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State of Oregon

Individual Market
2018 and 2019 Reinsurance Parameter Estimates

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Introduction

The State of Oregon ("Oregon") retained Wakely Consulting Group, LLC ("Wakely") to analyze the potential effects of a state-based reinsurance program on the 2018 individual Affordable Care Act (ACA) market. In particular, Wakely analyzed how a potential reinsurance program would impact premiums in 2018, what the potential pass-through (i.e., reimbursement amounts) might be if the state pursues a reinsurance-based 1332 waiver, and potential reinsurance payment parameters for select funding scenarios. This report focuses on a revised estimate of the 2018 reinsurance parameters based on the most recent enrollment and premium information, and a preliminary estimate of 2019 reinsurance parameters. For a full discussion of the previous work on this analysis, please review the formal 1332 waiver report produced by Wakely on behalf of Oregon.

Please note that if actual operations of the reinsurance program differ from the data configurations used in this analysis, Wakely's analysis would need to be adjusted to match actual reinsurance data requirements. Changes to assumed data requirements, actual data requirements, and data submission quality for reinsurance operations may impact the results.

This document has been prepared for the sole use of Oregon, although we understand that it may be distributed to carriers in the state of Oregon. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

Reinsurance Parameters

The reinsurance program will operate similarly to the Transitional Reinsurance program under the ACA that existed from 2014 to 2016 in that it will reimburse carriers for a proportion (coinsurance amount) of high-cost enrollee claims between a lower bound (attachment point) and an upper bound (cap). For 2018 and 2019, Oregon has set the reinsurance cap at $1,000,000, the coinsurance rate at 50%, and the attachment point is determined based on the total funding for the year.

Table 1 shows the estimated reinsurance parameters for each of 2018 and 2019. This is based on total funding of $90 million in 2018 and $96 million in 2019. However, the amount actually targeted in the claims data was lower because of the potential under-reporting of total claim amounts due to Oregon's co-op exiting the market mid-year in 2016. For this reason, $88.5 million was targeted in the claims data in 2018 and $94.3 million was targeted in the claims data in 2019.

Table 1: Reinsurance Parameters

Year	Attachment Point	Cap	Coinsurance
2018	$95,000	$1,000,000	50%
2019	$90,000	$1,000,000	50%

Wakely performed scenario and sensitivity testing to these parameters to assess the degree to which they would change based on different claims distributions (that had similar overall funding, trend, and morbidity assumptions). For 2018, the resulting attachment points mostly ranged from $93,000 to $96,000. For 2019, the range of the attachment points was mostly between $88,000 and $93,000. However, there were some scenarios in which the attachment point was outside of these bounds.

The overall attachment points chosen are believed to be reasonable; however, due to the uncertainty with how the market will change from 2016 to 2018 / 2019, the resulting attachment points could vary significantly from those estimated here. The assumptions in this estimate are inherently uncertain. The resulting parameters will vary from these estimates to the degree the actual enrollment, morbidity, trend, and other assumptions vary from those used in the analysis.

In addition, if there are significantly more or fewer high cost claimants in 2018 or 2019 compared to 2016, the results from this analysis may also vary. Finally, carriers are expected to have differing impacts from the reinsurance program based on how they vary from the market average in their historical claims and assumptions discussed previously in this section.

Data and Methodology

To estimate the reinsurance parameters, Wakely first had to estimate the 2018 and 2019 individual market data, including average members and premiums. To do this, Wakely completed the following steps:

1. Wakely collected 2016 EDGE data from each Oregon carrier in the individual market.

2. The data was adjusted to 2018 using the following steps:

    a. Emerging 2018 enrollment was used as a starting point for 2018 members, but an assumption was made for attrition since enrollment drops off throughout the year. Using the actual attrition from 2017, the average members for 2018 were estimated. The result is average 2018 enrollment that is roughly 6.7% less than the reported February effectuated enrollment.

b. The next adjustment was to account for changes in the health status, or morbidity of the enrollment, from 2016 to 2018. To account for this, Wakely applied a change to the enrollment and morbidity (which is estimated by a change in paid claims). Wakely determined the most appropriate methodology was to remove members from the 2016 data, aligning with the overall estimated enrollment decrease from 2016 to 2018, which was a decrease of approximately 15.4% (after the impact of reinsurance).

The enrollment was removed assuming the healthier and younger members would be more likely to drop coverage between 2016 and 2018. The change in morbidity was developed based on statistics of the health status of those leaving the market compared to those staying and the estimated percentage of members assumed to be leaving. The health status statistics are cited from a study by the Council of Economic Advisors (CEA take-up function).[1] The resulting increase in morbidity is estimated to be 4.3%.

To the extent the ultimate average enrollment and morbidity differs from what Wakely has included in this analysis, the resulting reinsurance parameters will be impacted.

c. An additional adjustment was made to account for medical trend. The paid claims trend was calculated using the 2018 rate filings and estimated to be 7.4% annually.

d. The combination of trend, morbidity increases, and other adjustments, increases the claims by approximately 20% on a per member per month (PMPM) basis from 2016 to 2018.

3. Once 2018 data was estimated, the data was further adjusted to estimate the 2019 market:

a. The 2019 enrollment and morbidity estimates incorporate assumptions that aligns with the CMS Office of the Actuary (OACT) based estimates for the repeal of the individual mandate. The results are an approximate 16.0% additional reduction in enrollment compared to 2018, in which approximately 15% is due to the repeal of the individual mandate and approximately 1% is due to the increase in premiums from 2018 to 2019.

We estimated that those who left due to the repeal of the individual mandate were 38% healthier than those that maintained enrollment, based on CBO's analysis of a mandate repeal on premiums. We estimated that those who left due to the increase in premium from 2018 to 2019 were 27% healthier than those that

[1]https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

maintained enrollment, consistent with the statistics from the CEA take-up function that were described previously. The resulting total morbidity impact from 2018 to 2019 is an additional 4.6%.

b. The claims trend was assumed to continue at 7.4% annually.

c. The combination of trend, morbidity increases, and other adjustments, increases the claims by approximately 35% on a PMPM basis from 2016 to 2019.

For both years, the resulting claims divided by premiums were reviewed for reasonability after the adjustments were made.

The following table shows the resulting enrollment and premium estimates used for 2018 and 2019.

Table 2: 2017 to 2019 Baseline Average Enrollment and Premium Data / Estimates

Baseline	2017	2018	2019
Average Individual Market Enrollment	205,459	184,859	155,288
Individual Market PMPM Premiums	$436.02	$532.70	$600.09
Total Non-Group Premiums (Billions)	$1.075	$1.182	$1.118

The resulting 2018 and 2019 data was used to determine the reinsurance parameters by applying the known parameters ($1,000,000 cap and 50% coinsurance) and the target funding amounts to solve for the attachment point. In general, the methodology used to apply the reinsurance parameters parallels the methodology used for the Federal Transitional Reinsurance program under the ACA. For example, members are grouped by carrier but are allowed to accumulate claims if they change plans or rating areas within a carrier. However, no adjustment was made for Cost Sharing Reduction (CSR) plan enrollees since carriers now bear the cost of enrollees in these plans.

Also, as noted prior, Wakely made an adjustment to the funding levels to account for the potential under-reporting of total member accumulated claim amounts due to Oregon's co-op exiting the market mid-year in 2016. Wakely was able to map slightly less than half of the co-op members to their new plan in August 2016. It was decided the best approach was to include all members from the 2016 data. However, in reviewing the members newly enrolled in a plan as of August 2016 (through the grace period) that could not be mapped to the co-op, there were many who had large claims that could qualify for reinsurance but may not hit the threshold if their prior claims were not included. In 2018, we estimate the impact of this to be $1.5 million and slightly more in 2019 due to additional trend. Wakely determined the estimated attachment point for each year with the adjusted funding level.

Reliances and Caveats

The following is a list of the data Wakely relied on for the analysis:

- Wakely collected a complete set of 2016 EDGE Server XML data from each individual market carrier. This data collected from the 2016 individual market carriers includes:
  - The inbound enrollment, medical, pharmacy, and supplement files that were submitted by each carrier to the EDGE Server
  - The corresponding response files that apply an accept/reject status to the claims in the inbound files
  - The final outbound files that were produced in May 2016
- The June 30th Risk Adjustment and Reinsurance Report for the 2016 benefit year produced by CMS[2]
  - The 2016, 2017, and 2018 Open Enrollment Report PUF produced by HHS[3] [4] [5]
- Effectuated Enrollment Reports released by CMS[6]
- Oregon's 2018 Open Enrollment data[7]
- 2018 Exchange enrollment and APTC data sent to Wakely from Oregon on 4/12/2018

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[2] https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/Downloads/Summary-Reinsurance-Payments-Risk-2016.pdf

[3] https://aspe.hhs.gov/health-insurance-marketplaces-2016-open-enrollment-period-final-enrollment-report

[4] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/Plan_Selection_ZIP.html

[5] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/2018_Open_Enrollment.html

[6] https://downloads.cms.gov/files/effectuated-enrollment-snapshot-report-06-12-17.pdf

[7] https://content.govdelivery.com/accounts/MDHC/bulletins/1d0717e

- CBO Analysis on Impact of Repeal of the Mandate[8]
- OACT Analysis on Impact of Repeal of the Mandate[9] [10]
- 2018 rate filings for the state of Oregon
- Issuer information provided by Oregon which was used to identify the size of the off Exchange market in 2018

The following are additional reliances and caveats that could have an impact on results:

- Data Limitations. As discussed above, Wakely collected EDGE data from the 2016 individual market carriers in order to complete this analysis. To the extent the EDGE data differs from the claims data occurring in each year of the reinsurance program, the results of this analysis may vary. In addition, as described previously, the co-op exiting the market mid-year in 2016 caused limitations in Wakely's analysis. If the impact of the co-op leaving the market varies from Wakely's estimate, the overall results of this analysis may vary.

- Political Uncertainty. There is significant policy uncertainty. Future federal actions or requirements in regards to short-term duration plans, association health plans, reinsurance funds, income verification, and / or CSR payments could dramatically change premiums and enrollment. In particular, CSR funding or changes to rules about how CSR requirements are accounted for in premium (i.e., "silver-loading") could dramatically change enrollment, claim costs, and premiums in future years.

- Enrollment Uncertainty. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual enrollee responses to these changes also has uncertainty. All of these uncertainties result in limitations in providing point estimates on reinsurance parameters.

- Premium Uncertainty. Given that several regulations (association plans, short-term duration plans, etc.) have not been finalized, there is uncertainty in how carriers may respond in their 2019 premiums. These uncertainties result in limitations in providing point estimates on reinsurance parameters.

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[8] https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53300-individualmandate.pdf

[9] https://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/AHCA20170613.pdf

[10] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ProjectionsMethodology.pdf

- Reinsurance Operations. If actual operations of the reinsurance program differ from the data configurations used in this analysis, Wakely's analysis would need to be adjusted to match actual reinsurance data requirements. Changes to assumed data requirements, actual data requirements, and data submission quality for reinsurance operations may impact the results. Furthermore, if less than the funding amount specified is spent, for example because some funds are used for reinsurance operations, then effects may be different.

Disclosures and Limitations

Responsible Actuaries. Julie Peper and Danielle Hilson are the actuaries responsible for this communication. They are Members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to issue this report.

Intended Users. This information has been prepared for the sole use of the state of Oregon. Distribution to parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results may vary, potentially materially, from our estimates. Wakely does not warrant or guarantee that Oregon or the carriers will attain the estimated values included in the report. It is the responsibility of those receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. The responsible actuaries are financially independent and free from conflict concerning all matters related to performing the actuarial services underlying these analyses. In addition, Wakely is organizationally and financially independent of the state of Oregon.

Data and Reliance. We have relied on others for data and assumptions used in the assignment. We have reviewed the data for reasonableness, but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly. The information included in the 'Data and Methodology' and 'Reliances and Caveats' sections identifies the key data and reliances.

Subsequent Events. These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. Material changes in state or federal laws regarding health benefit plans may have a material impact on the results included in this report, including actions in regards to mandate enforcement by the state of Oregon. Additionally, final federal regulations on short-term limited duration plans or associations plans have not yet been released. Nor have Oregon regulatory reactions to these potential regulations been finalized. Material changes as a result of Federal or state regulations on short-term limited duration plans or association plans may also have a material impact on the results. In addition, any changes in issuer actions as well as complete 2018 enrollment and experience could impact the results. There are no other known relevant events subsequent to the date of information received that would impact the results of this report.

Contents of Actuarial Report. This document constitutes the entirety of actuarial report and supersede any previous communications on the project. However, more information regarding the analysis preceding this report can be found in the formal 1332 waiver report produced by Wakely on behalf of Oregon.

Deviations from ASOPs. Wakely completed the analyses using sound actuarial practice. To the best of our knowledge, the report and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

ASOP No. 23, Data Quality

ASOP No. 41, Actuarial Communication