



IT TAKES VISION

Actuarial Report to the Colorado High-Risk Health Care Coverage Task Force

Preliminary Findings

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Agenda

1	Commercial Market Overview
2	Section 1332 Waivers – Actuarial Perspective
3	ACA Transitional Reinsurance
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Introduction / Background: Limitations

This presentation is intended to facilitate live discussion and should not be relied upon as a stand-alone document.

Recipients of this presentation should also have access to our full report:

“Actuarial Report to the Colorado High-Risk Health Care Coverage Task Force: Preliminary Findings”

Estimates provided in this presentation and accompanying report are preliminary and will be updated based on insurer claims experience, enrollment data, and other publicly available information.

Commercial Market Overview

Enrollment, Premium and Rate
Increase Trends 2014 to 2018

Commercial Enrollment Trends (in 1,000's)

State of Colorado Health Insurance Market Enrollment Changes 2014 through 2018					
Market Segment	2014	2015	2016	est. 2017	est. 2018
Individual <u>On-SBM</u> ¹ ACA	80	102	133	133	132
<i>Individual On APTC Eligible</i>	56	65	84	86	87
<i>Individual On Non-APTC Eligible</i>	24	37	49	47	45
Individual <u>Off-SBM</u> ACA	60	112	141	115	95
Individual ACA	140	214	274	248	227
Individual Non-ACA (Transitional and GF'd)	171	105	27	24	22
Total Individual	311	319	301	272	249
Insured Group	908	906	921	935	944
Self-Funded	1,692	1,764	1,803	1,824	1,870
Commercial Total	2,911	2,989	3,025	3,031	3,063
Commercial Total (w/o Self Funded)	1,219	1,226	1,223	1,208	1,193

Notes:

1. SBM = State-based Marketplace
2. Enrollment reflects average monthly enrollment, rounded to the nearest thousand.
3. 2014 through 2016 values developed from CMS & ASPE data, insurer financial data and census survey data. 2017 & 2018 values are estimated based on quarterly insurer financials.

Commercial Premium Trends (Part 1)

State of Colorado					
2014 through 2018 Health Insurance Market Premium PMPM					
Market Segment	2014	2015	2016	2017	2018
Individual On APTC Eligible - Gross	\$400	\$391	\$441	\$502	\$607
less Individual On APTC Assistance	<u>\$272</u>	<u>\$234</u>	<u>\$307</u>	<u>\$369</u>	<u>\$470</u>
Individual On APTC Eligible - Net	\$128	\$157	\$134	\$133	\$137
Individual Off & On Non-APTC Eligible	\$316	\$304	\$335	\$389	\$471
Individual ACA Compliant	\$350	\$330	\$368	\$428	\$523
Individual Non-ACA Compliant	\$252	\$267	\$271	\$282	\$293
Total Individual	\$296	\$309	\$359	\$415	\$503
Insured Group	\$423	\$439	\$437	\$448	\$466
Self-Funded	\$431	\$446	\$450	\$460	\$479
Commercial Subtotal	\$414	\$430	\$437	\$453	\$471
Commercial Total (w/o Self Funded)	\$371	\$383	\$418	\$441	\$489

Commercial Premium Trends (Part 2)

State of Colorado				
2014 through 2018 Health Insurance Market Premium PMPM Change ¹				
Market Segment	2015	2016	2017	2018
Individual On APTC Eligible - Gross	-2%	13%	14%	21%
less Individual On APTC Assistance ²	<u>-14%</u>	<u>31%</u>	<u>20%</u>	<u>27%</u>
Individual On APTC Eligible - Net	23%	-15%	-1%	3%
Individual Off & On Non-APTC Eligible- Gross	-4%	10%	16%	21%
Individual ACA Compliant	-5%	11%	16%	22%
Individual Non-ACA Compliant	6%	2%	4%	4%
Total Individual	5%	16%	16%	21%
Insured Group	4%	0%	2%	4%
Self-Funded	4%	1%	2%	4%
Commercial Subtotal	4%	2%	4%	4%
Commercial Total (w/o Self Funded)	3%	9%	5%	11%

Historical Rate Increases – Silver Plans

State of Colorado Composite Benchmark Silver Plan Premiums by County 2014-2018

Rating		2014	2015	2016	2017	Est. 2018	Annualized Increase 2015-2018	Cumulative Increase 2015- 2018
Area 1	Premium	\$191.83	\$158.00	\$208.51	\$247.02	\$312.43	26%	98%
	Change		-17.6%	32.0%	18.5%	26.5%		
Area 2	Premium	\$189.49	\$152.13	\$201.09	\$240.52	\$304.21	26%	100%
	Change		-19.7%	32.2%	19.6%	26.5%		
Area 3	Premium	\$191.83	\$161.65	\$189.71	\$238.75	\$301.97	23%	87%
	Change		-15.7%	17.4%	25.8%	26.5%		
Area 4	Premium	\$182.24	\$172.34	\$218.94	\$271.72	\$343.67	26%	99%
	Change		-5.4%	27.0%	24.1%	26.5%		
Area 5	Premium	\$223.20	\$223.61	\$291.35	\$364.75	\$461.34	27%	106%
	Change		0.2%	30.3%	25.2%	26.5%		
Area 6	Premium	\$182.24	\$173.16	\$218.94	\$271.72	\$343.67	26%	98%
	Change		-5.0%	26.4%	24.1%	26.5%		
Area 7	Premium	\$230.20	\$211.93	\$243.96	\$287.49	\$363.62	20%	72%
	Change		-7.9%	15.1%	17.8%	26.5%		
Area 8	Premium	\$206.22	\$162.79	\$214.48	\$289.01	\$365.54	31%	125%
	Change		-21.1%	31.8%	34.7%	26.5%		
Area 9	Premium	\$272.26	\$195.00	\$271.06	\$321.12	\$406.15	28%	108%
	Change		-28.4%	39.0%	18.5%	26.5%		
Average	Premium	\$207.72	\$178.96	\$228.67	\$281.34	\$355.84	26%	99%
	Change		-14%	28%	23%	26%		

Sources: 2014-2017 rates are from the Colorado State-Based Exchange at <http://connectforhealthco.com/>. 2018 rates are estimated based on from rate filings available on www.ratereview.gov

Commercial Premium and APTC Volumes

State of Colorado 2014 through 2018 Aggregate Premium (\$ Millions)					
Market Segment	2014	2015	2016	2017	2018
(a) Individual ACA Compliant	\$588	\$850	\$1,212	\$1,275	\$1,426
(b) Percent of Premium Paid by Federal Government	<u>31%</u>	<u>22%</u>	<u>26%</u>	<u>30%</u>	<u>34%</u>
(c)=(a)*(b) Individual On APTC Assistance	\$184	\$183	\$311	\$380	\$492
Individual Non-ACA Compliant	\$516	\$337	\$87	\$82	\$76
Total Individual	\$1,105	\$1,187	\$1,300	\$1,357	\$1,502
Insured Group	\$4,609	\$4,780	\$4,834	\$5,027	\$5,281
Self-Funded	\$8,751	\$9,453	\$9,725	\$10,080	\$10,746
Commercial Subtotal	\$14,465	\$15,420	\$15,859	\$16,464	\$17,529
Commercial Total (w/o Self Funded)	\$5,714	\$5,967	\$6,134	\$6,384	\$6,783

Notes:

1. Values developed from Colorado Dashboard, CMS reports and insurer financial data.

Section 1332 – Actuarial Perspectives

State Innovation Under Section 1332

Possible Goals of a Waiver

1. Improve market stability and pricing
 - Reinsurance
 - State CSR funding
 - More effective coverage requirements
 - Age factors (5:1 ratio)
2. Tailor the ACA to a state's specific needs
 - Vermont single payer
 - Hawaii SHOP exemption
3. Solve "problems" in the ACA
 - Family glitch
 - Subsidy cliff
4. Achieve certain policy goals.
 - CA wanted to allow coverage for undocumented immigrants but no subsidy.



State Innovation Under Section 1332

Things You Can Do:

1. Individual and Employer Mandates
2. Marketplaces and Qualified Health Plans
3. Benefits and Subsidies
 - Most of state interest focuses here.



Things You Cannot Do:

1. Non-Discrimination Provisions
 - Guaranteed Issue
 - Pre-existing condition prohibition
2. Fair play rules
 - Community Rating
 - Health status rating prohibition
 - Single risk pool (SRP)



Things That are Being Done³:

- Hawaii – SHOP Exemption, Reinsurance
- CA- Undocumented Immigrants
- OK* – Reinsurance
- ID - Reinsurance
- VT – Single Payer
- ME - Reinsurance
- WA -Reinsurance
- OH- Mandate
- MN- Reinsurance
- AK-Reinsurance
- MA-CSR's
- OR-Reinsurance

³Source: National Council of State Legislatures, retrieved 9/18/2017

State Innovation Under Section 1332

How Reinsurance Fairs Under the Guardrails

1. Cover at least the same number of people

- Lower prices increase access to coverage leading to higher enrollment

2. Coverage must be at least as affordable

- Prices will decline due to direct funding impact and improved morbidity

3. Benefits must be at least as comprehensive

- No changes to benefits are being proposed

4. Cannot increase the Federal deficit

- Decrease subsidies dwarf lost federal revenue from PCORI and Shared Responsibility payments

State Innovation Under Section 1332

Reinsurance

- Generally, reinsurance by itself is not designed to solve underlying cost or delivery system issues.
 - Impact is at the market level
 - It reduces prices, but may not reduce medical trend
- Primary impacts are:
 - Direct cost reductions and price relief for unsubsidized members, improving affordability and access
 - Secondary or halo effect of improved morbidity from increase membership

Overview of Federal Pass-Through Funding

Illustrative Example of Pass-Through Calculations

Household	Pre-Reinsurance Program Implementation			Post-Reinsurance Program Implementation			
	Full Premium	Premium Subsidy	Net Premium	Full Premium	Premium Subsidy	Net Premium	Net Premium Savings
A	\$ 500	\$ 300	\$ 200	\$ 450	\$ 250	\$ 200	\$ 0
B	\$ 500	\$ 25	\$ 475	\$ 450	\$ 0	\$ 450	\$ 25
C	\$ 500	\$ 0	\$ 500	\$ 450	\$ 0	\$ 450	\$ 50

Household A: Federal government retains 100% of premium savings which becomes pass-through funding under the 1332 waiver.

Household B: Federal government retains 50% of premium savings, which become pass-through funding under the 1332 waiver.

Household C: Consumer retains 100% of premium savings, no pass-through funding available.

Starting Points: ACA Transitional Reinsurance

The impact & parameters

Federal Transitional Reinsurance Summary

- Federal ACA transitional reinsurance is identical in form to state-based reinsurance program under a 1332 waiver.
- Changes impacting 2019+ state-based reinsurance include:
 - Charge levels & trend
 - Increases in billed fee-for-service charges or capitation amounts
 - Changes in discount levels
 - Morbidity & demographics
 - A larger, healthier risk pool will reduce the incidence of large claims
 - Large claim incidence is correlated to age. Is the risk pool getting younger or older?
 - Carrier mix & member movement
 - Carriers leaving the market may have had higher cost structures
 - Carriers are removing higher cost plans (e.g., PPO), which make up less of the market
 - Members moving toward lower premium (and lower cost) plans in open enrollment
 - Metal level mix
 - Lower maximum out-of-pocket (MOOP) plans, such as Platinum and Gold plans, represent lower proportion of enrollment, reducing the insurer responsibility on high dollar claims.

Federal Transitional Reinsurance Summary

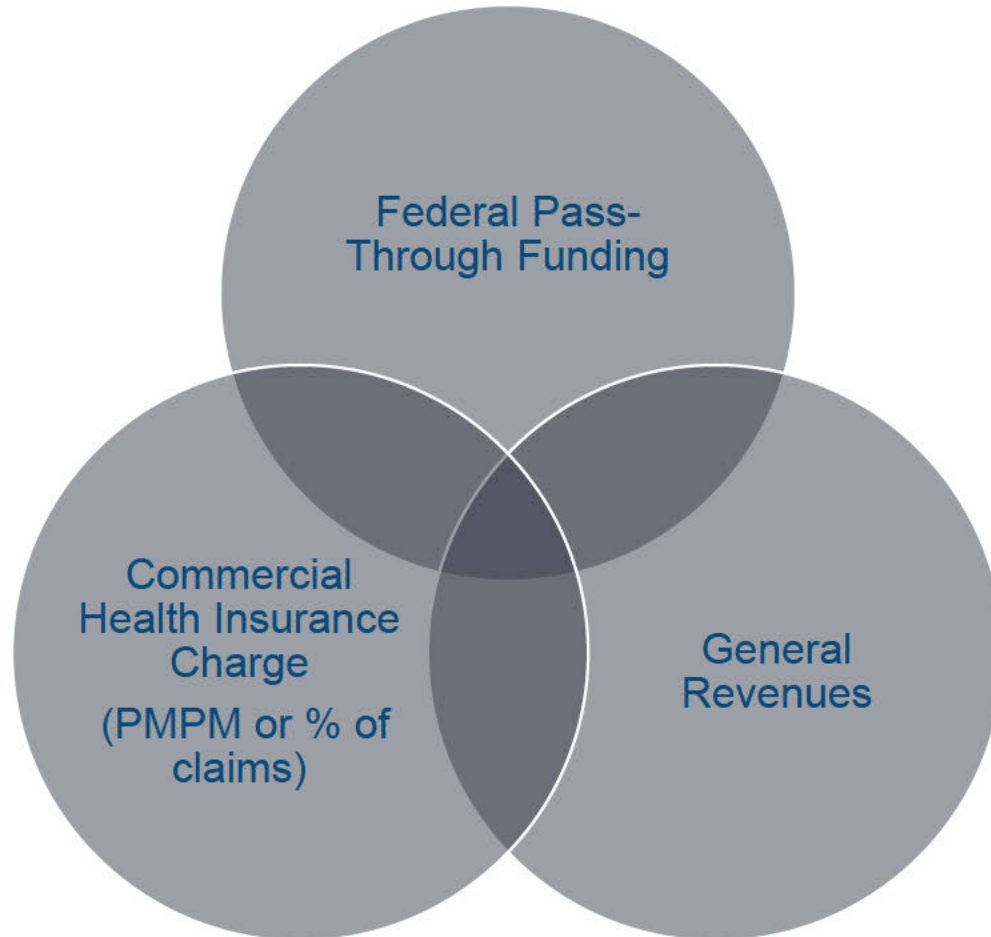
- How much did the Federal reinsurance program reduce claims in Colorado?

State of Colorado			
2014 through 2016 Federal Reinsurance - Colorado Experience			
	2014	2015	2016
Reinsurance Receipts (\$ Millions)	\$157.6	\$132.3	\$77.2
Reinsurance Receipts (PMPM)	\$93.67	\$51.44	\$23.39
% of Claims Impact	21.9%	12.1%	6.1%
Reinsurance Information:			
Attachment Point	\$45,000	\$45,000	\$90,000
Cap		\$250,000 All Years	
Coinsurance	100%	55%	53%
Individual and Group Member Contributions PMPM	\$5.25	\$3.67	\$2.25

Preliminary Funding Considerations

Options and Impacts

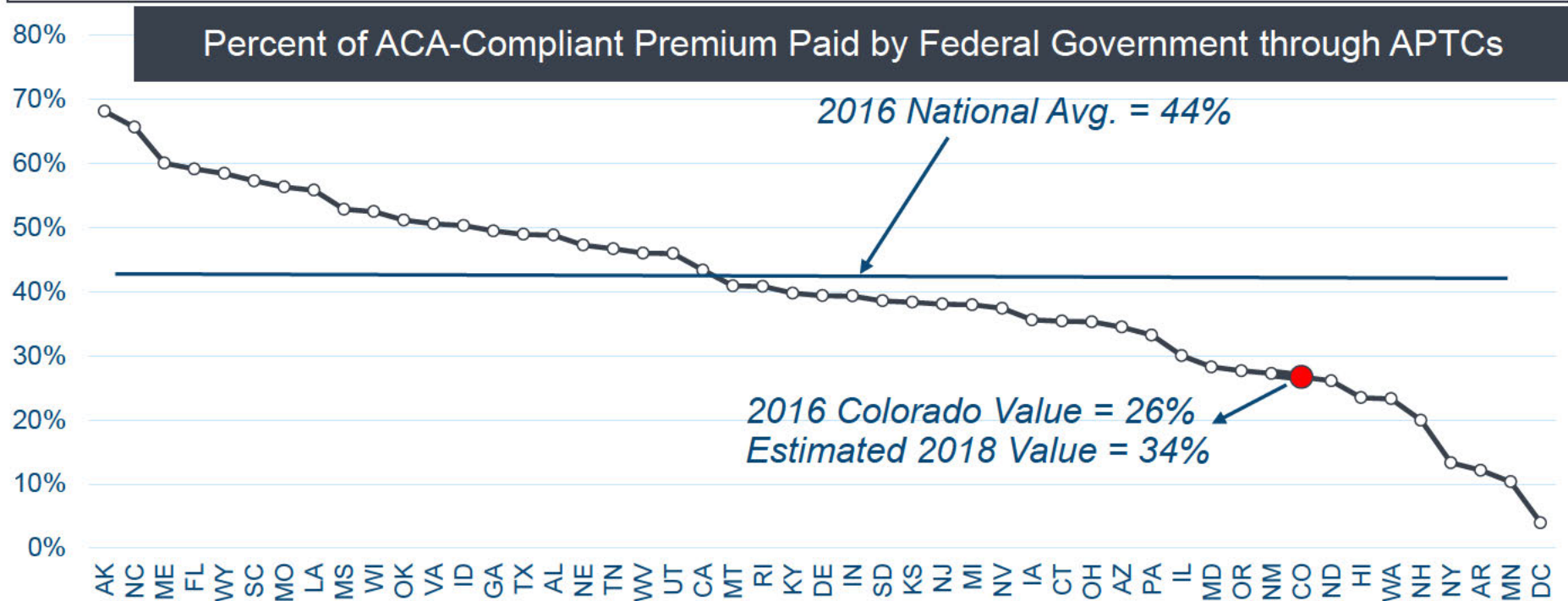
Broad Categories of Funding Sources



- What other states have done:
 - Minnesota – HCAF and general revenues
 - Alaska - broad based insurer tax (not just health insurers)
 - Oklahoma – per head charge to group markets (including individual, stop-loss and state employees)
 - Idaho – State-wide premium tax

Federal Pass-Through Funding

- Higher APTC's as a % of ACA premium drives larger pass-through funding
- CO is on the lower end of this ratio relative to other states
 - CO has higher median income and a slightly larger off-Marketplace enrollment (as of 2016) than other states



General Considerations for State-Based Funding

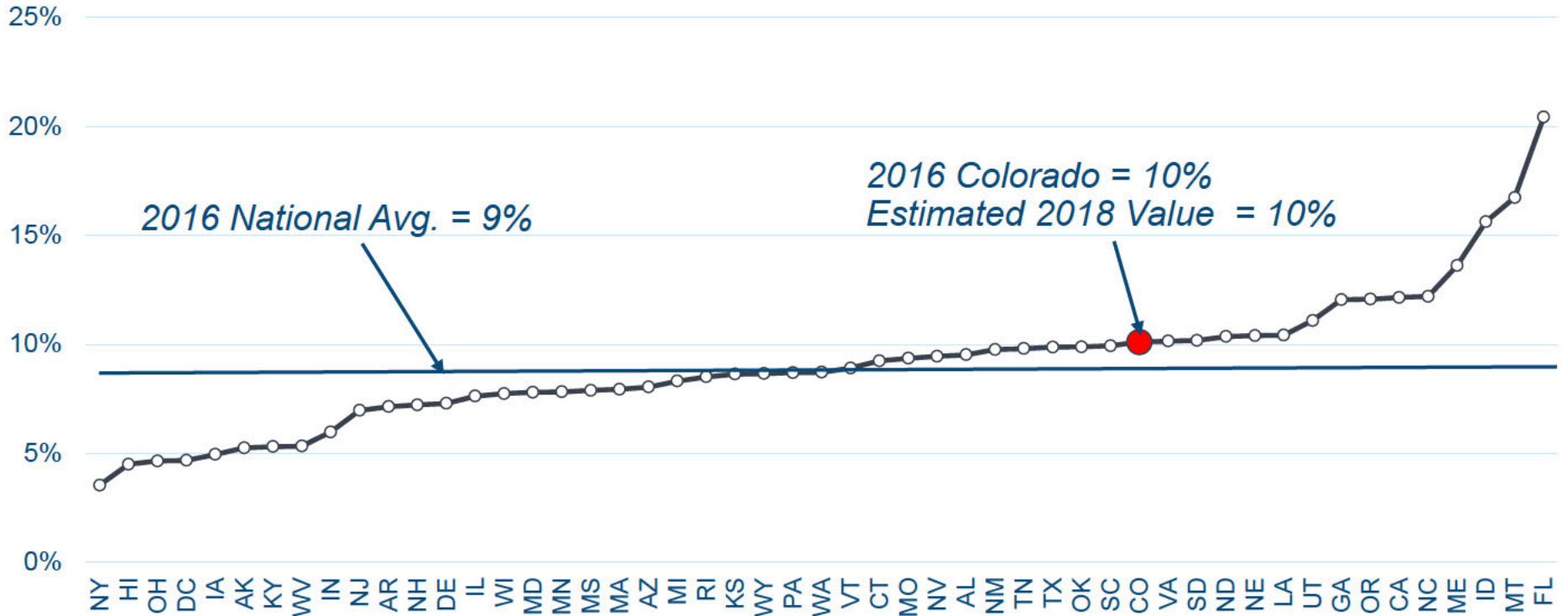
1. To what degree should the state-based funding directly impact the Individual market?
 - Con – “dollar swapping”
 - Pro- not just a subsidy, there is an insurance element to pay for.

2. What is the financial feasibility of imposing an assessment on the broader group insurance market? Considerations include:
 - Size of the individual market relative to group (see graph).
 - Self-funding
 - 2/3 of the group market is self-funded
 - Include stop-loss?
 - Include other non-ERISA sources
 - State employee benefits program?

State Funding – Commercial Charge

- Higher individual-to-group ratio drives need for higher relative commercial market PMPM or claims charges to fund state-based portion of reinsurance funding

Ratio of ACA-Compliant Individual Market Enrollment Relative to Estimated Employer-Sponsored Insurance Enrollment



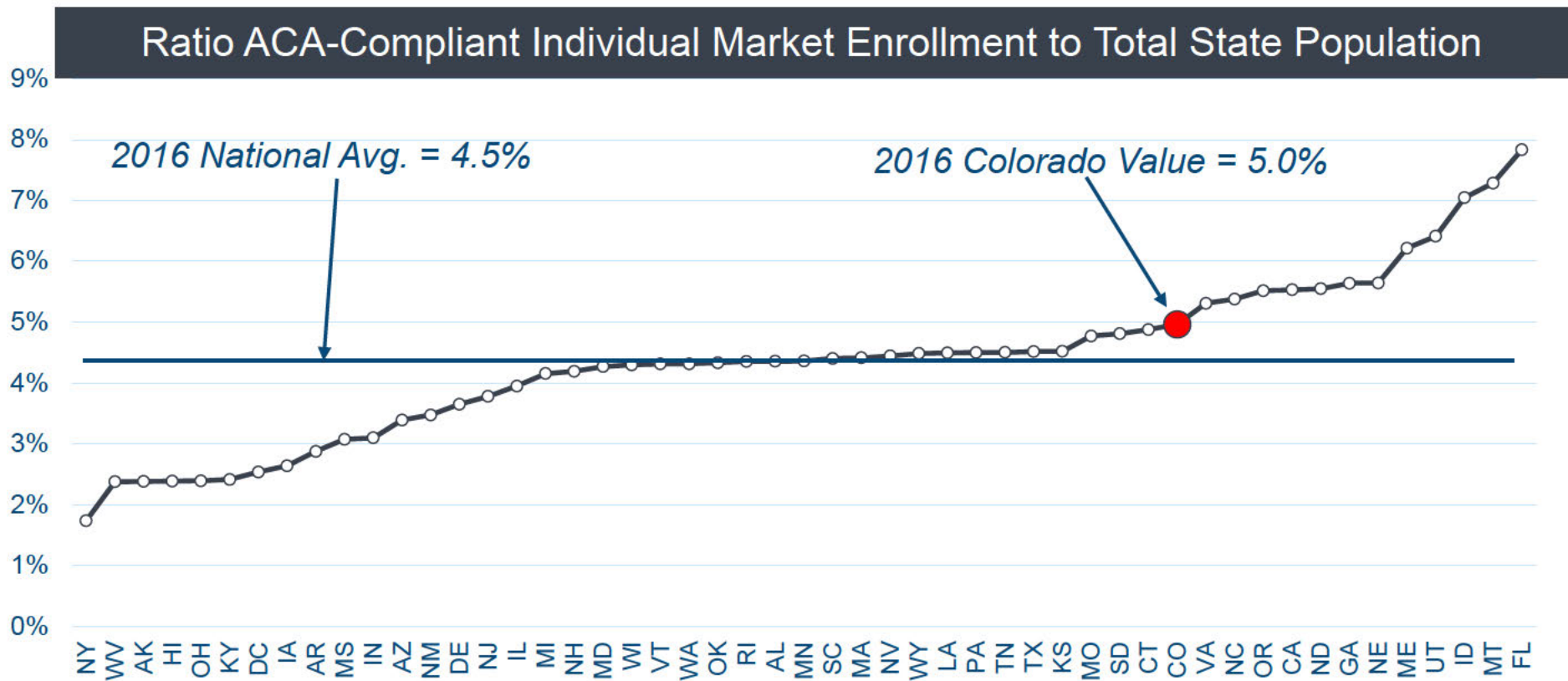
General Considerations for State-Based Funding

3. To what degree should funding come from completely outside the healthcare system?
 - Primary advantage is it puts no additional pressure on a system where cost is the primary problem
 - Not just “squeezing the water balloon”
 - General revenues
 - Broader base
 - Possibly viewed as more progressive
 - Provider Assessment
 - Would apply to self-funded groups



State Funding- General Revenue

- Smaller individual markets as % of population drives a smaller per citizens charge
- Colorado's individual market represents higher than average % of total population



General Considerations for State-Based Funding

4. Which entities will have direct or indirect benefits from a state-based reinsurance program?
 - Employer groups
 - Labor source
 - Better health of potential hires
 - Potentially less provider cost shifting due to reduced uncompensated care.
 - Providers
 - Potentially higher revenue and less uncompensated care
5. Predictability of funding
 - Carriers will need to know the amount with reasonable certainty, early enough timing to price
 - Instability in funding may cause carrier participation to waiver
6. Should funding come from a single source or multiple?
 - Combination strategy may ease the financial burden on any one party
 - Perception of everyone sharing the burden

Reinsurance Scenarios

High level estimates of premium rate impact and state-based funding requirements

Reinsurance Scenarios

- Illustrative reinsurance scenarios were created that result in similar percentage claims cost impact as observed from the Federal transitional reinsurance program in 2014 through 2016.
- It should be emphasized that the funding estimates in this report could change materially in subsequent reports.
- Additional analysis of the most recent Colorado-specific detailed claims, enrollment and population data will be needed to finalize reinsurance parameters, estimate costs with greater precision and evaluate funding options more thoroughly.
- Moreover, pending and future legislation that is being proposed by Congress could dramatically cut or completely negate funding available under a Section 1332 waiver.
- Even without the impact of proposed legislation, our report and conclusions assume that the Federal government will continue payments for any pass-through funding under Section 1332 of the ACA.
- Estimates assume Federal funding for cost sharing reduction payments continues in 2018.

Reinsurance Scenarios: Claims Cost Impact

State of Colorado			
2018 Individual Market Illustrative Reinsurance Scenarios			
	High	Medium	Low
ACA-Compliant Average Monthly Members (1,000s)	227	227	227
Estimated 2018 Insured Paid Claims (\$ Millions)	\$1,183	\$1,183	\$1,183
Total Reinsurance Funding (\$ Millions)	\$296	\$177	\$59
Insurer Paid Claims Expense Reduction Percentage	25%	15%	5%
Reinsurance Funding Per ACA-Compliant Member Month	\$108.60	\$65.16	\$21.72
Estimated State-Based Share %	60%	60%	60%
State's Share (\$ Millions)	\$177	\$106	\$35
State's Share Per ACA-Compliant Member Month	\$65.16	\$39.09	\$13.03

Scenarios assume pre-reinsurance premium rates reflect 83% medical loss ratio, with no impact to non-benefit expenses from the reinsurance program.

- Scenarios correspond to premium rate reductions of 21%, 13%, 4%, respectively
- Federal pass-through funding estimated to cover 40% of total reinsurance fund expenses
- 'High' scenario represents a subsidy to the ACA-compliant individual market of more than \$100 PMPM

Reinsurance Scenarios: Funding Scenarios

State of Colorado 2018 Individual Market Illustrative Reinsurance Scenarios			
	High	Medium	Low
Total Reinsurance Funding (\$ Millions)	\$296	\$177	\$59
State's Share (\$ Millions)	\$177	\$106	\$35
Individual-to-Group Ratio (Includes Self-Funded)	9%	9%	9%
Group PMPM Charge if applied to FI and Self-Funded	\$5.81	\$3.49	\$1.16
Individual-to-Group Ratio (Excludes Self-Funded)	29%	29%	29%
Group PMPM Charge if applied to FI Group	\$18.97	\$11.38	\$3.79

- Monthly assessment of group market (including self-funded) results in PMPM charge approaching \$6 under high scenario
- Monthly assessment of only fully insured group market results in PMPM charge approaching \$19 under high scenario

Reinsurance Scenarios

Summary of Key Considerations

- To reduce premium rates relative to 2017 levels, reinsurance program in excess of \$300 million would likely be necessary
- Relatively speaking, Colorado has more “funding headwinds” relative to other states
 - Federal pass-through funding percentage is only 40% of program’s cost
 - Commercial-based assessment may exceed \$5.25 PMPM charge for transitional reinsurance program in 2014 depending on the size of the reinsurance program
 - Funding ratios are certain to change between 2016 and 2019 and should be considered preliminary
- To increase market enrollment, reinsurance program may need to entirely reverse prior year(s) premium rate increases
 - A program with less substantial funding may slow the erosion of health insurance coverage amongst the non-subsidized population
 - Enrollment amongst subsidy-eligible consumers unlikely to change as a result of a reinsurance program (net premiums are not impacted, with premium savings accruing to the Federal government)

Reinsurance Effects on Risk Adjustment

Reinsurance Effects on Risk Adjustment

- **Background**
 - ACA Transitional reinsurance program did not carve out risk adjustment.
 - Large claims could be “paid twice”, once by risk adjustment and again by reinsurance
 - Temporary problem as reinsurance was a temporary program

- **Impacts**
 - Any inequities in risk adjustment are potentially gameable or expose carriers to random aggregations of overpayment or underpayment
 - Volatility may impact smaller carriers to a greater magnitude

- **Possible actions to address overpayment include:**
 - State-based program with re-calibrated coefficients based on post-reinsurance
 - Standard “build versus buy” decision
 - Manual process whereby the largest claims or the most significant over-payments are adjusted



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Thank you

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Limitations

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It should be emphasized that the values in this presentation are estimates based on assumptions and available data. It is certain that actual results will vary from the estimates provided in this presentation.

This analysis was completed under our signed contract agreement with DORA dated September 8th, 2017.

Qualifications

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. Paul Houchens and Fritz Busch are a members of the American Academy of Actuaries, and meet the qualification standards for performing the analyses in this report.