HealthSourceRI
WE WORK FOR YOU

OFFICE OF THE
HEALTH INSURANCE COMMISSIONER
STATE OF RHODE ISLAND

MARKET STABILITY WORKGROUP "2.0"

Tuesday, October 16, 2018
8:30 – 10:30 a.m.
The United Way of Rhode Island

NEW WORKGROUP MEMBERSHIP

Marc Backon, President of Commercial Products, Tufts Health Plan

Lauren Conway, Chief Financial Officer, UnitedHealthcare

WE HEARD YOU…

- Built-in time for Workgroup discussion and ample opportunity for all to participate
- Parameters of the ACA's reinsurance program (sent via email on 10/12/2018)
- Common terms defined in the appendix to ensure consistent use of terminology

TEN WEEK SYLLABUS

RI Market Stability Workgroup Schedule

Topic(s) for Discussion	Meeting Date
Meeting 1 **Regrouping: Workgroup "2.0" + Reinsurance Recap**	Wednesday, October 3rd
Meeting 2 **Reinsurance Financing Options**	Tuesday, October 16th
Meeting 3 **Affordability Programs in Addition to Reinsurance**	***Wednesday***, October 31st
Meeting 4 **Shared Responsibility Requirement**	Tuesday, November 13th
Meeting 5 **Wrap-Up/Opportunity for Follow-Up**	Tuesday, November 27th
Meeting 6 **Reaching Recommendations**	Tuesday, December 11th
Meeting 7 **Recommendations (*reserved if needed*)**	Tuesday, December 18th

TEN WEEK SYLLABUS

RI Market Stability Workgroup Schedule

Topic(s) for Discussion	Meeting Date
Break for the holidays	Mid-December – early January
Meeting 8 **Possible Codification of ACA Consumer and Market Protections**	Tuesday, January 8th
Meeting 9 **Legislative Recommendations**	Tuesday, January 22nd
Meeting 10 **Legislative Recommendations (*reserved if needed*)**	Tuesday, February 1st

TODAY'S AGENDA

Reinsurance Program Financing Options

- Order of magnitude: establishing a shared understanding of the approximate impact and cost of a RI Reinsurance Program;

- Potential funding sources: understanding funding mechanisms deployed in other comparable states + reviewing key data points for RI; and

- Building consensus: assessing key considerations inherent in each possible funding approach and discussing the best path for RI.

Reinsurance Financing Options

October 16, 2018

FCG | Faulkner Consulting Group

RI Market Stability Workgroup 2.0

The objectives for our work ahead include forming recommendations for policymaker's consideration, including:

- **A method (or methods) for funding the RI Reinsurance Program;**
- Whether RI should pursue other initiatives to address health coverage affordability and, if so, what programs;
- Aspects of design and implementation for a state-level shared responsibility requirement; and
- A package of consumer and/or market-based protections for codification in RI law.

The final work product may take the form of draft budget article language and/or legislative language, accompanied by an executive summary.

Reminder: Workgroup Recommendations

- **A state-based shared responsibility requirement:** Rhode Island should implement a state-level shared responsibility requirement to mitigate the impact of the federal health insurance mandate penalty repeal. For the sake of continuity and simplicity, a requirement should be implemented as soon as practicable, with broad-based support, and should use the current federal structure as a basis. Any funds raised through the implementation of a shared responsibility requirement should be primarily designated for initiatives aimed at protecting the affordability of health coverage for the individual market.

  […]

- **Future market stability actions required**: Rhode Island should focus next on how to fund a state reinsurance program and how to best design and implement a shared responsibility requirement.

Today’s Agenda: Reinsurance Programs

- **How Much Does it Cost:** Reinsurance Program Cost
  - How much might a Reinsurance Program Cost in RI
  - State share
- **How might we fund it:** Potential Sources of Funds
  - Lessons from other states
  - Factors to consider
  - Potential revenue
- **Discussion**

Cost for RI Reinsurance Program: Three Factors

(1) Targeted Impact

State sets key parameters to accomplish desired impact

- Scalable, budget dependent
- Typical: 7-20%

(2) Total Program Cost

To be developed by actuaries, estimates based on key market characteristics

- Individual Market Size
- Premium Levels
- Market Volatility

(3) State Share

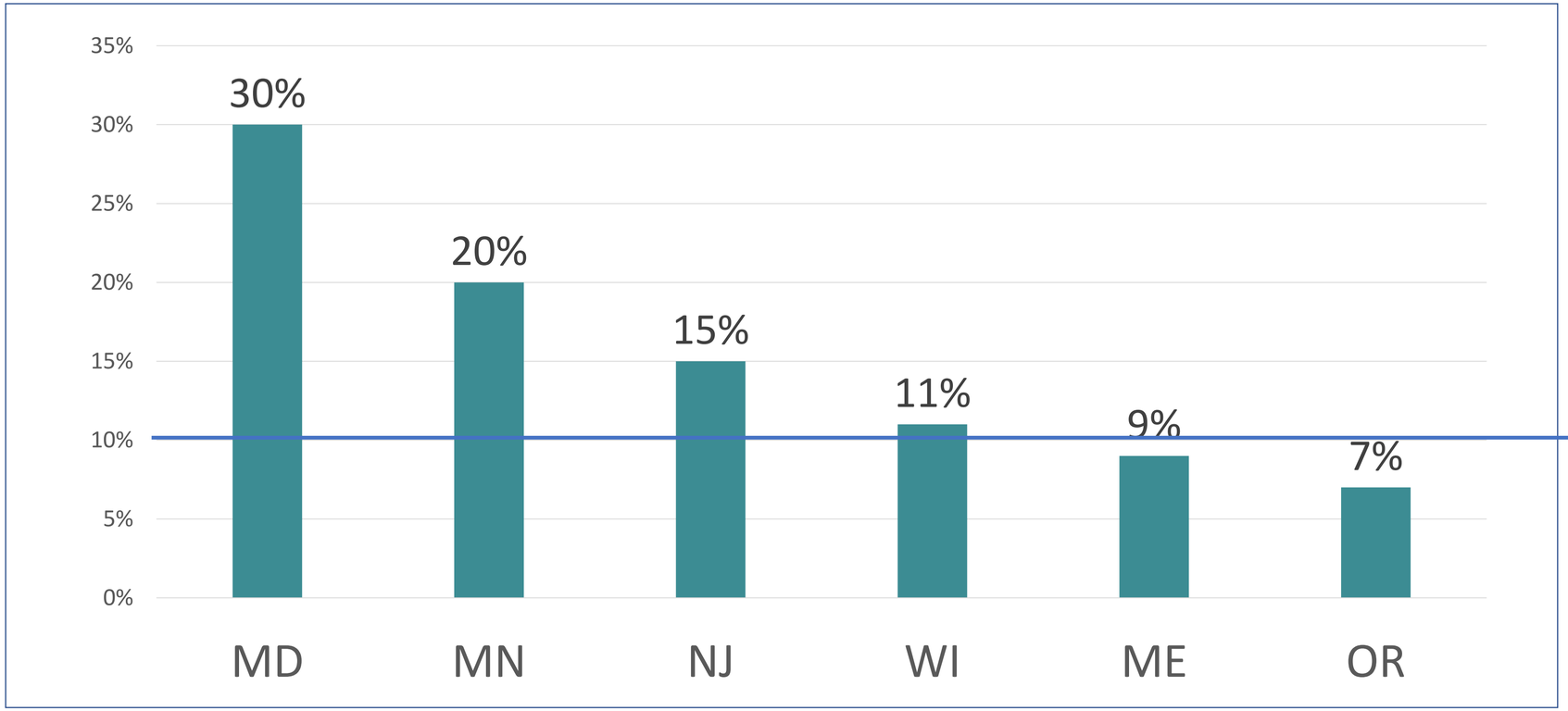
The 1332 Waiver allows RI to use APTC savings from reduced on-exchange premiums to fund the program

- Subsidized market as % of total market

Note: RI is in the process of contracting with an actuarial firm to provide detailed projections of total reinsurance program cost and anticipated federal pass-through funding from a 1332 Waiver.

(1) Reinsurance Programs: Targeted Premium Impact by State

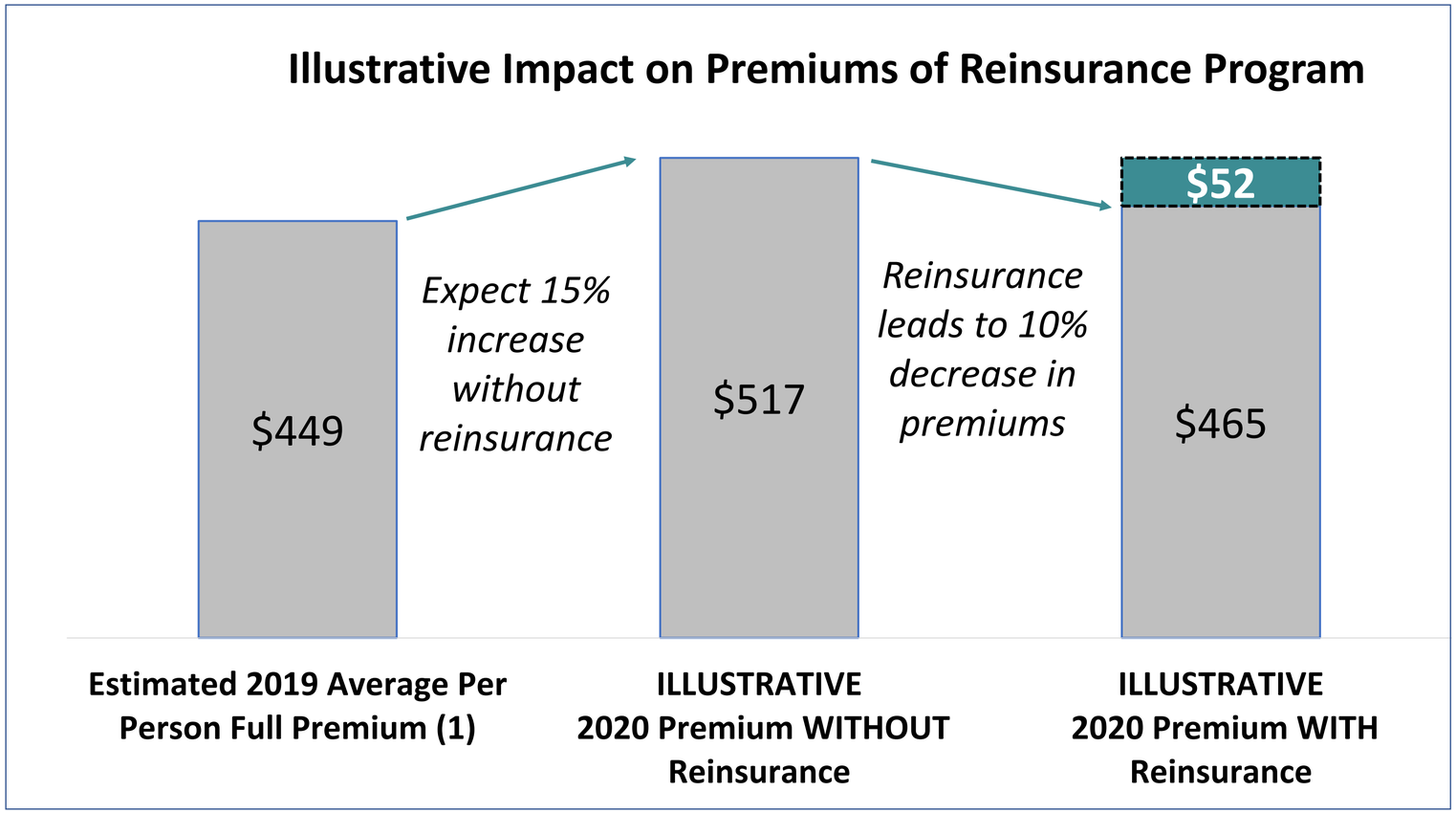
States with approved 1332 waivers have targeted between 7% and 30% premium impact from their reinsurance programs.



Illustrative Target for RI: 10% of projected 2020 Individual Market Premium

(2) Total Program Cost: Estimated $27 Million

We estimate that in order to achieve a 10% premium impact in 2020 we would need to develop a reinsurance program that would cost an estimated $27 M.



Total Cost: $27 M

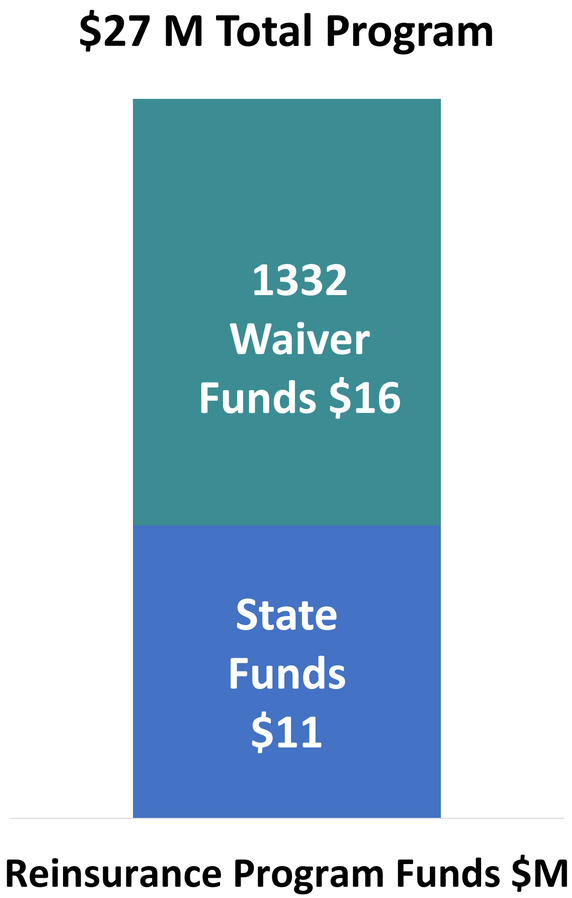
- $52 pmpm premium reduction
- 44,000 individual market size
- *Assumes no change in enrollment from reinsurance program*

(1) This is estimate of on-exchange average premium based on 2019 rates and 2018 enrollment characteristics. Total individual market average premiums are slightly higher.

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

(3) State Share of Funds: Estimated $11 M

The 1332 Waiver allows RI to use APTC savings from reduced on-exchange premiums to fund the reinsurance program.



Estimated $16 M federal contribution to Reinsurance (59%)

- $52 pmpm APTC reduction
- 26,000 subsidized enrollees
- *Likely that unsubsidized market enrollment will vary depending on premiums and other regulations*

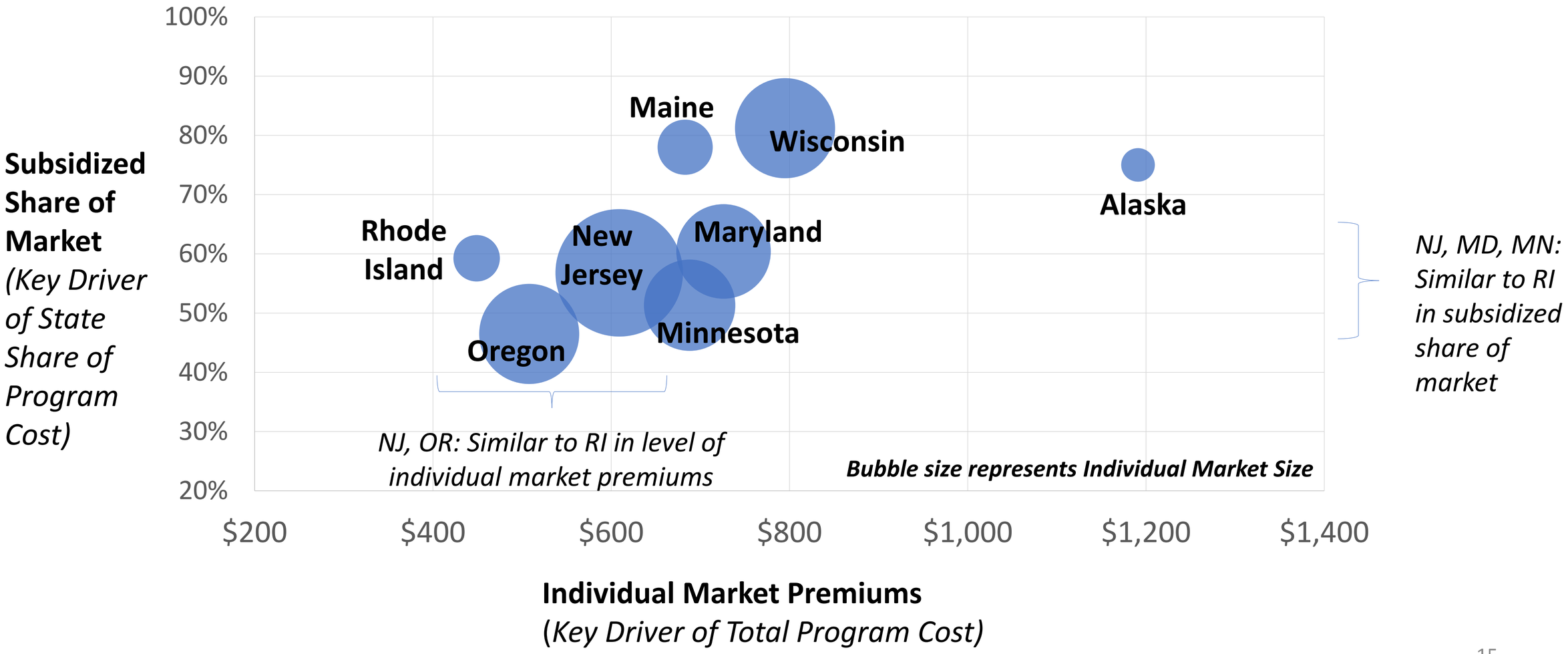
Estimated $11 M state share (41%)

- State must fund remainder

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Comparable Benchmarks from other States

RI reinsurance program cost and state share will likely resemble that of other states with similar market characteristics.



*Individual market statistics are for the with waiver scenarios projected in the 1332 waiver applications for each state.

Today’s Agenda: Reinsurance Programs

- **How Much Does it Cost:** Reinsurance Program Cost
  How much might a Reinsurance Program Cost in RI
  State share

- **How might we fund it:** Potential Sources of Funds
  Lessons from other states
  Factors to consider
  Potential revenue

- **Discussion**

Reminder: Reinsurance Funding Mechanisms from Other States

State	Source of State Funding for Reinsurance
Alaska	• Premium tax applied to all lines of insurance
Maine	• One-time nominal $500 insurer license fee • Insurer/TPA fee of up to $4 PMPM based on insured lives (excludes state/fed employees) • Ceding premium (90% of premium received) paid by insurers ceding covered persons to Maine reinsurance program • Optional assessments to cover Net losses – up to $2 PMPM
Maryland	• Assessment on insurers and MCOs that are regulated by the state (2.75%)
Minnesota	• State general funds • Portion of the 2% state provider tax (applies to hospitals and other providers)
New Jersey	• State individual mandate • Annual general fund appropriation
Oregon	• Premium assessment on fully insured commercial major medical (1.5%), includes premiums for self insured public plans • 2018 also funded by balance of 2 existing funds - Oregon Health Insurance Marketplace (OHIM) operating budget and Oregon Medical Insurance Pool (OMIP)
Wisconsin	• State general purpose funds

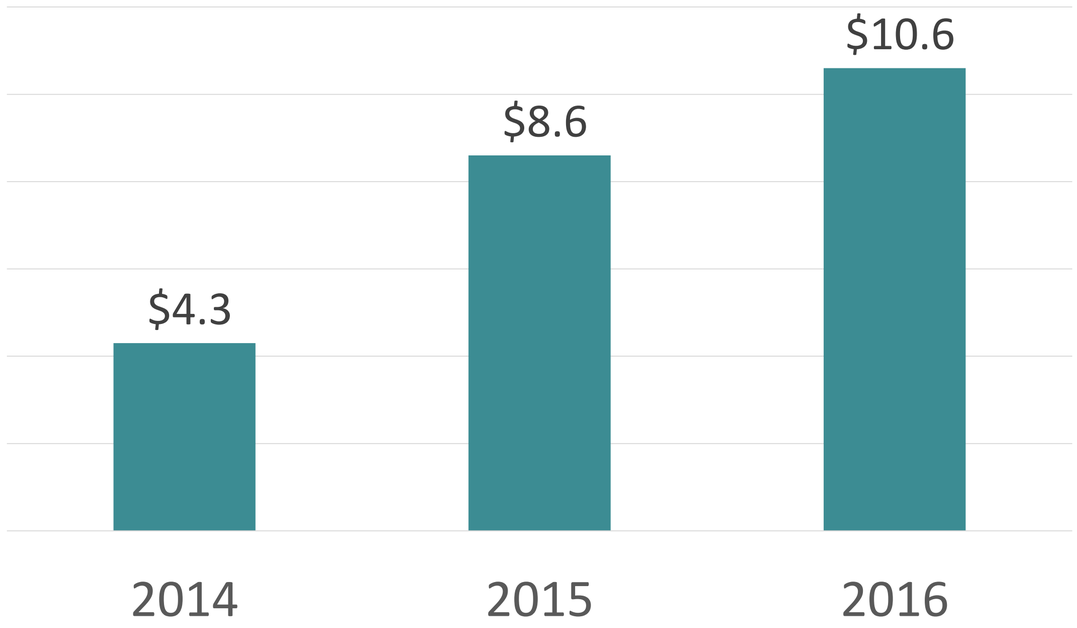
Reinsurance Funding Mechanisms: Summary

Funding Mechanism	ME	AK	MD	OR	MN	NJ	WI
Shared Responsibility Payment (SRP)						X	
Premium based Assessment		X	X	X			
Covered lives based assessment	X				X		
Sin Tax (Tobacco, other)							
State General Revenue					X	X	X
Other	X			X			

Anticipated Revenue from Shared Responsibility Payment (SRP)

The Shared responsibility payment, as currently structured could generate ~$10.6 M in 2020

RI Shared Responsibility Payment Revenue ($M)



Larger of:	**$95/person** or 1% of income	**$325/person** or 2% of income	**$695/person** or 2.5% of income

Revenue for 2017 & 18 expected to be similar/slightly lower

2018 refinements

- Forms revised for easier exemptions
- Federal tax reform increased filing threshold
- Changes may result in more exemptions, more disregarded income, thus lower SRP revenue

2019

- No federal nor state SRP

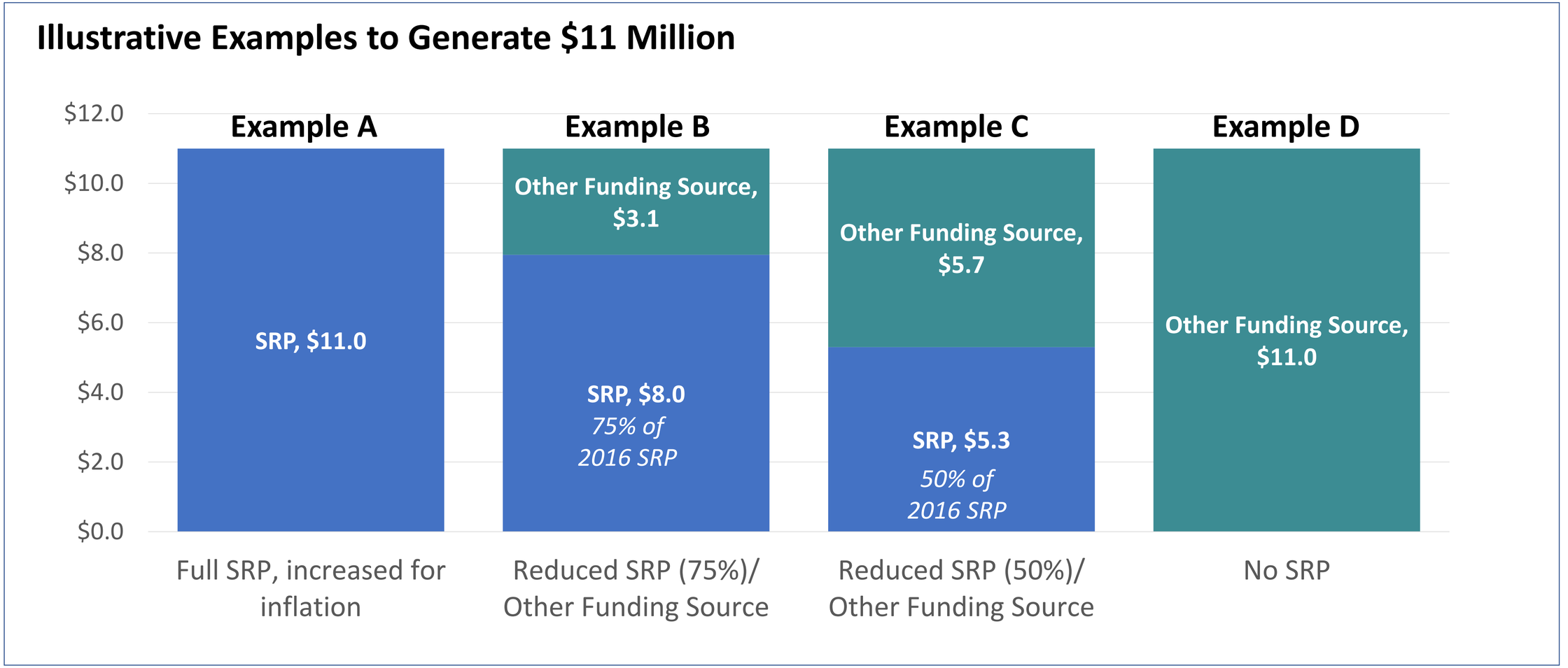
2020

- State SRP could generate similar revenue, depending on structure/exemptions

Note: Assumes enrollment/uninsured rate stays at current levels.

Combination of funding methods

Rhode Island could use a combination of funding mechanisms to generate state share.

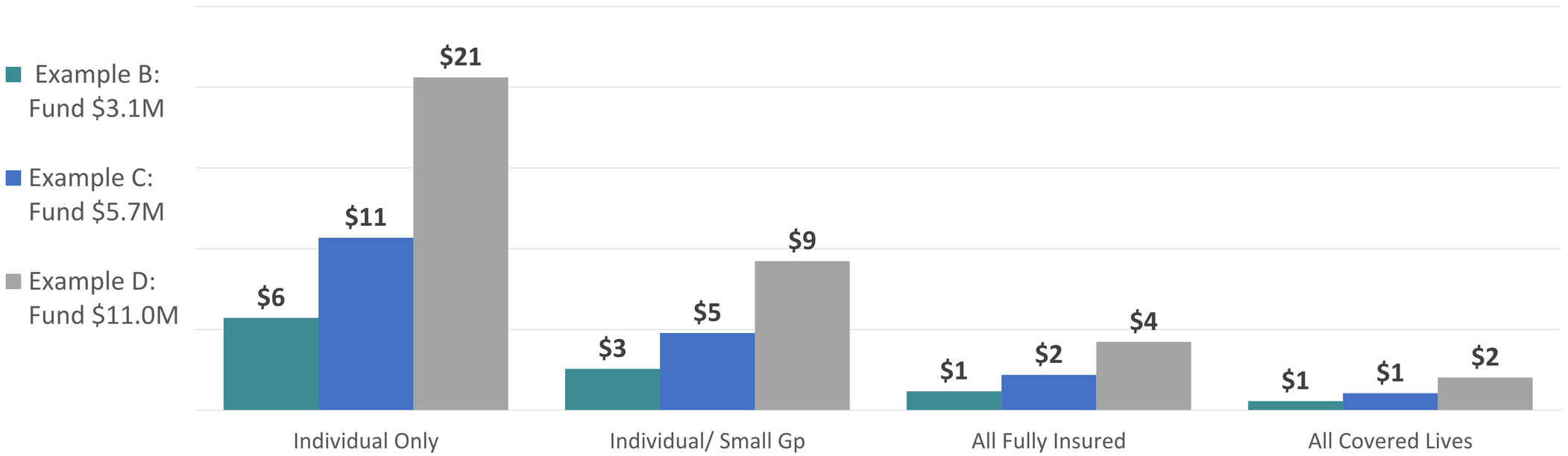


These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Other Assessments: Who Pays?

The size of an assessment to raise funds in addition to SRP depends upon who pays.

Estimated Range of PMPM Assessment to Fund Remaining State Share



% Premium	0.9%	1.8%	3.4%	0.6%	1.1%	2.1%	0.3%	0.5%	1.0%	0.1%*	0.2%*	0.5%*

*% Premium shown for all covered lives is illustrative and assumes similar premium rates to the fully insured market.
Source: PMPMs based on April 2018 OHIC enrolled lives report. % Premium based on 2017 Earned premiums from April 2018 carrier rate review filings.

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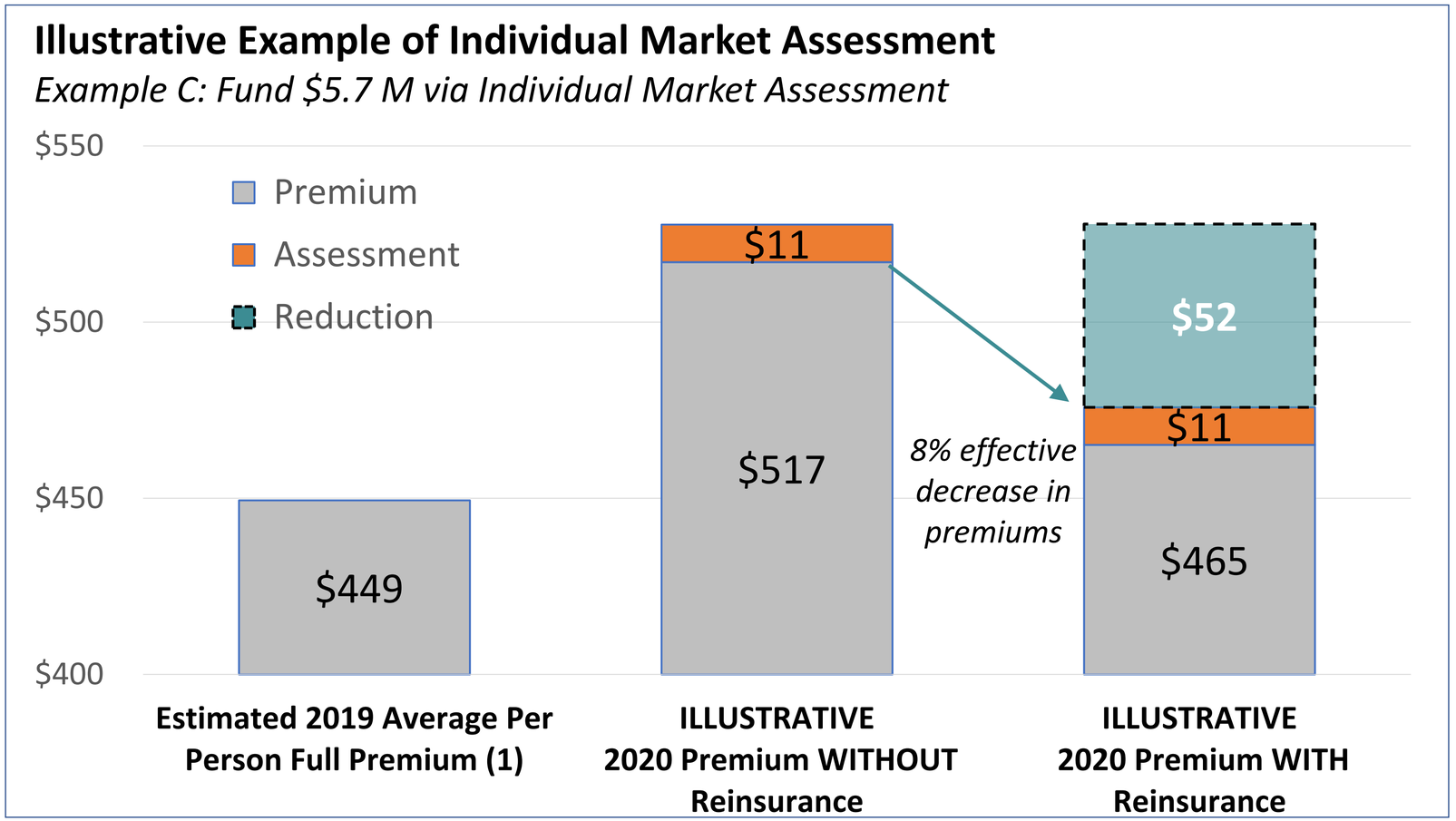
Illustrative Impact of Individual-only Assessment

An assessment on the individual market would reduce the effective impact of the reinsurance program from the target of 10%.



Considerations

- "... funding the state share in large part from an individual market assessment will reduce the federal matching rate, because the same amount of state money will have less impact on premiums, and the premium reduction is what gets you federal matching funds." (Jason Levitis)
- Risk of getting federal approval if using only individual market to fund state share of reinsurance.
- A larger assessment would be needed to produce a 10% effective impact.

(1) This is estimate of on-exchange average premium based on 2019 rates and 2018 enrollment characteristics. Total individual market average premiums are slightly higher.

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Reinsurance Funding Mechanisms: Key Considerations

Considerations	Shared Responsibility Payment (SRP)	Premium based Assessment *(Individual)*	Premium based Assessment (*Fully insured)*	Covered lives based Assessment	Tobacco Tax	State General Revenue (*unfunded)*
Who Pays	Uninsured Individuals	Insurers *(Individual market)*	Insurers *(fully insured only)*	Insurers *(Incl self insured)*	Tobacco users	State/ taxpayers
Contributes to Market Stability						
Administratively Feasible						
Low Impact to State Financials						
Sustainable		 *				

A greater proportion of shading indicates greater positive impact.

Discussion

- Should revenue generated from a state based shared responsibility payment be used to fund the reinsurance program?
- If additional funds are needed -- Which other sources and in which order of preference? Who pays?

Next Steps

The objectives for our work ahead include forming recommendations for policymaker's consideration, including:

- A method (or methods) for funding the RI Reinsurance Program;
- **Whether RI should pursue other initiatives to address health coverage affordability and, if so, what programs;**
- Aspects of design & implementation for a state-level shared responsibility requirement; and
- A package of consumer and/or market-based protections for codification in RI law.

The final work product may take the form of draft budget article language and/or legislative language, accompanied by an executive summary.

PUBLIC COMMENT?

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Back Up

October 16, 2018

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Reminder: Reinsurance - How it Works

Reinsurance cap
Issuer is responsible for costs above the cap

Coinsurance rate
Issuer is paid a portion of claims costs, based on the coinsurance rate

Attachment point
Issuer is responsible for costs up to the attachment point

Considerations:

- Reduces insurer claims' costs
- Covers a portion of the most expensive claims
- Reduces rate uncertainty, volatility
- Attachment point + coinsurance rate can be adjusted each year
- **Scalable – program cost can be adjusted to match available funding**

Estimated Program Cost: Range

Targeted Premium Impact has a large proportional impact to reinsurance program cost, while the size of the “baseline” premium increase has only a slight effect.

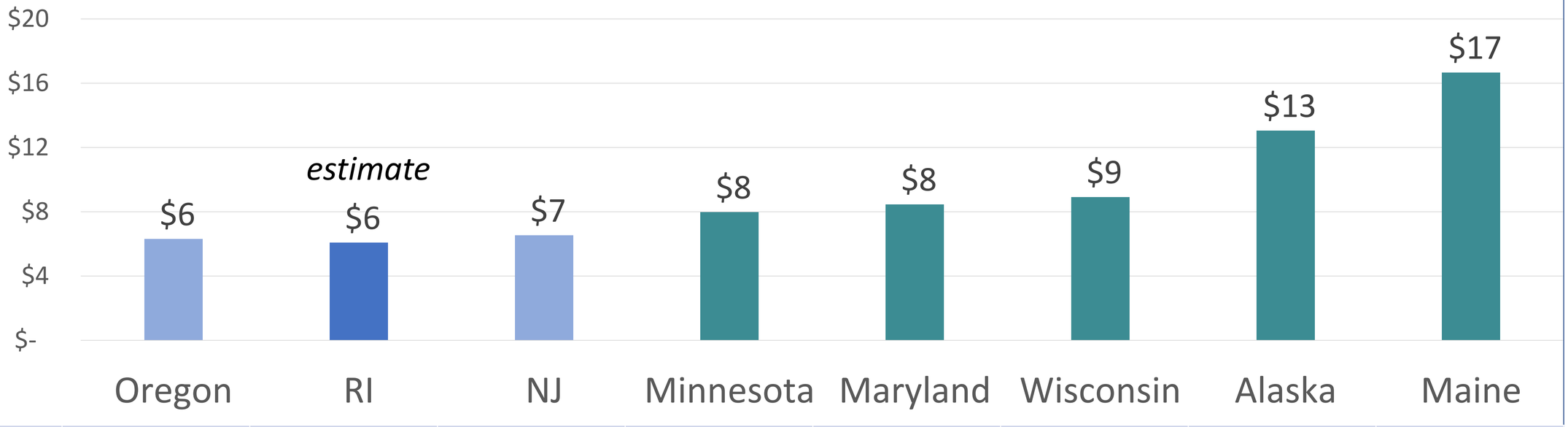
Estimated Reinsurance Program Cost $M *(state share $M)*		**Targeted Premium Impact**		
		5%	**10%**	**15%**
“Baseline” 2019-2020 Estimated Premium Increase	**5%**	$13 *($5)*	$25 *($10)*	$38 *($15)*
	10%	$13 *($5)*	$26 *($11)*	$40 *($16)*
	15%	$14 *($6)*	$27 *($11)*	$40 *($17)*
	20%	$14 *($6)*	$29 *($12)*	$43 *($18)*

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Benchmarks: Normalized Total Program Cost

RI estimated reinsurance program normalized cost is similar to the costs of states with similar premium levels, after adjusting for market size and target premium impact.

"Normalized" Reinsurance Program Cost: $M Cost per 10,000 enrollees for a 10% premium impact



	Oregon	RI	NJ	Minnesota	Maryland	Wisconsin	Alaska	Maine
Premium Level*	$508	$449	$609	$688	$726	$795	$1,191	$683

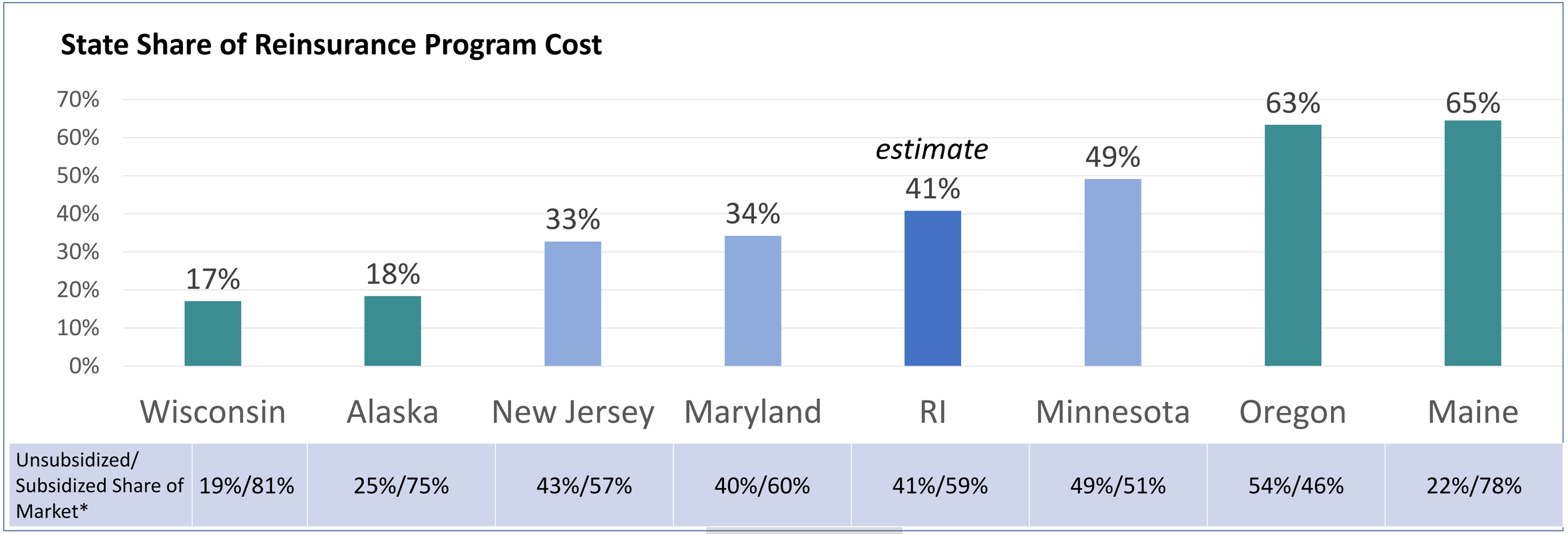
*Note: MN and Oregon data are from applications submitted in 2018, all other state's data are from applications submitted in 2019.

RI estimate of $6 M per 10,000 enrollees for 10% impact similar to states with similar premiums.

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Benchmarks: State Share

RI estimated state share of program cost is similar to states with comparable subsidized share.



	Wisconsin	Alaska	New Jersey	Maryland	RI	Minnesota	Oregon	Maine
Unsubsidized/ Subsidized Share of Market*	19%/81%	25%/75%	43%/57%	40%/60%	41%/59%	49%/51%	54%/46%	22%/78%

*Note: MN and Oregon data are from applications submitted in 2018, all other state's data are from applications submitted in 2019.

RI estimate of 41% state share is similar to states with similar levels of subsidized share.

These are illustrative estimates for policy discussion only – actuarial projections of these numbers to be completed in early 2019.

Comparison of Subsidy Approaches

TABLE 4.
Comparison of Subsidy Approaches

	Per enrollee reinsurance	Invisible high risk pool
Reduces idiosyncratic risk (random variation in costly claims)		
Reduces pricing risk (imprecise forecasts of medical cost trends)		
Reduces incentives for risk selection		
Maintains incentives for care management, coordination, and cost control		
Minimizes administrative cost and complexity		

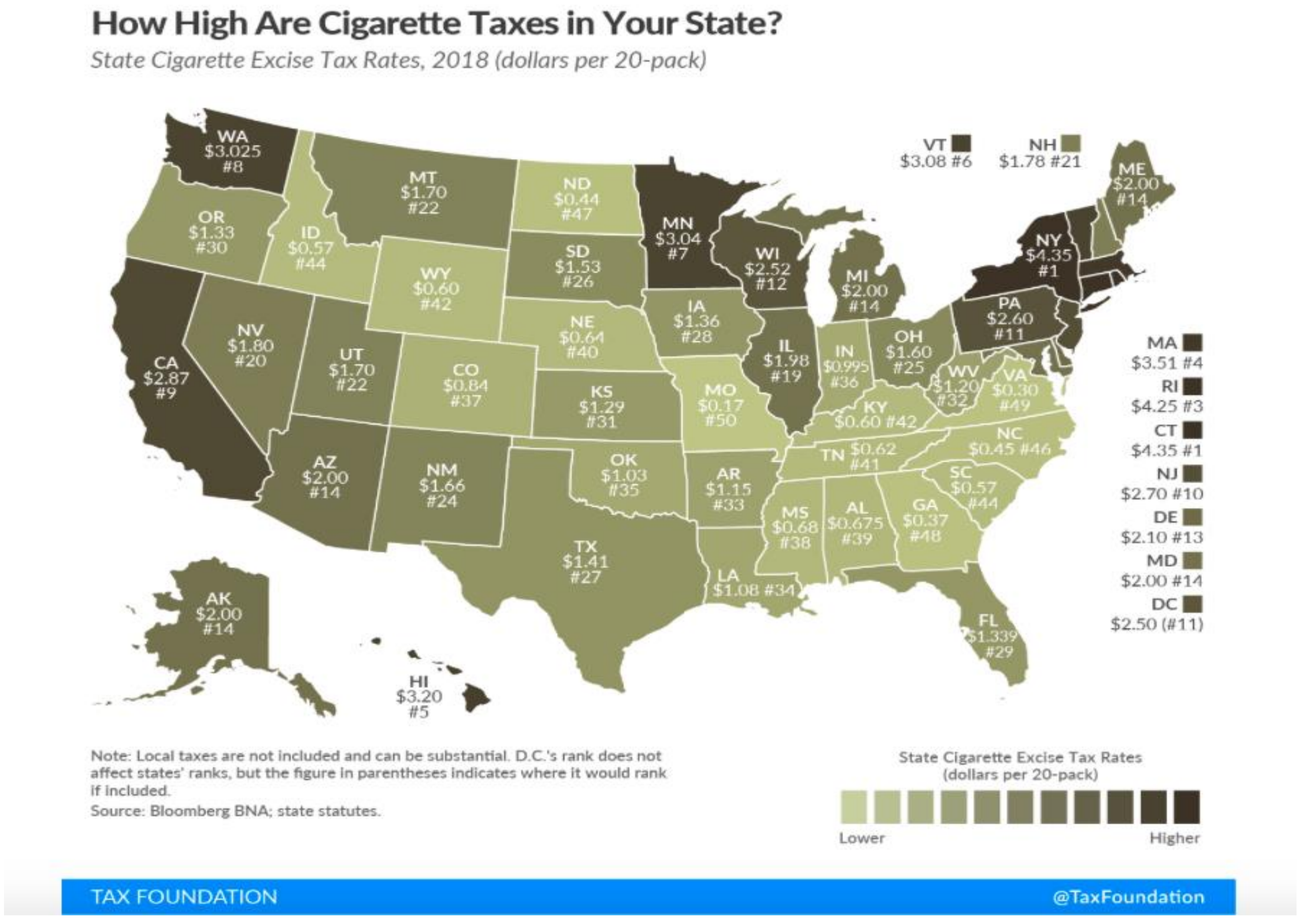
Note: Greater shading indicates greater potential effectiveness.

Per enrollee reinsurance = Attachment Point Reinsurance
Invisible high risk pool = Conditions-based Reinsurance

Source: STABILIZING INDIVIDUAL HEALTH INSURANCE MARKETS WITH SUBSIDIZED REINSURANCE, Scott E. Harrington, PhD. U Penn Leonard Davis Institute of Health Economics. September 2017.

Sin Tax Example: Tobacco

Increasing RI's already high cigarette tax may not be an effective method to raise funds for reinsurance.



Source: https://taxfoundation.org/state-cigarette-tax-rates-2018/

Considerations

- RI cigarette tax ranked #3 in US - $4.25/pack
- Raising tax further drives sales to neighboring states
- Difficult to restrict revenue raised
- Not sustainable – higher taxes reduce usage

APPENDIX

COMMON HEALTHCARE REFORM TERMS

Terms Pertinent to Today's Discussion	
Reinsurance	1) public policy developed to stabilize a market ***(definition used in today's discussion)*** 2) a policy purchased by insurers/employers to mitigate risk of unexpected high claims
Individual market	Also called direct-pay, individuals purchasing insurance directly from insurers or the marketplace, not as part of an employer group
Fully insured	Includes large and small group employer based insurance, and individual market
Self insured	Employers/organizations who use a third party administrator (TPA) to administer claims, but the employer/organization is at risk for paying actual claims.
Covered lives	Includes all fully insured and self insured enrollment

Other Terms	
Advance Premium Tax Credit (APTC)	A tax credit you can take in advance to lower your monthly health insurance payment (or "premium"). When you apply for coverage on HealthSource RI, you estimate your expected income for the year. If you qualify for a premium tax credit based on your estimate, you can use any amount of the credit in advance to lower your premium.
Cost Sharing Reduction (CSR)	A type of financial assistance provided for under the ACA to lower copayments, coinsurance and deductibles for households between 100% - 250% of the Federal Poverty Level ($12k-30k individual; $24k-60,750 family of four). These payments are made by the federal government to insurance companies. Those who qualify for CSRs must enroll in a plan in the Silver category to get these extra savings.
Essential Health Benefits (EHB)	The ACA requires health plans on HealthSource RI offer a comprehensive package of items and services, known as essential health benefits. Essential health benefits must include items and services within at least the following 10 categories: ambulatory patient services; emergency services; hospitalization; maternity and newborn care; mental health and substance use disorder services, including behavioral health treatment; prescription drugs; rehabilitative and habilitative services and devices; laboratory services; preventive and wellness services and chronic disease management; and pediatric services, including oral and vision care. Plans must offer dental coverage for children. Dental benefits for adults are optional.
Qualified Health Plan (QHP)	Under the ACA, an insurance plan that is certified by HealthSource RI provides essential health benefits, follows established limits on cost-sharing (like deductibles, copayments, and out-of-pocket maximum amounts), and meets other requirements. All qualified health plans meet the Affordable Care Act requirement for having health coverage, known as "minimum essential coverage."
Shared Responsibility Requirement	A provision of the ACA (also known as the "individual mandate") which requires each individual to: maintain a minimum essential coverage, qualify for an exemption, or make an individual shared responsibility payment (also known as the "individual mandate penalty") when filing their federal income tax returns.
Short Term Limited Duration (STLD) plan	A type of health policy primarily designed to fill temporary gaps in coverage that may occur when an individual is transitioning from one plan or coverage to another plan or coverage. Current federal rules limit these policies to three months, but as a result of a Presidential Executive Order there may be changes that allow these policies to last a full year. Short-term health insurance policies offer lower monthly premiums compared to ACA-compliant plans because short-term policies offer less insurance protection.