach

- Collected detailed 2018 insurer data: claims, premium, member months, demographics by market segment.
- Collected 2018 and 2019 risk adjustment data from each insurer.
- Utilized publicly available 2019 data to adjust final results.
- Took a “bottom up” approach and modeled the impact of demerging the markets for each insurer.
- Modeled the impact of risk adjustment on each market.
- Modeling is based on 2018 data adjusted for 2019 membership shifts and 2019 risk differences.
- Ran sensitivity analyses around the best estimate to develop a range of results.
- Does **not** reflect the impact of COVID-19.

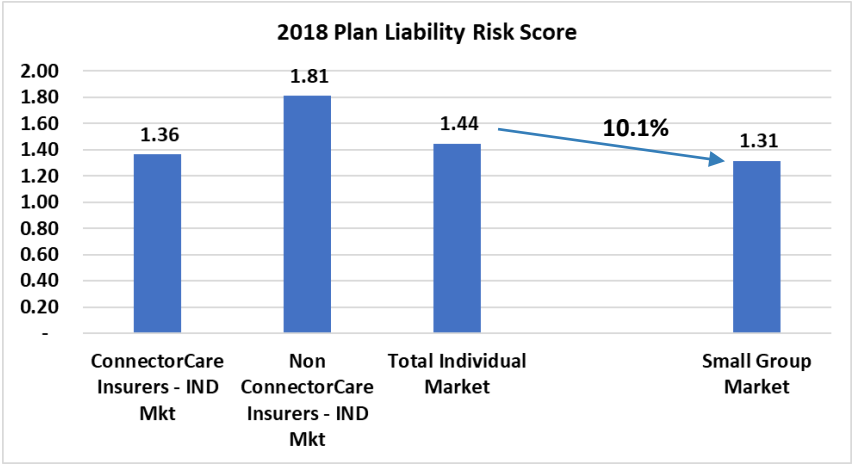
Membership Changes from 2018 to 2019

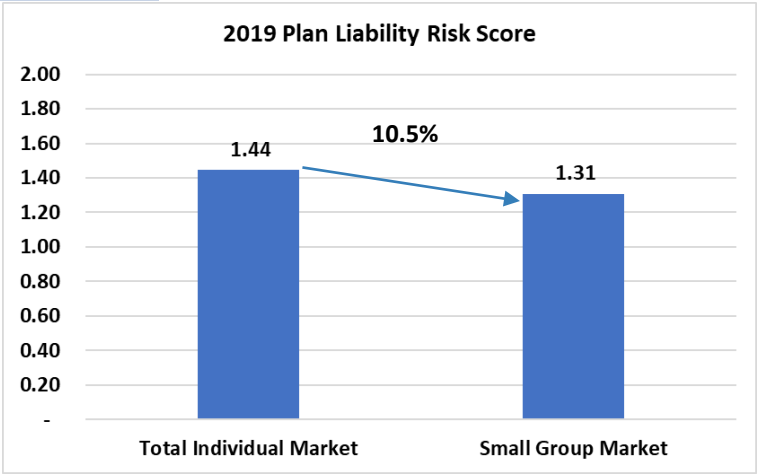
Risk Adjustment Reports	Avg 2018	Avg 2019	Membership Change
Individual Market	327,803	351,173	7.1%
Small Group Market	439,234	428,231	-2.5%
Total	767,037	779,404	1.6%

- From 2018 to 2019, the Individual Market grew 7.1% and the small group market declined 2.5%.
- Overall merged market increased 1.6%.
- These membership shifts are consistent with publicly available sources (Massachusetts MLR reporting & Federal MLR Reporting).
- When including sole proprietors in the individual market for all insurers, estimated individual market is about 50% of the merged market.

Source 2018 and 2019 TPIR Reports and insurance company HIOS ID mapping
Avg membership is billable member months divided by 12

Risk Score Analysis 2018 vs. 2019





- The overall risk scores for each market remain relatively unchanged from 2018 to 2019
- This suggests that the relative risk between the individual and small group markets has remained unchanged.
- However, there have been shifts from one insurer to the next, the modeling performed adjusts for these shifts.

The dynamics of risk adjustment in a demerged market.

Hypothetical Example

Demerged Market

- Insurer A's risk scores for each market are further away from the market average in a demerged market compared to a merged market.
- Results in Insurer A having larger payments in a demerged market compared to the merged market.

The dynamics of risk adjustment in a demerged market.

2019 Merged Market ConnectorCare Insurers

Pay $55.5M

Allways, Boston Medical Center Health Plan, Fallon, HNE, Tufts Health Public Plan

2019 Demerged Market ConnectorCare Insurers

Pay $102M

Allways, Boston Medical Center Health Plan, Fallon, HNE, Tufts Health Public Plan

2019 Merged Market Non-ConnectorCare Insurers

Receives $55.5M

Blue Cross & Blue Shield of MA, Harvard Pilgrim Health Care, Tufts Health Plan, United

2019 Demerged Market Non-ConnectorCare Insurers

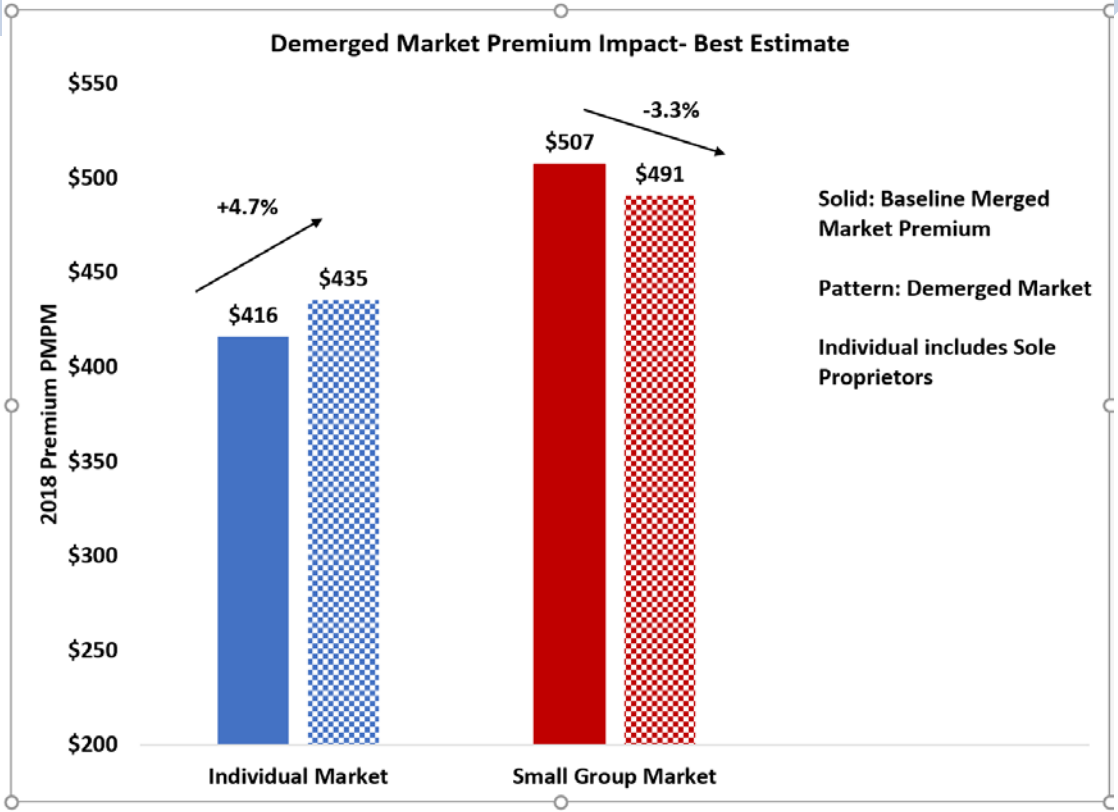
Receives $102M

Blue Cross & Blue Shield of MA, Harvard Pilgrim Health Care, Tufts Health Plan, United

ConnectorCare Insurers includes Non-ConnectorCare enrollees and ConnectorCare enrollees. (estimated 52% of this population is ConnectorCare)

ConnectorCare population receives subsidies and earn <300%FPL.

Impact of Demerging the Markets: Best Estimate One Time Impact.



- Best Estimate based on 2018 data with adjustments for 2019:
  - Individual Market +4.7%
  - Small Group Market -3.3%
  - Normal Trend will continue.
  - Impacts one time only.
- Performed sensitivity analyses on the assumptions and overall results are +/- 1% of Best Estimate.
- No explicit assumptions for Covid-19 were made.

Demerge market premium impact results: Averaged across the market

Individual Market

4% to 6%

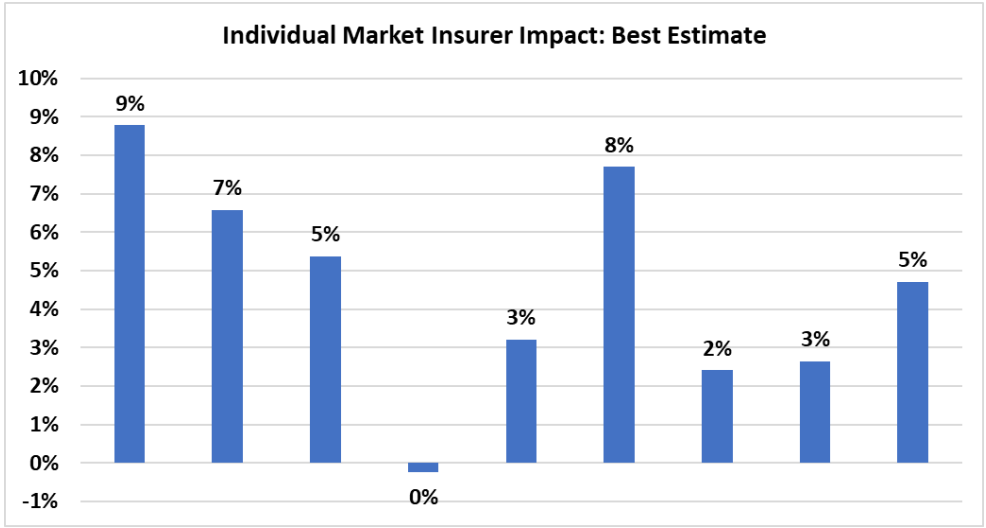
One-time impact outside of medical trend

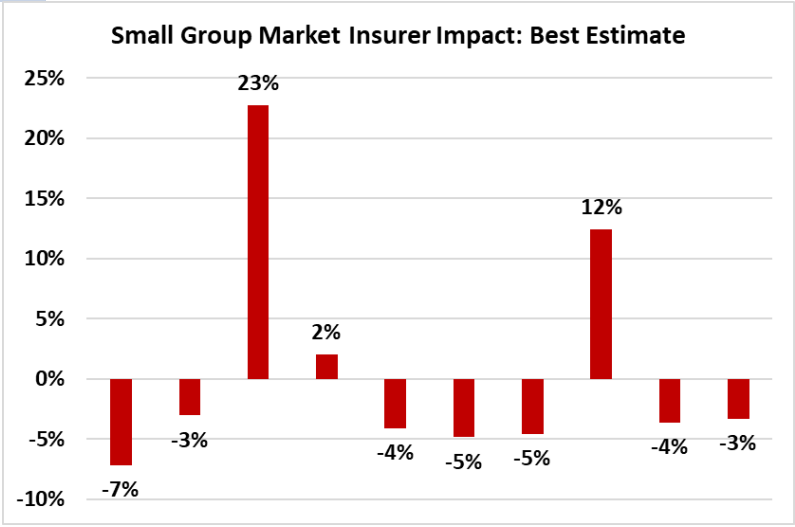
Small Group Market

2% to 4%

- Premium impacts would have been wider, however…
  - Group Size Adjustment in the merged market already surcharges individual market and sole proprietors (~1% impact on each market that is individual would be 1% higher and small group would be 1% lower)
  - Risk Adjustment across merged market results in funds flow from individual market to small group market (~2% to 3% on each market)

Best Estimate: Demerge market results will vary by insurer. One Time Impact.





- Impacts are outside of medical trend.
- Each bar represent results for an insurer. Insurer name is blinded.
- Outliers were excluded.
- These rate changes reflect the impact of risk adjustment.

Demerge market results will vary by insurer.

- As shown on the previous slide, our best estimate shows that individual market rates will likely vary across insurers – from a ~9% increase for one insurer and no charge for another.
- Our best estimate shows that small group market rates will vary significantly – from a 7% decrease for one insurer to a 23% increase for another.
- This variation in small group is due in most part to the change in the risk adjustment program.
  - Moving from a single (combined) merged market risk adjustment program to two risk adjustment programs for each market segment changes the relative position of each insurer to the market average.

Demerged Market Impact Key Takeaways

- Individual Market rates will increase, on average, 4% to 6%.
- Small Group Market rates will decrease, on average, 2% to 4%.
- Rate impacts are one-time impacts and are outside of medical trend.
- Results will vary by insurer.
- Risk adjustment program creates wider variances for payers and receivers in a demerged market.
- Insurers that participate in the ConnectorCare market will pay more in risk adjustment in a demerged market.
- More funds will be shifted due to risk adjustment, which may cause more instability in the market.

Reinsurance Programs

Demerged Market: Reinsurance Program Individual Market

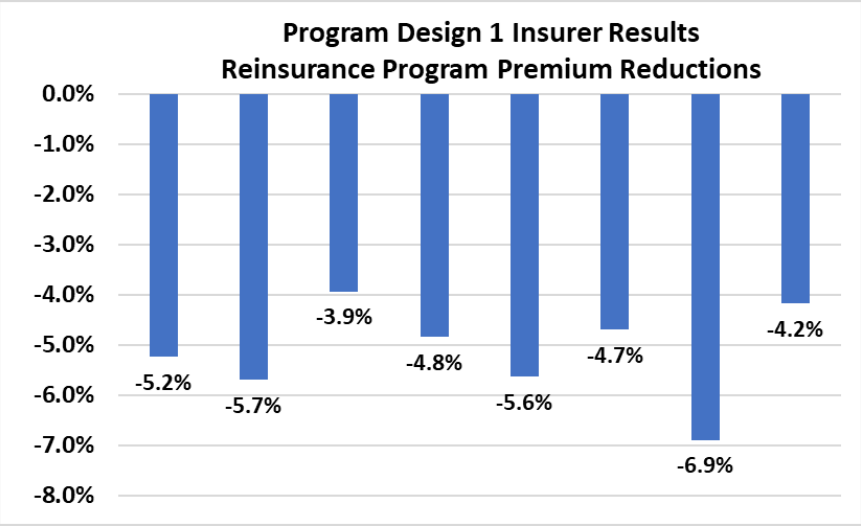
- Targeted 4.7% premium reduction on average in the individual market to negate the demerged market impact. (Best Estimate)
- Collected CY2018 member level claims data for the merged market.
- Developed a reinsurance model that can model any program design.
- Reinsurance program design can impact how results vary by insurer.
- Analysis is shown in 2018 Dollars, adjusted for 2019 Individual market membership growth.

Demerged Market: Reinsurance Program Individual Market

Estimated 2018 Individual Market Premium	$2,000,000,000
4.7% Reduction in Premium	$94,000,000

Program Design 1	
Attachment Point 1	$25,000
Attachment Point 2	$47,000
% Reinsurance	50%

For any enrollee that has annual claims between $25,000 and $47,000, the insurer is reimbursed for 50% of the claims between $25,000 and $47,000.



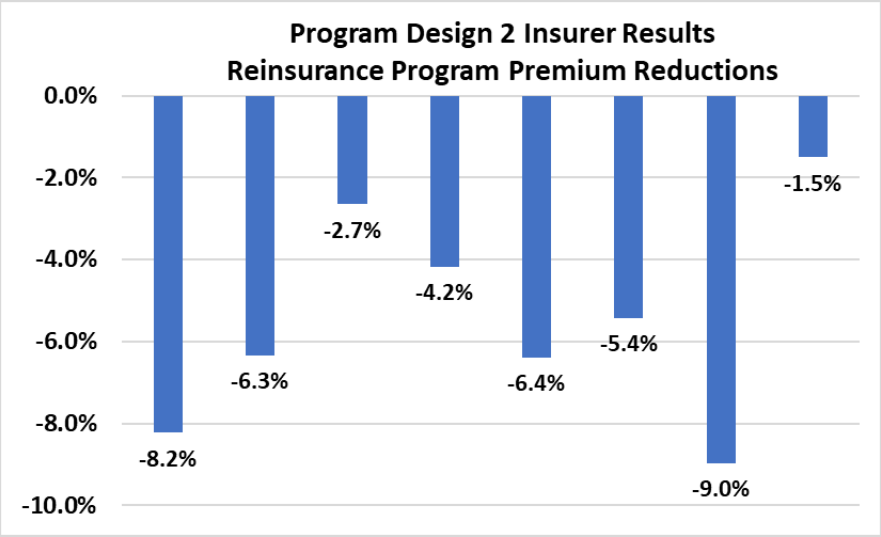
Each bar represents an insurer in our market and one insurer was left out of the analysis due to data integrity.

Demerged Market: Reinsurance Program Individual Market

Estimated 2018 Individual Market Premium	$2,000,000,000
4.7% Reduction in Premium	$94,000,000

Program Design 2	
Attachment Point 1	$150,000
Attachment Point 2	$1,000,000
% Reinsurance	90%

For any enrollee that has annual claims between $150,000 and $1,000,000, the insurer is reimbursed for 90% of the claims between $150,0000 and $1,000,000.



Each bar represents an insurer in our market and one insurer was left out of the analysis due to data integrity.

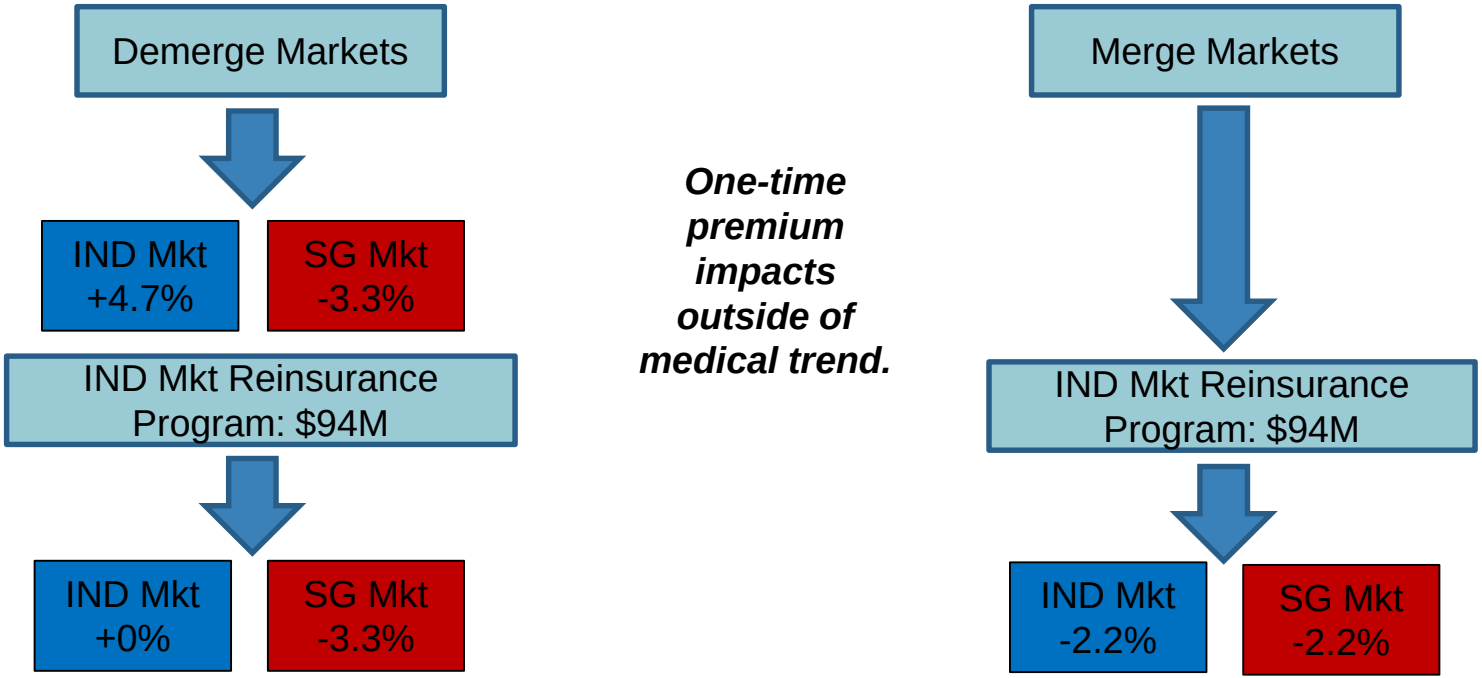
Demerged Market: Individual Market Reinsurance Modeling Observations

- To fund a 4.7% reduction in premiums in the MA Individual Market, we estimate we need $94M in 2018 dollars.
- Program Design 1: targets high-cost individuals but not the highest cost– therefore the premium reductions are more evenly distributed across insurers.
- Program Design 2 targets the highest cost individuals and therefore the premium reductions vary more by insurer.
- Demerging the markets and overlaying a reinsurance program may negate the average increase for the individual market– but results will vary by insurer.
- Both program designs do not overlap with the high-cost risk pool in the risk adjustment program.
  - High-cost risk pool reimburses insurers for enrollees who incur costs of $1M in a given year. The reimbursement is 60% of costs above $1M.

Merged Market: Reinsurance Program with the Individual and Sole Prop Market

- Estimated 2018 Merged Market Premium: $4.3B
- Reinsurance Program of $94M will reduce Merged Market Rates 2.2%: impact will vary by insurer and reinsurance program design.

Policy Comparison: Best Estimate Comparison



One-time premium impacts outside of medical trend.

Conclusions: Demerging markets with individual market reinsurance program.

- Individual Market impacts on average will be 0% but will vary by insurer.
- Small Group Market impacts on average will decline 3.3%, but results vary significantly by insurer.
  - Some insurers will experience high rate increases due to risk adjustment program.
- Large variation in risk adjustment and risk adjustment dollars may double, which can create market volatility.
- Need to consider potential market disruptions.
- To maintain the same premium reductions over time, required reinsurance funding will need to grow.

Conclusions: Merged market with reinsurance program.

- Both individual and small group market will experience rate decreases.
- Small group market will experience less of a decrease in this scenario compared to demerging markets scenario.
- No risk adjustment disruption.
- To maintain the same premium reductions over time, required reinsurance funding will need to grow.

Section 1332 Waiver

Section 1332 – State Innovation Waiver

- ***What is a 1332 Waiver?*** ***Section 1332 of the Affordable Care Act (ACA) permits a state to apply for a "State Innovation Waiver" to pursue innovative strategies for providing residents with access to high quality, affordable health insurance while retaining the basic protections of the ACA.***

- ***How does it work?*** ***If the state can demonstrate that a strategy can save the federal government money, the federal "savings" can then be used by the state to implement the health policy.***

- ***Where does the federal savings come from?*** ***The federal government pays premium tax credits for individuals earning less than 400% of the federal poverty level (FPL) to purchase health insurance through the marketplace (i.e., the MA Health Connector). The savings come from a reduction in premium tax credits, which can then be used to support the state's innovative health policy.***

Federal Premium Tax Credits
Step 1: Calculate what the enrollee pays

CY 2021				Enrollee's Share of Monthly Premium	
Federal Poverty Level	Annual Income of Single Household	Annual Income of Family of Four	Premium Contribution (% of Income)	Single Household	Family of Four
133%	$16,970	$34,846	3.1%	$44	$90
150%	$19,139	$39,300	4.1%	$66	$136
200%	$25,519	$52,400	6.5%	$139	$285
250%	$31,898	$65,500	8.3%	$221	$455
300%	$38,278	$78,600	9.8%	$314	$644
400%	$51,038	$104,800	9.8%	$418	$858

- An enrollee's premium contribution is based on a percentage of their household income.
- For a single household earning $16,970 a year, the Affordable Care Act (ACA) requires the monthly maximum health insurance premium to be $44. (3.1% of $16,970)

Federal Premium Tax Credits
Step 2: Determine the second lowest costing silver plan (SLCSP)

Boston Region	2021 Silver Plan Premium - Age 40	Rank
BMC HealthNet Plan	$353.84	1
Tufts Health Plan Direct (Tufts Health Public Plan)	$366.08	2
Allways	$549.16	3
Fallon Health	$720.60	4

- The SLCSP determination is among Connector plan offerings only
- SLCSP in Boston is from Tufts Health Public Plan at $366.08

Federal Premium Tax Credits
Step 3: Determine the Advanced Premium Tax Credit (APTC)

- *Single person with annual income of 200% FPL ($25,519), Age 40, living in Boston*

  SLCS Plan's Premium (THPP) = $366.08

  Member's Share of Premium = $139.00

  APTC = $366.08 - $139.00 = $227.08

- *The federal government provides $227.08 a month in subsidies towards enrollee's health insurance.*

- *APTC is determined by subtracting the member's share of the premium, based on household income and family size, from the SLCSP's premium.*

How Section 1332 Waiver Funds are Determined

- *If the state introduces a health policy (e.g., reinsurance program) that lowers the premiums for the SLCSP, the result will be a savings to the federal government.*
- *The state can then apply to use these savings as part of a Section 1332 waiver.*
- *In Massachusetts, the insurers that have the SLCSP plans are not the insurers with the highest risk individuals.*
- *A policy designed to target the insurers with the highest risk individuals suggests that the opportunity for federal funds through a Section 1332 Waiver may not be as significant.*
- *Also, if we choose to demerge which increases individual market rates - and then apply a reinsurance program, it is unknown at this time whether CMS will consider the baseline as when we were merged or after demerging. If they consider baseline as when we were merged - then there will be no opportunity for federal funding.*

Disclosures and Limitations

Limitations and Data Reliance

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Users of this presentation must possess a reasonable level of expertise and understanding of health care, health insurance markets and financial modeling so as not to misinterpret the information presented. The presentation addresses certain provisions of the Affordable Care Act, but is not intended to act as an official or comprehensive interpretation of the legislation itself.

Analysis in this presentation was based on data provided by the MA DOI, insurers in the Massachusetts health insurance markets, the MA Health Connector, and other public sources. Gorman Actuarial has not audited this information for accuracy. We have performed a limited review of the data for reasonableness and consistency. If the underlying data are inaccurate or incomplete, the results of this analysis may likewise be inaccurate or incomplete.

The results presented in this report are estimates based on complex actuarial models. Differences between our estimates and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will most likely not conform exactly to the assumptions used in this analysis. Actual results will differ from projected results to the extent that actual experience deviates from expected experience. **Given the many unknowns, we have not yet accounted for changes that may occur in these markets due to the impact of COVID-19.**

The report contains statements that attempt to provide some prospective context to current or past trends. These statements are based on the understanding of the existing and proposed regulatory environment as of November 4, 2020. If subsequent changes are made, these statements may not appropriately represent the expected future state.

Qualifications

This study includes results based on actuarial analyses conducted by Bela Gorman and peer reviewed by Jenn Smagula, both of whom are members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They both meet the qualification standards for performing the actuarial analyses presented in this report.