

Individual market small group market merge analysis

A Milliman analysis

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Contents

Milliman

Milliman's charge

Modeling approach

Impact summary

Conclusions

FAQs

About Milliman

- Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe. For further information, visit milliman.com.
- This analysis was conducted in Milliman's Hartford Connecticut office.

For more information go to milliman.com

Milliman's charge

Maine's Bureau of Insurance requested that MGARA provide input into the feasibility of merging the small group market and individual market to serve as a comparison analysis to Gorman's analysis.

Goal

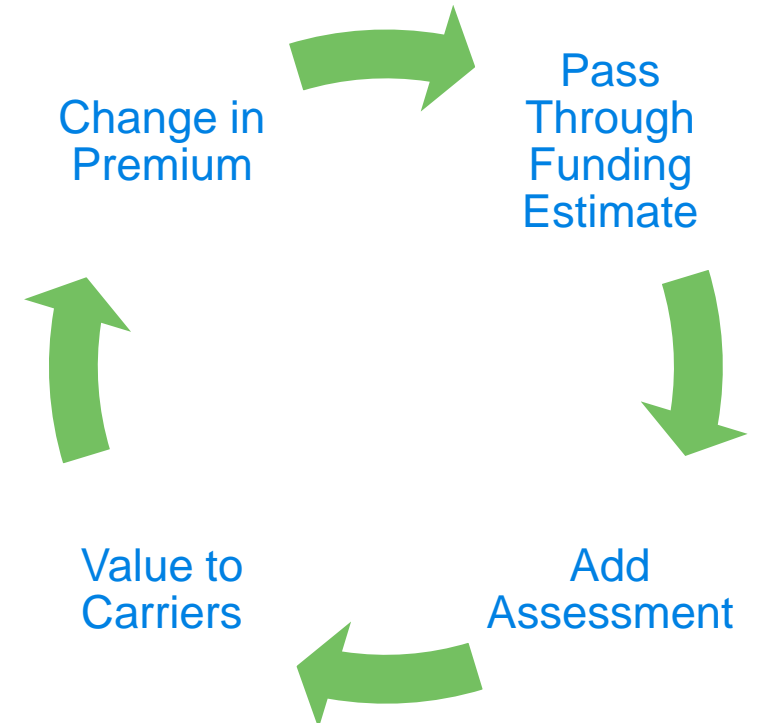
Fact finding to inform Maine's regulatory and legislative bodies about potential solutions that will best serve these changing markets.

Milliman's analysis is from MGARA's perspective and endeavors to provide insight into the likely impacts to the individual, small group, and uninsured markets.

Modeling approach – inputs

Key inputs

- Average Market Premiums (Small group and Individual Market)
- Average risk of each population, used to adjust premiums
- Individual Market Subsidy Levels
- Revenues
 - Assessment
 - Grant Revenue
- Expenses
 - Claims above attachment point
 - Administrative fees
- Prior year surplus



Modeling approach – assumptions and key drivers

- Assume 2022 Small Group premiums do not rise. Initially set at no change to estimate the impact on the individual market, and updated with new information
- Medicaid expansion removed highly subsidized members from the individual market in 2020. These subsidized members have historically been key sources of CMS pass through funding dollars
- Target surplus: Approximately 500% resource-based capital
- Key lever to assure MGARA solvency is the attachment point
- We did not include an impact of COVID-19 on the 2022 projections.

MGARA value per life per month

	\$65K/\$95K 2020	\$65K/\$95K 2021	\$350K 2022
Revenue			
Regular Assessment	22.4	22.2	22.2
Premiums	37.9	39.3	0
Grant Revenue	26.3	28.3	5.4
Total Revenue	86.6	89.8	27.6
Expenditures			
Claims Incurred	80.9	80.9	45.5
Fees	0.6	0.6	0.6
Total Expenditures	81.5	81.5	46.1
Revenue Less Expenditures	5.1	8.3	(18.5)
Beginning Surplus	29.9	35.0	43.3
Ending Surplus	35.0	43.3	24.8
RBC Ratio	530%	776%	528%
Ceded Lives	5,290	5,280	0
Average Individual Market-Wide Premium	\$647	\$689	\$756
MGARA Value to Market	\$40.1	\$38.7	\$40.3
Market Lives	60,000	59,800	108,900
MGARA Value Per Life Per Month	\$56	\$54	\$31

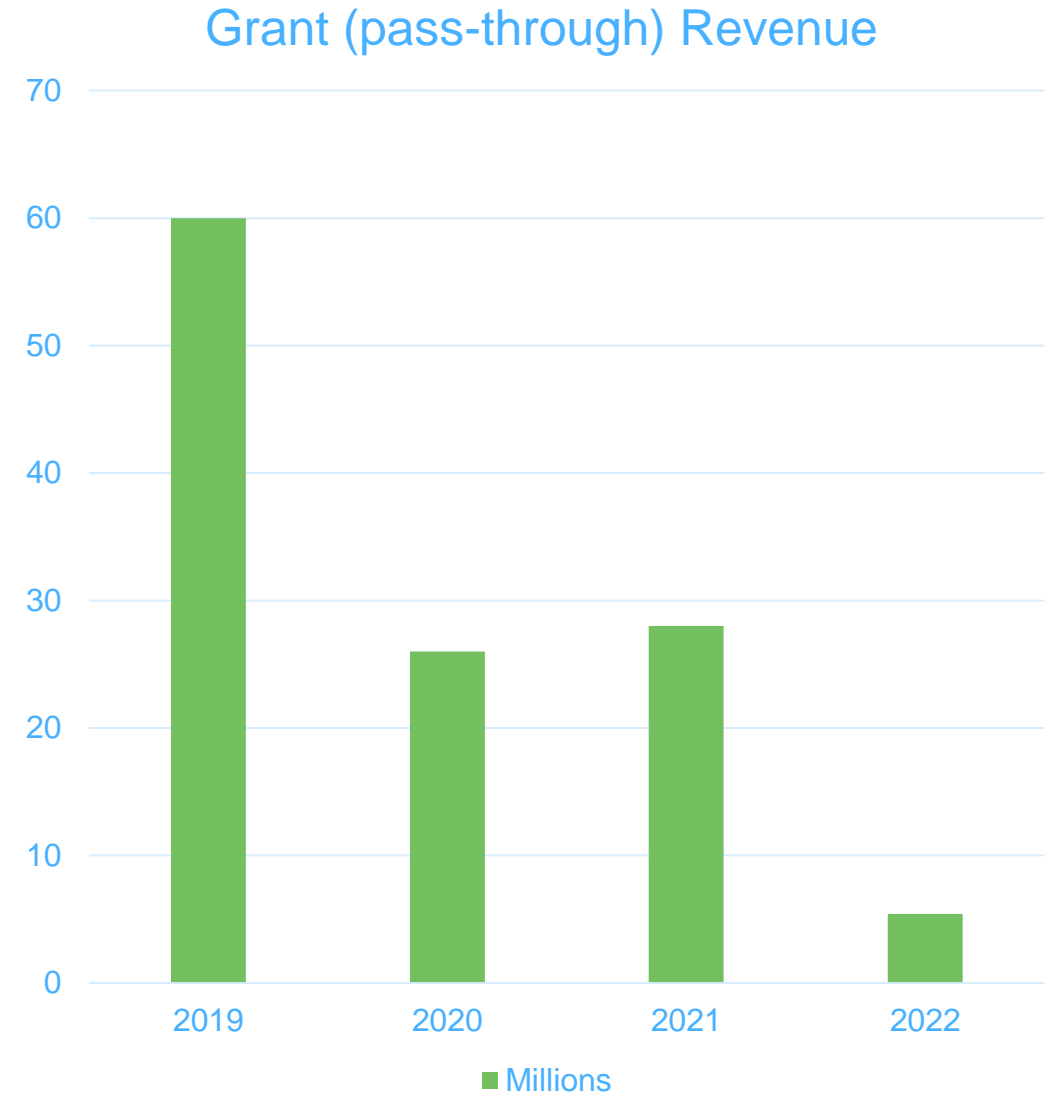
MGARA value per life per month

\$56 \$54 \$31
 2020 2021 2022

Grant Revenue History

Grant Revenue goes down in 2020 in a merged market because:

- Fewer subsidized members after Medicaid Expansion (this is not driven by the merger)
- Less spread in the with and without MGARA premium when premiums are averaged (driven by relative risk)



Grant Revenue Calculation

Change in APTC (Advanced Premium Tax Credit) x Subsidized Lives x Total PTC to APTC x 12

A. APTC With and Without MGARA	$(\$579 - \$589) = \$10$
B. Subsidized Lives	47,000
C. Ratio of Advanced Tax Credit to the Tax Credit	96.6%
A x B x C	= \$5.4m

Original modelling assumption sets pre and post Small Group rates equal to estimate the impact on the Individual market.

Attachment Points

The Attachment Point sets the level of reinsurance and ensures MGARA solvency.

2022 number of Individuals exceeding the attachment point of \$350,000: Approximately 200

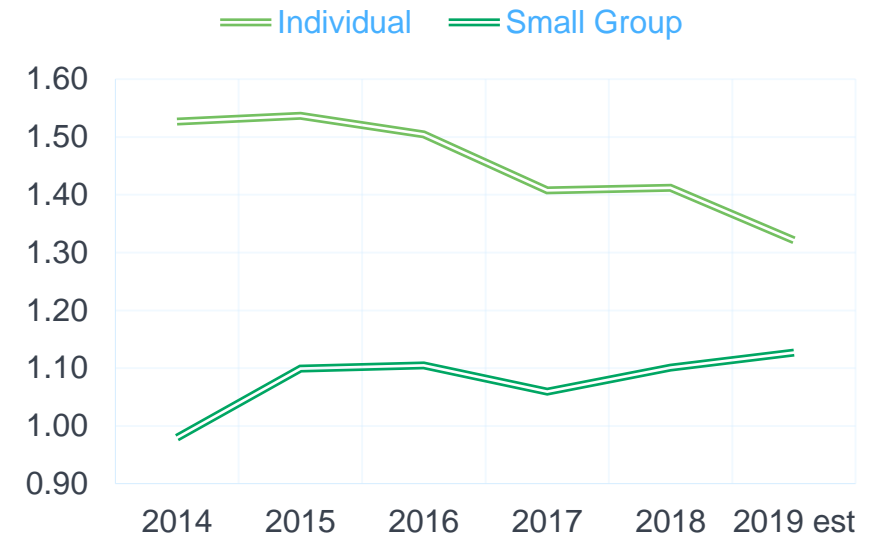
Attachment Point History

- 2019: \$47K
- 2020: \$65k
- 2021: \$65k
- 2022: \$350k; \$485 without surplus draw)

Considerations regarding sustainability

- The \$4 PMPM assessment is fixed by legislation. To the extent that market premiums increase over time, the fixed assessment becomes less effective.
- The ability to stabilize market premiums decreases as the attachment points increase. Without drawing down surplus, attachment point for 2022 would be \$485K which would be indicative of future attachment points. Market volatility is balanced somewhat by the increase in the size of the total market.
- The prospective model, pre-merger, used the approximately 5,000 ceded lives to help stabilize the reinsurance pool. Without the ceded member premiums, the sole stabilizing mechanism is the attachment point.
- The merger may not address the reasons risk scores are converging.

MAINE ACA MARKETS RISK SCORE



FAQs

Q: Is the market merger feasible?

A: Yes.

Q: Why is the pass through funding so different from previous years?

A: Because there are fewer enrolled individuals with low FPL due to Medicaid Expansion and because there is less spread between the with and without MGARA Advanced Premium Tax Credits because of the lower risk small group market enrollment. A major assumption in this analysis is that we set the small group market to not change as a result of MGARA.

Q: What happens beyond 2022?

A: This is a one time adjustment to the premiums. We do expect that the small group market will continue to experience adverse selection issues, and therefore their average risk scores will continue to increase, which further erodes the impact MGARA can have on this market.

Q: Does this have the desired impact on the Small Group Market?

A: This has a small one-time positive impact on the small group market. It will negatively impact the ability of MGARA to benefit the individual market.

Q: What is the difference between a Prospective and Retrospective model?

A: In a prospective model there are members ceded to the reinsurance program with their premiums, and their claims are prospectively estimated. In a retrospective model, there are no ceded members and the reinsurance payments are made after the claims are incurred. The difference is reflected in the attachment point which is much higher in a retrospective model.

Questions

Caveats and Limitations

Milliman has prepared these slides for the specific purpose updating our Merged Market Analysis and its impact on MGARA. This information may not be appropriate, and should not be used, for any other purpose.

Milliman does not intend to benefit or create a legal duty to any third party recipient of its work even if we permit the distribution of our work product to such third party. Milliman does not provide legal advice, and recommends that MGARA consult with its legal advisors regarding legal matters.

In performing this analysis, we relied on the MGARA Monthly Operations Report January 2020, data provided to the Maine Bureau of Insurance from the insurance carriers in Maine and other public sources, including documents released by CMS that detail the methodology used to compute the 2020 pass-through funding amounts*. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. In that event, the results of our analysis may not be suitable for the intended purpose. We have not been able to review the CMS calculations of the 2020-2022 pass-through funding amounts in sufficient detail.

Any reader must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and their impact on the illustrated results. The reader should be advised by professionals competent in these areas so as to properly interpret the results.

We Thomas Murawski, Actuary , and Donna Wix, Associate Actuary with Milliman are members of the American Academy of Actuaries meet the Qualification Standards of the American Academy of Actuaries to perform the analysis contained herein.

The terms of Milliman's Consulting Services Agreement with MGARA signed on February 20, 2012, and amended July 31, 2017 apply to this presentation and its use.

*"Method for Calculation of Section 1332 Waiver 2019 Premium Tax Credit Pass-through Amounts" - <https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Downloads/Treasury-Method-Calculation-1332-Pass-through-Amounts.pdf>

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Thank you

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