Session 26, Strategies for the Individual and Group Health Insurance Markets under the ACA

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2019 Health Meeting

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Session 026, Strategies for the Individual and Group Health Insurance Markets under the ACA

June 24, 2019

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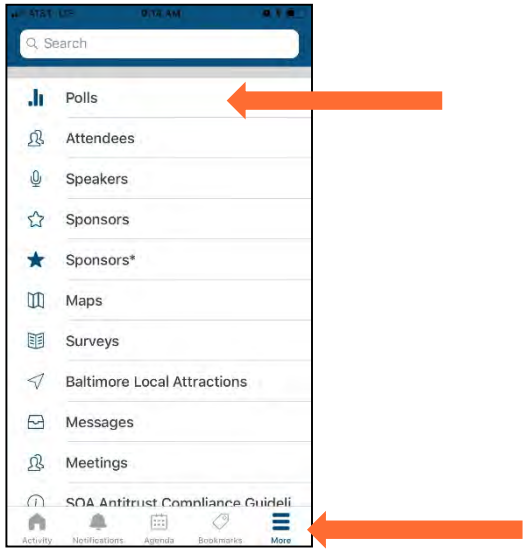

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Monday, June 24

Session 002: Actuary of the Future and Predictive Analytics and Futurism Section Hot Topics Breakfast

Session 016: We Go Together: Effective Relationships Between Actuaries and Non-Actuaries

Session 025: More Risk Score! Running a Compliant Medicare-Advantage Risk Adjustment Program That is Also Profitable

Session 026: Strategies for the Individual and Group Health Insurance Markets under the ACA

Session 027: Public Health: Ignite!

Session 041: Healthcare Coverage Transitions in the Individual and Medicaid Expansion Markets

Session 044: Transitioning a Health System from Separate Physician and Hospital Reimbursement to Global Payment

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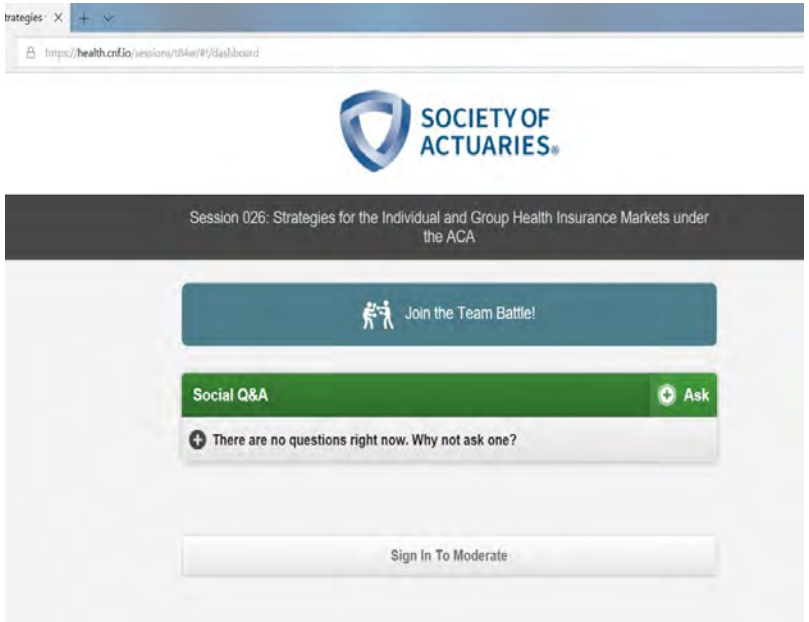
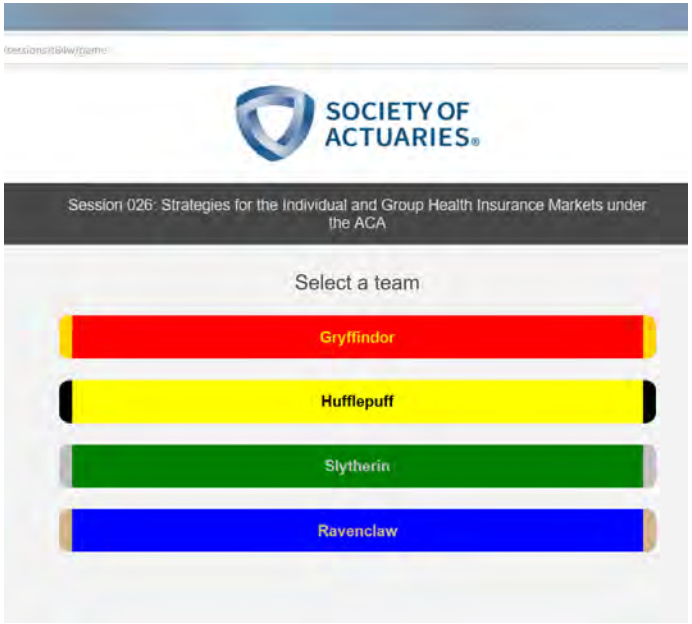
Select “Join the Team Battle!”



Then WAIT FOR INSTRUCTION! We will divide you into teams!



Mary Hegemann, FSA, MAAA

- Principal at Wakely Consulting Group
- Health care actuary for 20+ years, mostly in consulting
- ACA area of focus is individual products
- Medicaid experience includes consulting for Medicaid-focused MCOs, an association of Medicaid managed care plans, and certifying Medicaid capitation rates
- Also consults for Medicare Advantage plans (especially dual-SNPs) and non-profit organizations providing health care for homeless and indigent populations

Michelle Anderson, ASA, MAAA

- Consulting Actuary for Wakely Consulting Group
- Consulting actuary for 7 years
- ACA area of focus is individual products and analyzing market reform efforts including state applications for 1332 waivers
- Also consults for Medicare Advantage plans

Dave Tuomala, FSA, FCA, MAAA

- VP Actuarial Consulting with Optum Advisory Services
- Health care actuary for 25+ years, about half in consulting and half with health plans
- ACA area of focus is small group plans but has done work with individual plans
- Also works with Medicare Advantage, Medicare supplement, and large group products
- Currently serves on Board of Directors for Conference of Consulting Actuaries

Agenda

- Individual Market Strategies (Mary)
- Public Data Sources and Market Reforms (Michelle)
- Small Group Market Hot Topics (Dave)

Individual Market Strategies

Mary Hegemann, FSA, MAAA – Wakely

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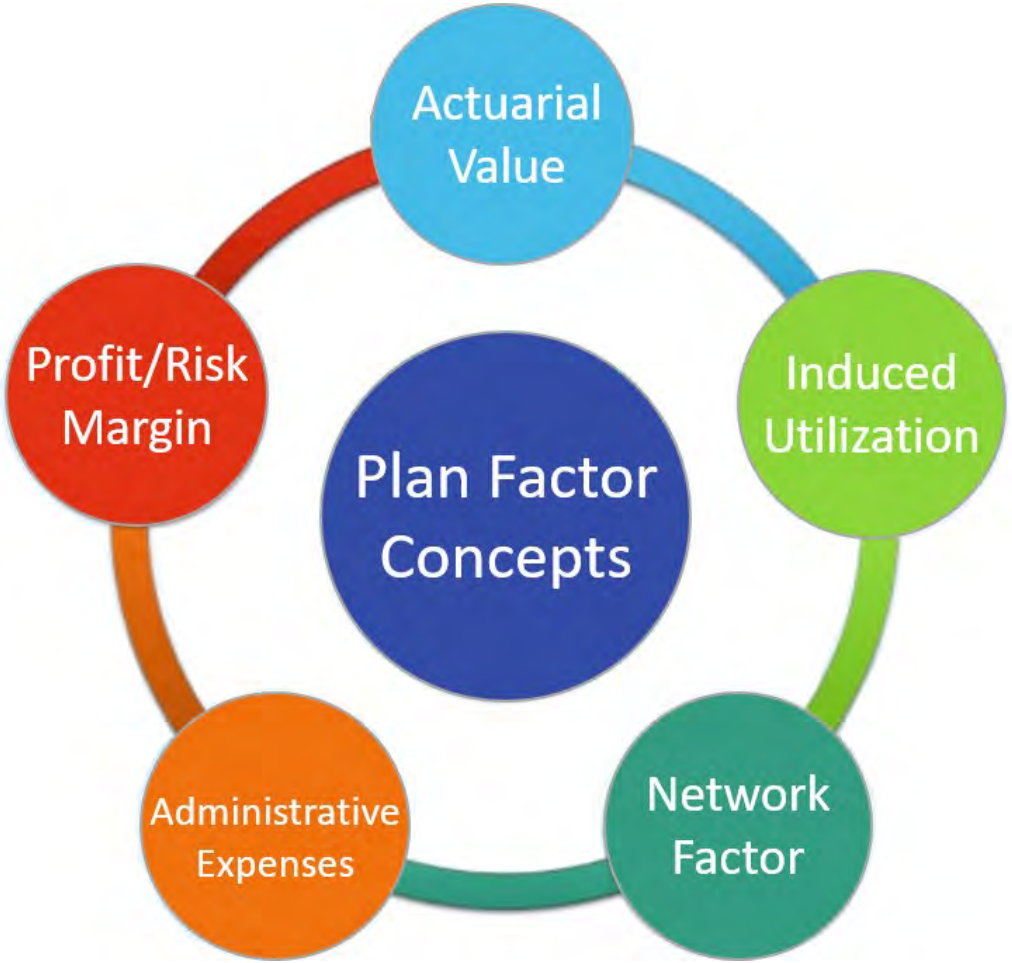
Individual Rate Components

- A = Index Rate (Base Rate for age 21)
- B = Plan Factor
- C = Geographic Factor
- D = Age Factor
- E = Tobacco Factor
- Premium Rate = A*B*C*D*E


Actuarial Value
Induced Utilization
Network Factor
Administrative Expenses
Profit/Risk Margin
Plan Factor Concepts

It's Decision Time!

Pick a Mix

Pick a Data Source

How to Load CSRs

CSR Distribution

CSR Prevalence

Actuarial Value

Calibration

Family Adjustments

OON Usage

It's Decision Time!

Pick a Data Source

Method of Backing out Morbidity

Induced Utilization

Interpolation

CSR Specificity

HSAQ

It's Decision Time!

Pick a Data Source

Method of Backing out Morbidity

Provider Contracting

Network and Geographic Factors

Multiple HIOS IDs

OON Usage

Annual Movement

Credibility Standards

It's Decision Time!

Enough Admin for Lowest Premium Plans

Fixed versus Variable

Business Decisions

Administrative Expenses and Profit

Vary by Metal?

Vary by Region?

Vary by Year?

Vary by On/Off Exchange?

It's Decision Time!

Range of Richness within Metal Tier

Number of Silver Plans

Zero-premium Plans

Potpourri

Risk Adjustment Transfers – Market Premium Increases

RADV

Membership Mix Matters

Risk Score Model Changes

The Dizzying World of CSR Circularity

Scenario A

Assume a High CSR Mix

↓

Calculate a High CSR Load

↓

Premiums: Higher than 2nd Lowest Silver

↓

Receive a CSR Mix Lower than Assumed

↓

Premiums (and CSR Load) Too High

↓

Fewer Members

Scenario B

Assume a Low CSR Mix

↓

Calculate a Low CSR Load

↓

Premiums: Lower than, or at, 2nd Lowest Silver

↓

Receive a CSR Mix Higher than Assumed

↓

Premiums (and CSR Load) Too Low

↓

More Members than Assumed

Team Battle #1

What was the average CSR load nationwide in 2019 per Kaiser Family Foundation (KFF) study, assuming load was applied to on-Exchange silver only?

A. 16%

B. 20%

C. 26%

D. 33%

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CSR Load Options

- State Determines *How* to Load
- State Determines *How Much* to Load: Uniform CSR Load (Florida)
- Throw a Dart (i.e., take a shot at estimating competitive position based on prior year's performance)
- Multiple Rounds of Filings (Iterative Approach)
- File One Table of If-Then Results

Using Predictive Ratios

Impact of Membership Changes

Membership Changes

Claim Cost Changes

Geographic or Manual Data Source Relativities

Risk Score Differences

Claim Cost Differences

Team Battle #2

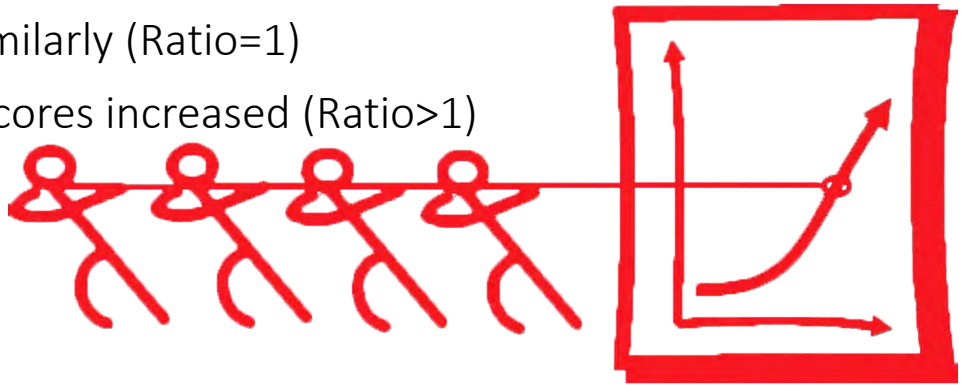
Between 2016 and 2018, on average, how have claim PMPMs changed compared to risk scores*?

A. Claims increased while risk scores decreased (Ratio<0)

B. Claims increased less than risk scores increased (0<Ratio<1)

C. Claims and risk scores changed similarly (Ratio=1)

D. Claims increased more than risk scores increased (Ratio>1)



*After adjusting for changes in age, metal mix (IU), and risk score model changes. Based on a sample of ~10 states.

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Using Predictive Ratios

- **Risk Score to Claims Relationship**:
  - [Claims Difference]/[PLRS Difference] ~ 75%
    - E.g., if PLRS differs by 4%, claims differ by 3%
  - [Claims Difference] – [PLRS Difference] ~ -1%
    - E.g., if PLRS differs by 4%, claims differ by 3%
- **Impact of Membership Changes:**
  - [Claims Change]/[Membership Change] ~ -30%
    - E.g., if membership decreases 9%, claims increase 3%
  - [Claims Change] – [Membership Change] ~ 15%
    - E.g., if membership decreases 8%, claims increase 7%

Public Data Sources and Market Reforms

Michelle Anderson, ASA, MAAA – Wakely

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Data Sources

- *SNL Financial Reporting*
  - *What is useful:* MLRs (Claims, Risk Adjustment Transfers, Revenue), Trends, Competitive Analyses
  - *Advantages:* Most recent calendar year (2018), issuer specific
  - *Beware:* Information for plans that cede risk, large non-ACA commercial populations
- *URRTs**
  - *What is useful:* Claims by category of service, Prospective Trends, Prospective morbidity, Prospective Risk Adjustment Transfers, Average AVs, Plan Specific Information, Prospective non-benefit expenses
  - *Advantages:* Allowed and paid claims, consistent template, issuer specific
  - *Beware:* Transitional policies (in experience), two calendar years ago (2017)

*Template changing beginning with 2020 pricing

Data Sources

- *CMS Public Use Files*
  - *What is useful:* Enrollment details by county, subsidized status, metal tier, FPL, enrollment status, demographics. Average premiums and premium tax subsidies (APTC)
  - *Advantages:* Current year 2019, informs potential CSR costs, granular breakouts
  - *Beware:* Only on-exchange, no issuer detail, enrolled not effectuated
- *CMS and Kaiser Family Foundation (KFF) Effectuated Reports*
  - *What is useful:* State-specific effectuated enrollment by subsidized status, APTC and member premiums
  - *Advantages:* Shows attrition throughout year, member lapses from open enrollment reports
  - *Beware:* Only on-exchange, statewide

Data Sources

- *QHP Landscape Files*
  - *What is useful:* QHP premium rates by county and issuer, detailed plan design information, second lowest silver
  - *Advantages:* Current year 2019, county and issuer-specific
  - *Beware:* Only on-exchange
- *CMS Risk Adjustment Reports: Interim and Final*
  - *What is useful*: Average risk (PLRS), cost by rating area (GCF), average age (ARF), AV, member month statistics, final carrier risk adjustment transfers
  - *Advantages:* Most recent 2018, state-specific, infers average cost by region, rare source to glean ACA only off-Exchange marketshare
  - *Beware:* 2018 interim report is not final (different runout periods per issuer, data issues), PLRS only captures model conditions and includes “bump” for cost-share reduction members, AV based on federal de minimus

What's New? 1332 Waivers and State Legislation

Waiver Approved

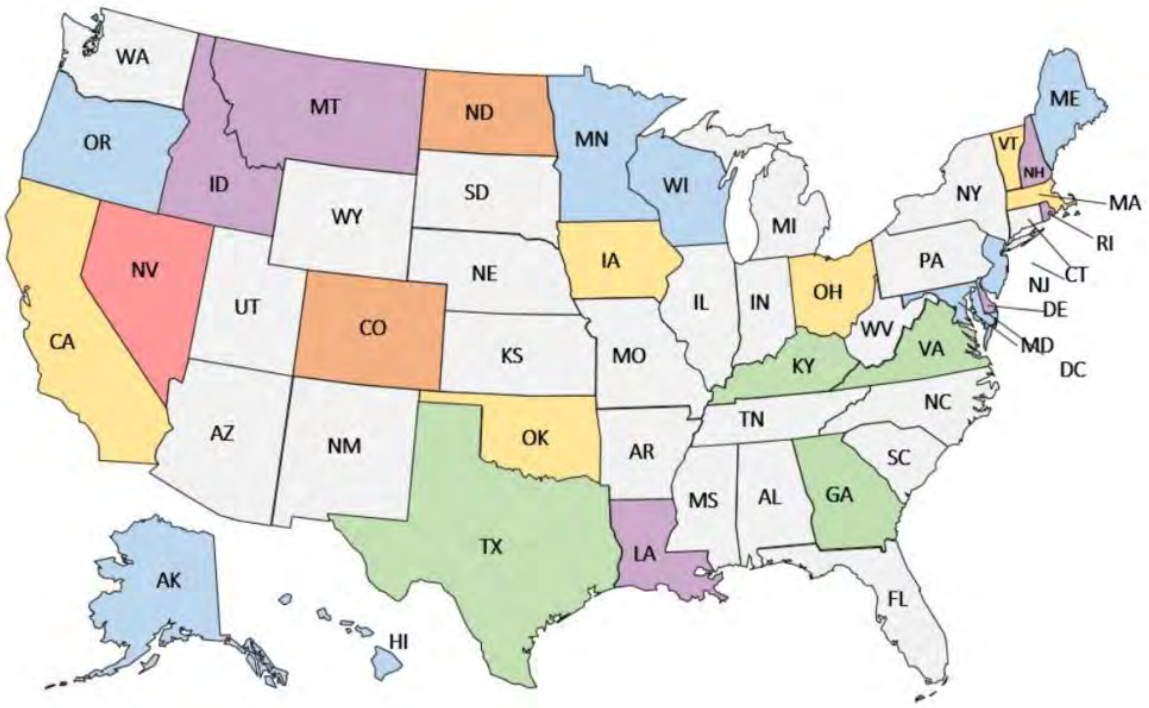
Application Submitted

Waiver Application Submitted, No Longer Pending

Public Draft of Application

Authorizing Legislation Enacted

Authorizing Legislation Passed, Vetoed



Team Battle #3

How many states have been approved for 1332 waivers intended to increase affordability and coverage?

A. 5

B. 6

C. 7

D. 8

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What's New? 1332 Waivers and State Legislation

- *Claims Based Reinsurance Program:* Issuers reimbursed based on reinsurance parameters (attachment point, cap, coinsurance).
- *Condition Based Reinsurance Program:* Issuers reimbursed based on members with conditions.
- *Premium Assistance Program*: Provides premium aid to certain enrollees.
- *Cost-Share Assistance Program*: Reduces cost-sharing for certain enrollees.
- *Public Option*: State run insurance plan, structured in a variety of ways.

What's New? 1332 Waivers and State Legislation

Pricing considerations

- **Reinsurance programs**
  - Directly reduce claims
  - Possible morbidity change
  - Impact varies by issuer
- **Premium and cost-share assistance programs**
  - May implicitly impact claims
  - Cost-share assistance programs could increase utilization
- **Overlap with risk adjustment –** Over or under compensation for members in reinsurance programs
- **Funding risk –** If state of Federal funds fall short, will program benefits be reduced?

Team Battle #4

According to a recent study conducted on behalf of the Colorado legislature (as specified in the 1332 waiver bill), what is the estimated claim reduction for the state reinsurance program in regions with the following parameters: 45% coinsurance on claims between $30k and $400k?

A. 10% - 15%
B. 15% - 20%
C. 20% - 25%
D. 25% - 30%

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Small Group Market Hot Topics

Dave Tuomala, FSA, FCA , MAAA – Optum

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Overall Small Group Market Landscape

- ACA Small Group membership has grown since 2014
- Growth has slowed in most recent years
- Still significant non-ACA membership where allowed (transitional policies)

Team Battle #5

What was the approximate total ACA small group membership nationally in 2018?

1. 5 M
2. 10 M
3. 15 M
4. 20 M

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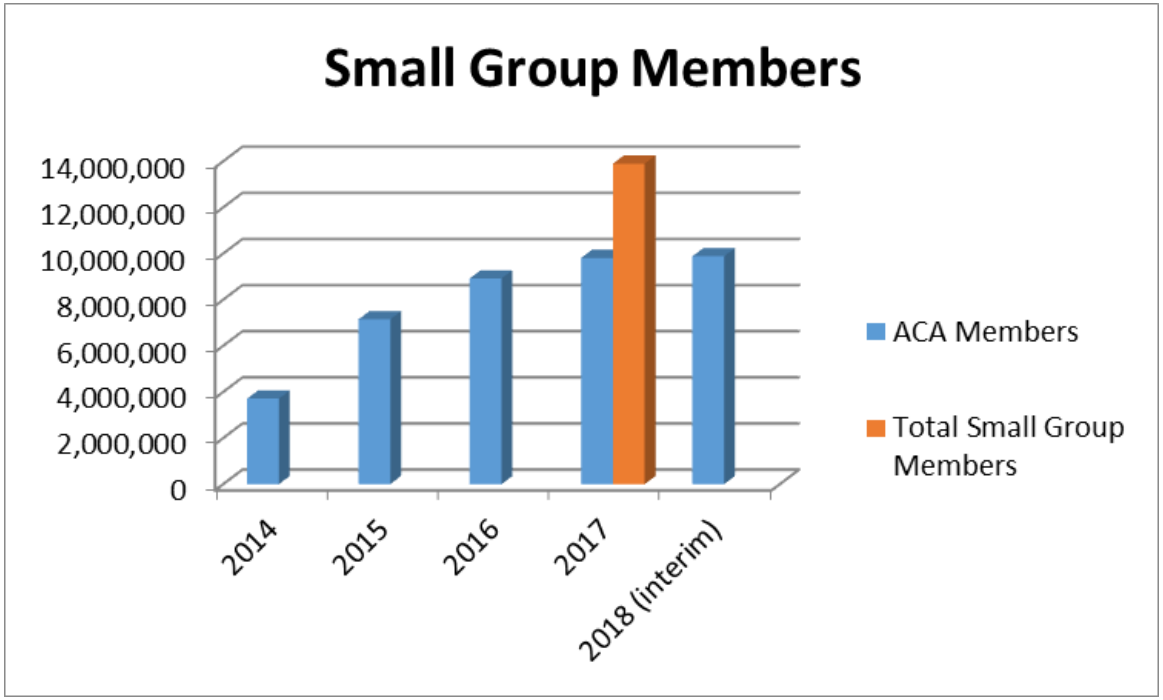
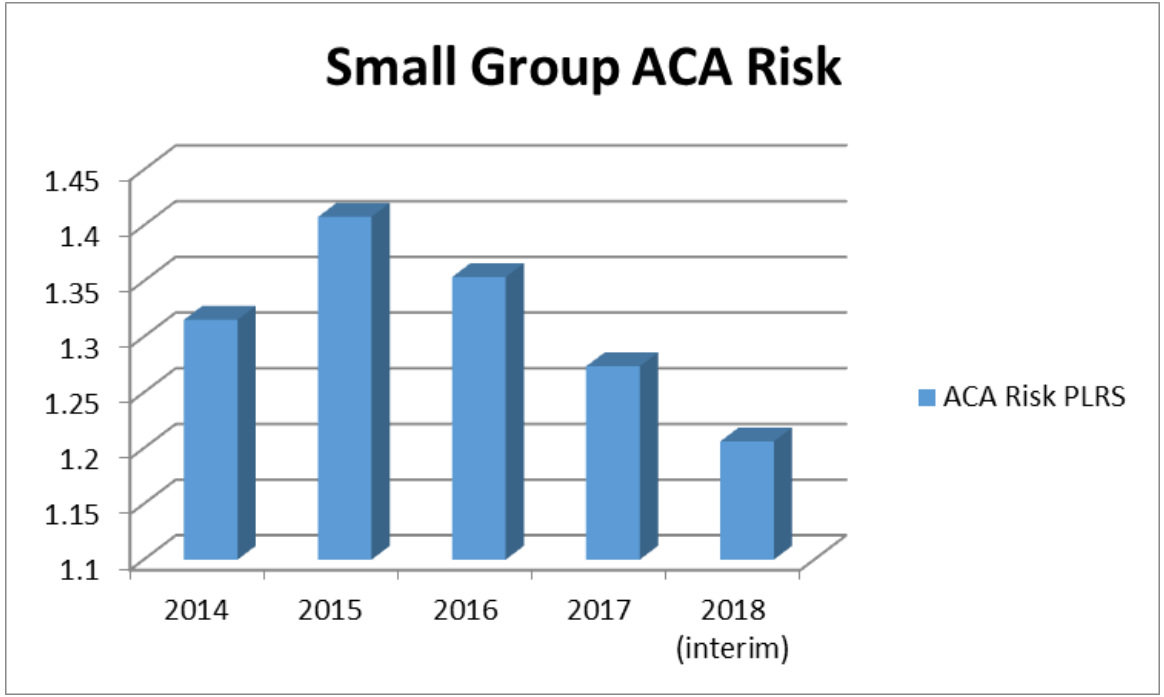


Sources: 2014-2018 Billable Member Months published with risk adjustment reports. Federal MLR reporting PUF for 2017 Plan Year.



Sources: 2014-2018 Unadjusted PLRS published with Federal risk adjustment reports.

Team Battle #6

What was the approximate % of ACA small group membership in 2017 for states that allowed transitional policies?

1. 45%
2. 55%
3. 65%
4. 75%

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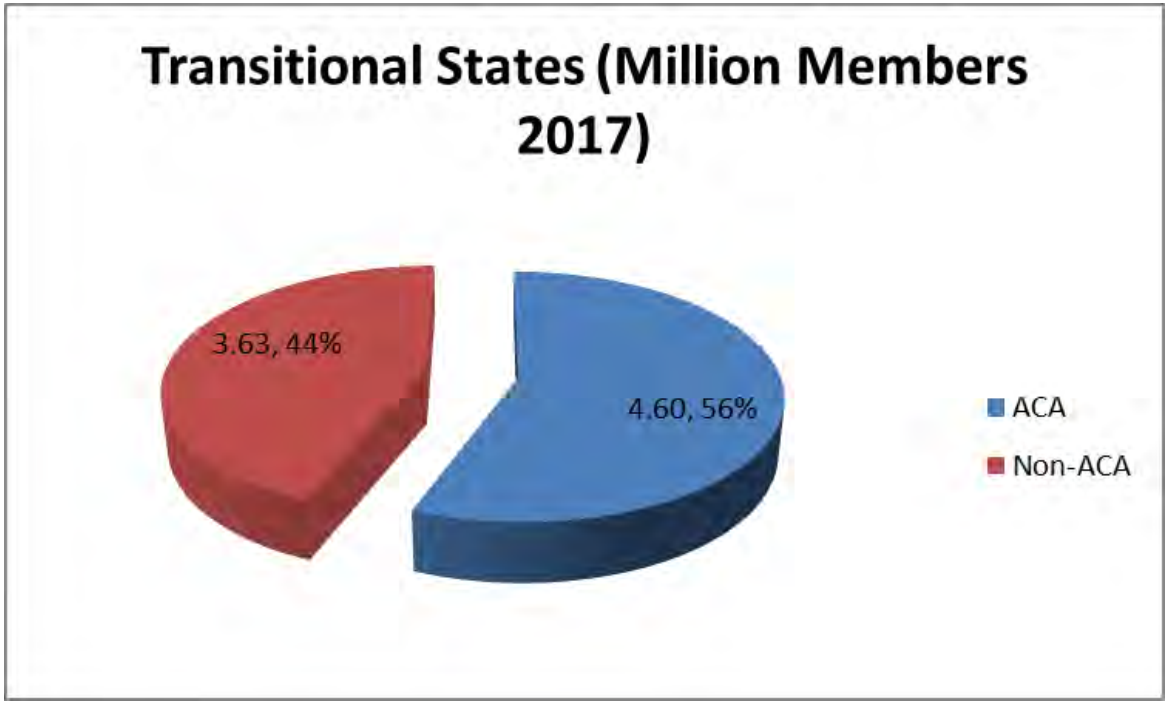

Sources: 2017 Billable Member Months published with risk adjustment reports. Federal MLR reporting PUF for 2017 Plan Year. Transitional and Non-transitional values calculated.

Sources: 2017 Billable Member Months published with risk adjustment reports. Federal MLR reporting PUF for 2017 Plan Year. Transitional and Non-transitional values calculated.

Team Battle #7

What was the approximate average premium difference PMPM between ACA and Non-ACA plans in 2017 for states that allowed transitional policies?

1. 0%
2. -10%
3. -15%
4. -20%

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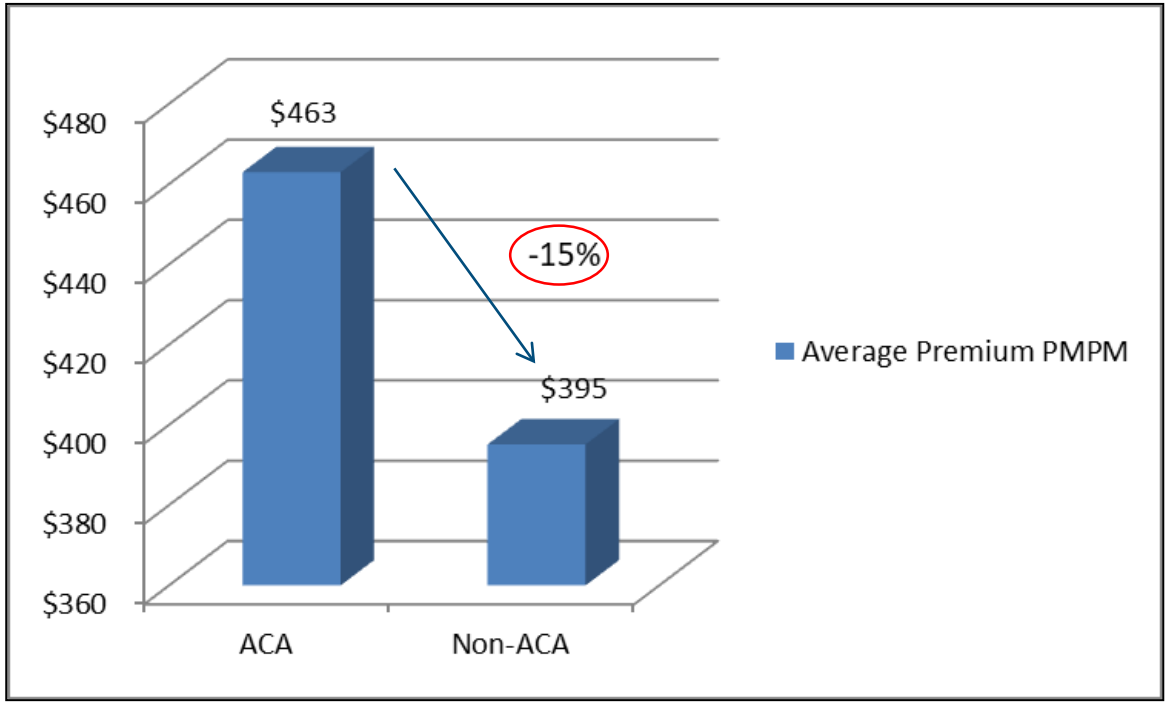


Sources: 2017 Average premium PMPM published with risk adjustment reports. Federal MLR reporting PUF for 2017 Plan Year. Non-ACA value calculated.

Small Group Regulatory Issues

- Transitional policies have been extended through 2020
- Association group plans are being challenged in court
  - Rules were fairly restrictive – retain most of ACA parameters
  - Adoption appears to be low so far
  - Requires better than average industry risk to be attractive

Small Group Regulatory Issues

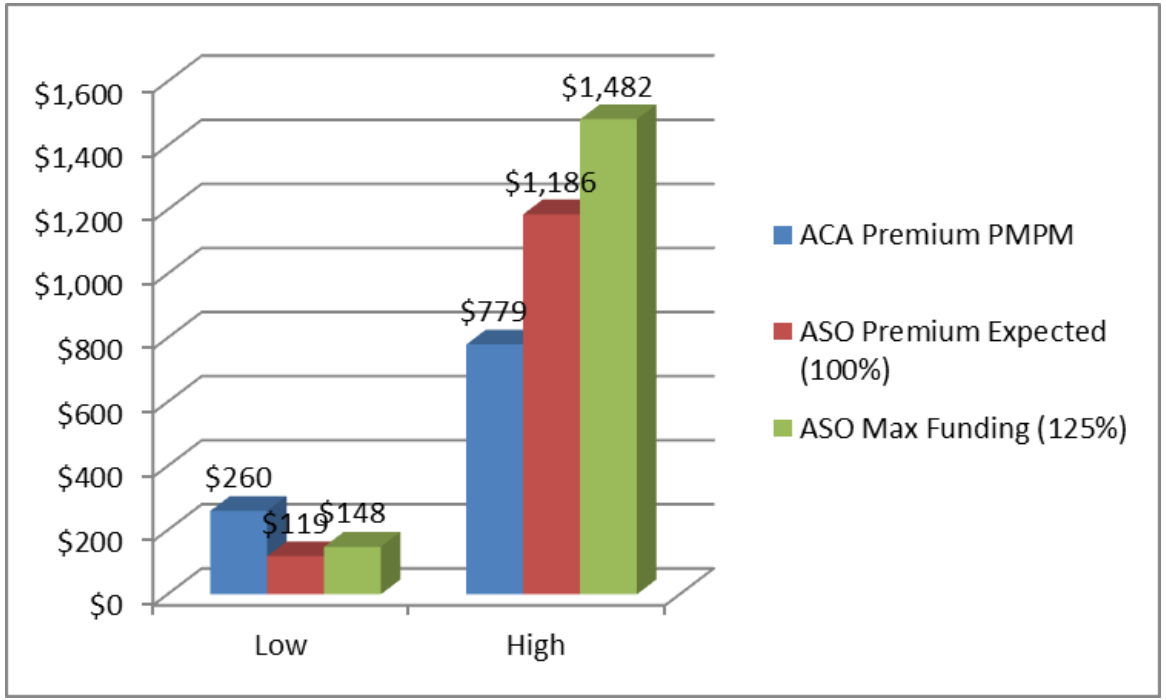
- Small group ASO products have been increasing in prevalence
  - Not all states allow (but still ERISA exempt in theory)
- Attractive for new groups with “good” case characteristics and those with transitional policies (see example)
- Difficult to assess how many have this coverage (not reported separately)

Small Group ASO Example

Assumptions:

- Average ACA Premium $450 PMPM
- ACA adverse selection 20%
- True age/gender relativity 5 to 1 (vs. 3 to 1 ACA)
- Group risk relativity 2 to 1
  - May be conservative - roughly equivalent to pre-ACA risk in standard NAIC model law state

Small Group ASO Example



Implications of Pending Court Cases

- ACA may eventually be ruled unconstitutional (or not)
  - Unwinding ACA may be easier than implementation
  - Populations are more known but still a lot of potential market disruption
  - What do states or federal government do with currently enrolled populations?
    - HIPPAA portability still applies (not part of ACA) but prior mechanisms mostly no longer exist
    - Will some states continue ACA-like provisions at the state-level? If not in statute now, can that even be accomplished in a reasonable timeframe?

Implications of Pending Court Cases (cont'd)

- Administrative challenges of return of medical underwriting
  - Does knowledge/experience still exist within health plans after 5+ years?
  - How quickly can procedures be put back in place? How much lead time will there be?
  - What might be done differently now if starting fresh?
  - Best practices from other areas (life/disability)
  - New potential data sources

Team Battle #8

What level of data is required for Mental Health Parity quantitative testing for ACA plans?

1. National book of business data may be used if state-level data is non-credible
2. State level book of business data may be used if credible
3. State and product-specific data is always required
4. A qualified actuary may certify the use of alternative data sets based on credibility and other considerations if state and product-specific data is not usable

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Team Battle #8 Discussion

- State and product-level data is required if it is available and credible
- If it is not available or credible, a qualified actuary may certify the use of alternative data sets
  - Because of specificity of data required (benefit category detail) credibility requirements can be difficult to reach
  - Adjustment requirements make data assembly difficult

Team Battle #9

Which of the following are **not** requirements for Mental Health Parity quantitative testing for ACA plans?

1. 2/3rds and predominance tests for financial requirements must be satisfied within each benefit category
2. Plans may establish the categories to test based on their claim administration practices
3. If requirements are not satisfied within a category, no cost-sharing is allowed for that category
4. Mental health claims are not considered in the weights used for parity testing

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Team Battle #9 Discussion

1. 2/3rds **(type of financial requirement)** and predominance tests **(50% of level)** for financial requirements must be satisfied within each benefit category
2. **Plans may establish the categories to test based on their claim administration practices (5 categories are specified by regulation)**
3. If **(either of)** requirements are not satisfied within a category, no cost-sharing is allowed for that category **(or other plan changes need to be made - 2/3rds is more difficult)**
4. Mental health claims are not considered in the weights used for parity testing **(Non-MH/SUD benefits determine what type and level is required for MH/SUD benefits so the claims are not included in the weights)**

Data Sources Available for ACA Small Group

- ACA PUFs include little to no small group data
  - New URRT format will make this data even more useful when 2020 filings are available
  - Includes only on-exchange filings which are nearly non-existent for small group
- Federal MLR reporting includes all small group data combined
  - Does not split ACA and non-ACA
  - Formats are usable for both company-specific and aggregated data
  - SHCE (filed with NAIC annual statements) include much of the same data (available earlier but more difficult to get)
- Rate filings may or may not be available depending on state
- Risk adjustment and other federal reporting is relatively infrequent for small group


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