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State of Maine

Comparative Analysis of the Estimated Impacts of a Merged Market and MGARA

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Introduction

The state of Maine's Bureau of Insurance ("Maine)" retained Wakely Consulting Group, LLC ("Wakely") to better understand the impact of pooling the small group and individual market on 1332 pass-through amounts. Previously, Maine requested that two actuarial firms (Milliman and Gorman Actuarial) provide estimates of the Federal pass-through funding. Gorman Actuarial was retained by Maine, and Milliman was retained by the Maine Guaranteed Access Reinsurance Association (MGARA). The two actuarial firms' Federal pass-through estimates differed considerably. Wakely was retained to aid Maine in better understanding the reasons that the two estimates diverge, to what extent the assumptions and methodologies used diverge from other public sources, and what the implications of the assumptions and methodologies would be on the market premiums and Federal Pass-through funds for Maine.

This document has been prepared for the sole use of Maine, although we understand that the report will be made public. 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.

Executive Summary

In response to recent changes in the individual and small group markets, Maine is considering merging the two markets. In particular, the merger of the markets would be part of an ACA Section 1332 waiver, under which savings in federal subsidies from lower premiums are returned to the state for use in the program. There are two key changes that would result from a merged market. The first is a potential reduction in premiums in the individual market due to the merged markets, which could be used to further augment Maine's existing reinsurance program. The second is that the reinsurance program will benefit both markets. This means that the reinsurance payments will be spread across both the individual and small group markets and consequently lower premiums as a result, but the decrease will not be as significant to the individual market as it would be without a merged market.

Since the reinsurance program is partially funded by federal pass-through dollars, the impact of the merged market on the pass-through funding is a critical consideration for the state. The amount of pass-through is dependent on how much the second-lowest cost silver plan (SLCP) decreases due to the waiver. If the merger reduces the impact of the waiver on the SLCP then there would be less reinsurance funding and premiums could increase as a result of the merger. Since the merged market further lowers individual market premiums but reinsurance being spread across the small group will reduce the impact of the program to the individual market, the overall change on the pass-through primarily depends on the combined impact of the two key changes.

Before submitting the revised 1332 waiver, two actuarial firms were engaged to analyze the potential impact of the policy on the two markets. However, their estimates differed considerably in terms of their pass-through estimates. Consequently, Wakely was engaged to explain the source of divergence between the two estimates. As part of that activity, Wakely collected key inputs from and had follow-up discussions with both firms in October of 2020.

The table below shows how the two estimates diverged significantly in terms of the estimated pass-through amounts available for the Maine Guaranteed Access Reinsurance Association (MGARA) program. Both firms estimated a baseline of no reinsurance and no merger to a waiver with reinsurance and a merged market. The difference in federal savings (e.g., premium tax credits) between the baseline and waiver scenarios equals the pass-through amount. The major difference between the two estimates was on the impact of the reinsurance on premiums and resulting premium tax credit (PTC) savings.

Table 1: Estimated 1332 Pass-Through
Due to Reinsurance (All Years) and Merger (2022 only)[1,2]

	2020 Actual Amounts	2022 Gorman Actuarial Estimates	2022 Milliman Estimates
Pass Through Amounts	$26.3 million	$23.9 million	$5.7 million
Change in Average Individual Market Premiums	-7.2%	-7.1%	-3.0%
Change in PTCs	-9.1%	-8.3%	-1.8%
Change in Small Group Premiums	N/A	-3.8%	-3.0%

Given both Milliman and Gorman Actuarial estimated that the state funding would be around $22 million, the total funding for the MGARA program would be $27.7 and $45.9 million, for Milliman and Gorman Actuarial, respectively. Both Milliman and Gorman Actuarial generally[3] applied the appropriate formula that the Federal government has put forth as a template for calculating pass-through amounts. Wakely used the key assumptions and inputs used by Milliman and Gorman Actuarial and was able to replicate their pass-through calculations within a reasonable range. Consequently, Wakely has concluded that the key difference in the pass-through amounts are a result of differing assumptions.

[1] Data in table is from CCIIO reports for 2020, Maine's pass-through report for 2021, and data submitted by Gorman Actuarial and Milliman to Wakely for 2022. Some of these numbers may vary from public reports on Maine's website: https://www.maine.gov/pfr/insurance/legal/notices/maine_health_ins_pooled_market_option.html.

[2] All changes are measured as the difference between no waiver (baseline) and a waiver (reinsurance and merger). For example, change in premiums is the difference in average premiums between an individual without a waiver and an individual market with waiver.

[3] As will be discussed later, Wakely believes that there are some differences in the approaches by the consultants relative to calculations and methodology provided by CMS.

While there are multiple assumptions that vary between Gorman Actuarial and Milliman, the primary driver of the $18 million difference in the pass-through amounts is the estimated impact of the waiver on the Advance Premium Tax Credit (APTC) amounts. Based on the data submitted to Wakely and conversations with the two firms, Wakely believes the primary driver in these differences is due to different approaches and levels of conservatism each has included in their modeling. While both Gorman Actuarial and Milliman discussed with issuers the potential merged market and changes to the MGARA program, the two firms came to differing conclusion as to the level of conservatism that would be included in issuer rates. **While both pass-through estimates are possible results, based on reasonable assumptions and expectations that excessive conservatism would not be incorporated into the issuer rate development or reinsurance parameters for 2022, Wakely believes the Gorman Actuarial estimate may align better with other states' experiences with retrospective reinsurance based 1332 waivers.**

Issuers often times include some probability that expected reinsurance payments will not be fully realized. The inclusion of a factor for non-payments results in a higher premium to cover that risk, leading to a smaller premium impact from reinsurance than there would otherwise be. However, since reinsurance funding in Maine is partially a function of how much reinsurance payments decrease premiums, incorporating conservatism into issuer rates or the reinsurance parameters can lead to a self-fulfilling prophecy in which conservatism yields smaller funding which yields more conservatism, etc. Wakely would define this equilibrium of smaller funding due to issuer uncertainty as excessively conservative. While ultimately it is a possible outcome, Wakely would view this result as a policy choice rather than an explicit outcome.

Gorman Actuarial estimated the impact of the policy change with minimal to no conservativism in pricing or setting of parameters. Conversely, Milliman estimated the impact of the policy with conservatism by issuers and included that conservatism in the setting of reinsurance parameters. Wakely cannot determine if parameters will be set with the expectation of issuer conservatism, if issuers would price conservatively based on the policy changes, or if Maine's rate filing process would allow for significant conservatism in the issuer rates. Ultimately, the state and MGARA will need to address any concerns of the issuers that may lead to conservatism and ultimately decide, as a policy matter, how much conservatism they will allow given the implications it has for the program

The remainder of this paper provides background information on merged markets, 1332 programs, and federal pass-through amounts. We next summarize our assessment of the approaches of the two consultants and the differences in methodology and assumptions.

Background

The estimates that Wakely was tasked with reviewing compare the individual market enrollment, premiums and premium tax credits under a baseline scenario where there is no merged market, and a waiver scenario, where both a merged market and a reinsurance program are in effect. As such, it is important to understand how the merged market would be structured, how the reinsurance program would work under the merged market, and how Federal pass-through estimates are determined. The following provides Wakely's understanding of each of these.

Merged Market

The State of Maine is considering merging its individual and small group markets. A merged market, as defined under CFR 156.80, treats the individual and small group markets as a single merged risk pool. That means that all risk is shared across both markets. It further means that any product developed for either market must be available to all enrollees in either market.

While a larger risk pool through merger does have advantages, it also typically has distributional implications (one market can have higher premiums than it otherwise would have) and product differentiation limitations (products designed only for individuals or only for small employers are more difficult to create). Finally, merging markets can interact with reinsurance and 1332 waivers. As part of a fully merged market, the current MGARA reinsurance program would cover claims costs for not only the individual market but also the small group market. Currently, part of the funding for MGARA comes from Federal pass-through funds via a 1332 waiver. These pass-through dollars are higher the greater the federal savings, i.e., reduce premium tax credit expenditures.

Reinsurance Program

The MGARA was brought back in 2019 after a multi-year hiatus. It currently only applies to the individual market and has two separate mechanisms for ceding risks. Eligibility for MGARA is based either on one of eight high-risk health conditions (mandatory) or ceded at the carrier's discretion. The ceding premium paid by the insurer is currently set at 90% of the underlying premium paid by the policyholder, for both mandatory and discretionary coverage. For 2020, for all members whose risks have been ceded (both mandatory and discretionary), the program covers 90% of claims between $65,000 and $95,000 and ,100% of the claims over $95,000, with the exception that only a percentage of claims above one million are covered (high-cost risk pool under the federal risk adjustment program covers a portion of these). This form of reinsurance is referred to as prospective.

Maine is considering shifting to a retrospective form of reinsurance, where issuers are reimbursed based on their enrollees claims cost experience, regardless of health care condition or advance designation as "high-risk" policy. This is referred to as a retrospective or claims-based reinsurance. Under a merged market, the retrospective program would also apply to high cost claims for small group members as well.

It should be noted that Maine's current approach is unique among states and the proposed retrospective policy is far more common. Currently, of the 15 1332 reinsurance waivers, 13 use a retrospective/claims-based approach (Maine and Alaska are the only ones not to use a retrospective approach). The retrospective/claims-based approach has been seen as being successful at reducing premiums.[4]

Currently, Maine's program is funded through a combination of a market-wide assessment ($4 per member per month for eligible members) ceding premiums (whether on a mandatory or discretionary basis), and Federal pass-through dollars. Under the retrospective program, the program would be funded by the market-wide assessment and Federal pass-through dollars, with ceding premiums no longer collected.[5]

Pass-Through Estimates

A portion of Maine's reinsurance program is funded through 1332 funding or pass-through amounts. The federal government uses data submitted by Maine to calculate the amount of pass-through (this is typically done in the fall in the year before the benefit year of the waiver), with the driver of the pass-through amount being the savings the federal government would have in PTCs due to the reinsurance program.

The federal government's methodology for calculating pass-through amounts for 2022 has not yet been announced. However, previous methodological documents are available. For example, a federal document from 2020[6] lays out the steps for calculating the pass-through amounts. This includes creating a baseline (without a waiver) of total APTCs (including the effects of net attrition over the course of the year) and subtracting that amount from projected APTCs with the waiver. That residual amount is then multiplied by a factor to estimate the difference in advance premium tax credits and final premium tax credits after reconciliation. The data CMS released on the 2020 Maine pass-through calculations can be seen below:

[4] https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Downloads/1332-Data-Brief-June2020.pdf

[5] Although the enabling law authorizes MGARA to collect ceding premiums for a retrospective program, this is not a feature that has been used in other retrospective programs, and the Gorman Actuarial and Milliman calculations both use the assumption that no ceding premium will be charged.

[6] https://www.cms.gov/media/466086

Table 2: Key Components of PPACA 1332 Pass-Through Payments[7] for 2020

Description of Data	Maine Amounts
First 6 months of 2019 APTC	$164,431,195
Share of full year to first half of 2018 APTC	192.28%
Total APTC projected for 2019 [row (1) * row (2)]	$316,166,192
Projected 2020 APTC without Waiver	$308,767,387
Projected 2020 APTC with Waiver	$280,745,607
Projected APTC 2020 savings [row (4) - row (5)]	$28,021,780
Total PTC subsidy/APTC, 2017	96.78%
Projected Total PTC subsidy savings [row (6) * row (7)]	**$27,118,197**
Difference in FFE-User Fee Costs[8]	**$826,226**
Total pass-through Funding	**$26,291,971**

In addition to the difference in PTC, states that use Healthcare.gov have the estimated difference in federal user fees subtracted from the pass-through.

While the calculation itself looks straight forward, there are many assumptions that go into the projected APTCs, both with and without the waiver. These include but are not limited to, enrollment by people who receive APTCs, the amount of the APTCs, and the impact of the reinsurance program on both enrollment and APTCs. Wakely's review of the different pass-through amounts focuses on the assumptions that most significantly impact the pass-through estimates.

Comparison of Approaches and Assumptions

As indicated in the prior section, there are many assumptions that can impact the estimated pass-through savings. The following discusses the different approaches and specific assumptions assumed by each consulting firm, how those assumptions compare to publicly available information (when available), and Wakely's overall assessment on the reasonability of the assumptions.

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[7] https://www.cms.gov/files/document/summary-2020-pass-through-components-states-3320-update.xlsx

[8] User fee costs to federal government estimated by Wakely based on the difference in the CMS calculations and the final pass-through provided to the state in 2020.

Comparison of Approaches

GORMAN ACTUARIAL

The Gorman Actuarial approach could generally be described as a bottom up modeling exercise to assess first the impact of merging the markets and then the impact of the MGARA program on the individual market under a merged market scenario. Data was collected from insurers in both November of 2019 and April of 2020. In addition, 2021 rate filing, BOI Rule 940 reports, and risk adjustment data (TPIR files) were incorporated into their modeling. Based on Gorman Actuarial's analysis of enrollment, premiums, and claims, Gorman Actuarial constructed a 2022 baseline for both the individual and small group markets. Finally, they assumed that the reinsurance program would be designed to maximize federal pass-through. Wakely did not identify any assumptions that were unreasonable and their approach is consistent with what is typically included in a 1332 waiver application for pass-through funding.

MILLIMAN

Wakely's understanding of Milliman's approach is that they created a scenario where the impact to premiums for the small group market would be negligible. That is, if the merged market increased small group premiums, the reinsurance program would impact the market such that it would offset the increase due to the merged market. In the end, the results did show a reduction in small group premiums, but our understanding is that this was due to adjustments made after the initial scenario where the small group premiums were held relatively constant. This approach is notably different than the Gorman Actuarial approach and was solving for a different question than trying to maximize pass-through amounts. In particular, Milliman built into its' estimates of total funding (and thus reinsurance parameters) that issuers would be conservative in their assessment of the impact of the merger and a retrospective premium on their 2022 premiums. Finally, Milliman's analysis was intended to be a high-level approach and based mostly on publicly available information and did not always include the latest information (for example, 2021 rate changes were finalized after their analysis was complete) but these differences have less of an impact on the overall pass-through estimates than the generally conservative approach.

APPROACH ASSESSMENT

Wakely found that, based on the data and approaches used, the pass-through amounts calculated by both Gorman Actuarial and Milliman are not unreasonable in that there were no computational errors or methodological decisions that are unsubstantiated. However, we do believe that the Gorman Actuarial approach better aligns with expectations and prior states' outcomes. First, the data they used is more recent and likely aligns more with the ultimate data that would be used in the Federal calculations of the pass-through. Additionally, their approach did not incorporate conservatism in issuer pricing or setting of parameters. This is the most significant difference in the two approaches.

We believe conservatism should not be included when assessing the pass-through estimates since any conservatism in the initial estimates will most certainly result in lower pass-through amounts and reduce the effectiveness of the program. The inclusion of the assumption that issuers will include conservatism in their pricing can result in a circular feedback loop that can ultimately result in minimal federal pass-through amounts, thereby negating the benefits of a 1332 waiver. The state has a number of policy tools to protect consumers (via rate review process) or its own costs (via changes to reinsurance parameters) that can be used to maximize the impact of the reinsurance program while also balancing the risk among all parties. Finally, issuers may have an incentive to avoid excessive conservatism, whether for competitive pressure, or to avoid large Medical Loss Ratio rebate payments.

If the goal is to maximize the size of the reinsurance program, we recommend an approach that does not include conservatism at the stage where total reinsurance funding is estimated. This is particularly important when setting the reinsurance parameters, which the issuers will use to develop the premium impact of the program. The state and/or MGARA board should have contingency plans for how to approach potential shortfalls in funding if issuers attempt to price conservatively but adding conservatism early on by assuming lower funding and setting higher attachment points will only guarantee lower pass-through amounts. It is our understanding that to date states have generally not included such high levels of conservatism when setting parameters for a retrospective/claims-based 1332 reinsurance. Nonetheless, Wakely does note that the Milliman parameters are a possible outcome (that is, funding would only be available for the parameters provided) if the issuers' final rates include significant conservatism.

Comparison of Assumptions

BASELINE

The following table shows the key assumptions used for the baseline estimates, or what the individual and small group market would be in 2022 without a merged market and without a reinsurance program. While there are other assumptions used in the modeling, the following highlight the key assumptions that most affect the pass-through estimates.

Table 3: Comparison of 2022 Baseline Estimates

2022 Baseline	Gorman Actuarial Estimates	Milliman Estimates
Individual Market		
Average Market Enrollment	65,000	59,300
APTC Enrollment	49,000	46,992
Total Premiums PMPM	$656.81	$779.67
Total APTCs PMPM	$503.51	$589.16
Annual Market Premiums	$512,300,000	$554,800,000
Annual APTCs	$296,100,000	$332,200,000
Small Group Market		
Total Market Enrollment	50,000	49,600
Total Premiums PMPM	$573.17	$611.16
Annual Market Premiums	$343,900,000	$363,800,000

Generally, Gorman Actuarial has higher enrollment and Milliman has higher premiums on a per member per month (PMPM) basis, with Milliman's overall total annual premiums being higher. Similarly, Milliman's APTC amounts are higher. The following compares the detailed assumptions and discusses the reasonability of the assumptions along with how the pass-through is impacted by the assumptions.

- Individual Market
  - Total Market Enrollment – Gorman Actuarial's estimate is almost 10% higher than Milliman's estimate. Gorman Actuarial's estimate is based on March 2020 data from the issuers. Given enrollment in the individual market tends to decrease throughout the year and has been decreasing annually, we would expect the average 2020 enrollment to be lower than 65,000 and reduce even further by 2022. While actual enrollment in the market in 2022 in an unmerged market with no reinsurance is uncertain, the Milliman estimate would be more consistent with historical data and appears to better capture the impact of net attrition that occurs over the course of the year.
  - APTC Enrollment – Similar to the Total Market Enrollment, Gorman Actuarial's APTC enrollment estimates are higher than Milliman's. Given within-year decreases (and general patterns of decreased APTC enrollment there is an expectation for this enrollment to decrease as well. Maine's Medicaid Expansion in recent years does increase uncertainty as to future APTC enrollment patterns. All things equal, a larger number of APTC enrollees would increase pass-through amounts.

- Market Premiums PMPMs – Gorman Actuarial' s PMPMs are based on actual 2019 premiums, adjusted to remove the impact of the reinsurance program, known 2020 and 2021 rate changes, and estimated 2022 rate changes. The primary difference in Milliman's estimate is that the final 2021 rate changes were not known for their analysis. As a result, they used a rate change closer to medical trend for 2021, instead of the actual rate change which was a substantial decrease or 13%. This accounts for the approximate 19% difference in PMPMs between the two estimates.

- APTC PMPMs – The APTC estimates differ by a similar amount to the market premiums and thus likely due to the same driver.

- Total Annual premiums – The combined differences in enrollment and PMPMs results in Milliman's annual premiums being higher by around 8%. All else equal this will lower the impact of a reinsurance program when the amount of state funds is fixed. A quick way to measure the high level impact of the program is to divide the reinsurance funds by the total annual premiums. Thus, the larger the premiums (i.e. the denominator), the smaller the percent impact.

- Total Annual APTCs - The combined differences in ATPC enrollment and PMPMs results in Milliman's annual APTCs being higher by around 12%. All else equal this will increase the pass-through amounts on a dollar basis. For example, if the impact of the reinsurance program is 10% of premiums, the savings in dollars will be around 10% of the APTC amounts; the higher the APTC amounts, the higher the actual savings.

- Additional considerations– Neither Gorman Actuarial or Milliman considered the impact of COVID-19 on individual market enrollment or premiums in its best estimates. Given the uncertainty around how COVID-19 will impact the market in 2022 this is not unreasonable, though some studies estimate an increase in the market due to lost employment coverage. Gorman Actuarial did include a significant amount of scenario testing, including testing for potential, COVID impacts on results.

* Small Group Market

  - Total Market Enrollment – While the small group market has seen enrollment decreases in recent years, the expectation of both Milliman and Gorman Actuarial is that the market has stabilized and their small group enrollment estimates for 2022 were similar.

  - Market Premiums PMPM – Similar to the individual market, Milliman's small group premiums are higher than Gorman Actuarial's. This is likely due to Gorman Actuarial using the most recent insurer data and actual 2021 rate increases compared to Milliman using publicly available data and finishing their analysis before the 2021 rate increases were finalized.

- Total Annual Premiums – Given the higher premiums PMPM, Milliman's total annual premiums are similarly higher. The primary impact this has is on the impact of merging the markets. The extent of this impact depends on how each firm's individual and small group premiums compare to each other. Differences in the relative size of the individual and small group markets will affect the impact of the merger. Gorman Actuarial has the individual market premiums slightly less than 15% higher while Milliman assumed the individual market premiums would be more than 27% higher than small group in 2020. Depending on the underlying assumptions for each market (e.g. demographics), this could drive different impacts of merging the markets.

- Additional considerations – Neither Gorman Actuarial or Milliman considered the impact of COVID-19 on small group market enrollment or premiums. Given the uncertainty around how this will affect the market in 2022, this is not unreasonable, though some studies estimate a decrease in the market due to lost employment coverage. Gorman Actuarial did include a significant amount of scenario testing; including testing for potential COVID impacts on results.

IMPACT OF MERGED MARKET AND MGARA

The following table shows the same key metrics as in the baseline table, and highlights the impact of the merger and reinsurance on each of the metrics. While Gorman Actuarial estimated first the impact of the merger and then the impact of reinsurance on the merged market, Milliman only estimated the combined impact of the merger and reinsurance program. Thus, the focus of our comparison is on the combined impact of the two changes.

Table 4: Comparison of 2022 Impact of Waiver Estimates

2022 With Waiver	Gorman Actuarial Estimates	Compared to Baseline	Milliman Estimates	Compared to Baseline
Individual Market				
Average Market Enrollment	65,000	0.0%	59,300	0.0%
APTC Enrollment	49,000	0.0%	46,992	0.0%
Total Premiums PMPM	$610.40	-7.1%	$756.12	-3.0%
Total APTCs PMPM	$461.97	-8.3%	$578.61	-1.8%
Annual Market Premiums	$476,100,000	-7.1%	$538,100,000	-3.0%

2022 With Waiver	Gorman Actuarial Estimates	Compared to Baseline	Milliman Estimates	Compared to Baseline
Annual APTCs	$271,600,000	-8.3%	$326,300,000	-1.8%
Small Group Market				
Total Market Enrollment	50,000	0.0%	49,600	0.0%
Total Premiums PMPM	$551.67	-3.8%	$592.70	-3.0%
Annual Market Premiums	$331,000,000	-3.8%	$352,800,000	-3.0%

Generally, Gorman Actuarial's impact due to the merger and reinsurance program is larger, primarily due to the conservatism included in Milliman's estimates.

- Individual Market
  - Total Market and APTC Enrollment – While a decrease in premiums can lead to higher enrollment, particularly among the unsubsidized, neither Gorman Actuarial or Milliman assumed that enrollment, subsidized or unsubsidized, would change due to the merger or reinsurance program. Modest increases in unsubsidized enrollment would not have a significant impact on the pass-through estimates.
  - Market Premiums PMPM – Gorman Actuarial assumed that individual market premiums will decrease by 7.1% compared to Milliman's estimate of a 3.0% reduction. This is driven by the expected insurer conservatism that Milliman incorporated into their modeling.
  - APTCs PMPM – The impact of reinsurance (and therefore lower APTC amounts) on APTC enrollees also differed significantly between the two. Gorman Actuarial generally estimated that the reduction in APTC amounts would not result in APTC enrollees exiting the individual market or migrating to lower cost plans. While Milliman estimated that while the reduction in APTC amounts (and therefore net premium increase for these enrollees) would not result in APTC enrollees exiting the market, it would result in them migrating to cheaper plans (i.e., individuals would shift to lower premium plans). This assumption of no APTC enrollment loss and general migration blunts the reduction in PTC savings to the federal government and generally does not align with standard assumptions on APTC enrollment behavior. Milliman estimates that this migration would result in higher APTC amounts than there otherwise would be. The result is that the APTC PMPMs decrease more than premium PMPMs for Gorman Actuarial, while for Milliman premiums decrease more than APTCs. Typically, APTC amounts change at a faster rate than premiums since the net premiums that APTC members pay does not change. Milliman's APTCs are changing by a smaller amount due to the migration assumption. Milliman's approach produces pass-through amounts that

are lower relative to Gorman Actuarial, all things equal. While both approaches have some logic, Gorman Actuarial's approach, to date, has appeared to align more with the Office of Treasury's modeling approach of pass-through amounts. Historically, the federal government has estimated that the percent change in premium tax credits as a result of a reinsurance waiver is higher than the percent change in the second-lowest cost silver plan premium.

  - Total Annual Premiums and APTCs – Since neither firm assumed enrollment changes due to the merger and reinsurance, the annual changes are the same as the PMPMs on a percentage basis. The difference in total annual baseline and waiver APTCs is the key calculation that CMS uses in the calculation the pass-through amount, as noted in Table 2. Gorman Actuarial's difference in APTCs is $24.5 million while Milliman's is $5.7 million.

- Small Group Market

  - Total Market Enrollment – Similar to the individual market, neither firm assumed changes in small group enrollment because of the merger and reinsurance program.

  - Market Premiums PMPM – The premium impact for the small group market was similar for the two firms with Gorman Actuarial at a 3.8% reduction and Milliman with a 3.0% reduction. As noted, Milliman initially modeled the program assuming no change to small group premiums, but later refined some assumptions, which resulted in the small group reductions.

  - Total Annual Premiums - Since neither firm assumed enrollment changes due to the merger and reinsurance, the annual changes are the same as the PMPMs on a percentage basis.

- Additional Considerations

  - Transition of Prospective to Retrospective Reinsurance - One policy that Maine is additionally considering implementing is shifting from the current prospective model to a retrospective model. Currently, issuers are reimbursed for high claims on policies that have been ceded to the program, either mandatorily based on certain medical conditions or voluntarily based on the issuer's underwriting judgment. Issuers pay a ceding premium to assist in the funding of the program and to limit discretionary ceding to policies identified by the issuer as high-risk. A retrospective reinsurance program would pay some portion of claims cost for high cost enrollees, regardless of their health condition or risk status at the time of enrollment.

    Gorman Actuarial did extensive analysis on the impact of ending ceded premiums as part of a reinsurance program. Gorman Actuarial estimated that individual market premiums would be about the same with and without ceding premiums.

This is because the loss of reinsurance payments due to optional ceding is offset by the gains in revenue from not ceding the premiums to the state.

Milliman estimated that the change would negatively affect the pass-through. Milliman assumed that the removal of ceding premiums would reduce funding and result in a higher attachment point (the higher attachment point was a result of direction that the coinsurance should not be altered). This higher attachment point would result in issuers' being more conservative in terms of the impact of reinsurance on their claims cost. The higher uncertainty reduced the impact of reinsurance on premiums. This feedback loop of higher uncertainty leading to reduced impact of reinsurance in rates, reduced impact on rates yielding fewer pass-through dollars, fewer pass-through dollars yielding greater uncertainty, etc. resulted in fewer pass-through dollars. While mechanically both approaches are actuarially reasonable, many of the effects of Milliman's modeling could be altered through different policy decisions. While we agree that a higher attachment point could yield uncertainty, a lower attachment point (and smaller coinsurance) could be utilized. Additionally, rate review by the part of the state could be used to reduce inclusion of conservatism by issuers in regards to reinsurance payments.

- Medicaid Expansion – For the most part, both firms assumed that the impact of Medicaid expansion was fully included in the 2020 enrollment and premium estimates. For the impact of the merger, Gorman Actuarial did assume a small additional adjustment to claims, assuming that their historical claims would be impacted for improved morbidity with the migration of lower income members out of the individual market and into Medicaid.

IMPACT OF ASSUMPTIONS ON PASS-THROUGH ESTIMATES

There are two additional assumptions that can impact the pass-through estimates once the difference in APTCs has been determined.

- APTC to PTC adjustment – Both firms assumed similar APTC to PTC ratios. Wakely found the assumptions reasonable. The exact ratio the federal government will apply for future years is unknowable at this time.

- User Fee offset - Since the federal pass-through is a calculation of federal savings, reduction in premiums for states that utilize the healthcare.gov platform would reduce federal revenue through reduced user fee collections. Gorman Actuarial included such a reduction in its estimates while Milliman did not. Wakely believes that reduction in user fees is the appropriate calculation, but notes that if Maine becomes a state-based Marketplace that does not utilize the federal platform, no reduction for user fees would be applicable in the calculations.

Overall Wakely found that the two consultants had multiple differences in assumptions in estimating the initial baseline and the impact of a merged market and reinsurance on premiums. Given the relationship between the calculation of reinsurance funding and the impact of reinsurance can be endogenous, multiple potential outcomes can occur. In the case of Gorman Actuarial, their approach assumed the state would set parameters to maximize pass-through amounts and issuers would not include conservatism in estimating the impact of reinsurance. Conversely, Milliman assumed issuer conservatism and set reinsurance parameters in a way that assumed issuer conservatism. While both outcomes are possible, Wakely believes that the situation described by Gorman Actuarial most aligns with Maine's previous experience and more generally, aligns with other states pass-through experiences.

While Wakely believes that the impact of conservatism is likely the largest assumption difference between the two estimates, a number of other assumptions and estimates differed between the two that affected the pass-through amounts as seen below.

Table 5: Comparison of Key Assumptions and their Pass-Through Impact

Factor	Gorman Actuarial v. Milliman	Wakely Estimated Impact of Assumption on Pass-Through
Higher Premiums	Milliman had higher premiums	Decreases
Ratio of APTC to premiums	Milliman higher	Increases
Conservative issuer expectations	Milliman more conservative	Decreases
Prospective v. retrospective coverage (ceding premiums)	Milliman believes lower funding	Insufficient data (Milliman's assumption does decrease the premium)
Include offset for user fees	Gorman Actuarial Included	Decreases (More Accurate as long as Maine is using the federal platform
APTC leveraging/bronze migration	Milliman included	Decreases

Additional Considerations

Beyond the key assumptions discussed above, Wakely would also note several other key assumptions made in the analysis.

- Both consultants assumed that the merged market effects would be included in the waiver rather than the baseline. If this is not how the ultimate waiver would be constructed, the pass-through estimates may differ and would need to be re-estimated. Furthermore, if CMS uses a different methodology in calculating the pass-through than assumed by the consultants it could also result in different pass-through amounts. In addition, both firms assumed that the $4 PMPM assessment would be included in the baseline and would not offset the premiums savings. This is consistent with the legislative language related to the assessment.

- Neither consultant included the effects of the potential move of Maine to a state-based Marketplace (SBM). If Maine operates its own marketplace, pass-through amounts, all things equal, would increase since the loss of federal user fees due to the waiver would no longer be included in the pass-through calculations. Gorman Actuarial included the impact of user fee reductions in its calculations. Therefore, if Maine transitioned to an SBM, Gorman Actuarial's estimates should be adjusted upward. Milliman did not include a user fee reduction in its pass-through calculations and therefore would be unaffected by the potential change.

- Both consultants assumed that silver-loading would continue for individual products sold on the Exchange. It is possible that under certain merged market scenarios, silver-loading is reduced by the transition to a merged market (since some costs may be spread across small group silver premiums also). If this assumption is not accurate, the pass-through may be less than estimated, all things equal.

- Both firms estimated the reinsurance parameters under the merged market. Milliman, in discussions with the MGARA Board, assumed that the coinsurance would continue at its current level: 90%. As a result of the decision to maintain the high coinsurance rate and the projected lower total funding, Milliman's estimated attachment point, or the point at which issuers are reimbursed for high cost claims, is considerably higher than Gorman Actuarial's example set of parameters. Specifically, Milliman assumed an attachment point of $350,000 with 90% coinsurance. Gorman Actuarial, assuming higher total funding, stated an example set of parameters that would cover 50% of claims between $100K and $250K and 40% of claims above $1 million. Actual attachment points and coinsurance rates are a policy choice and could be set in a variety of different ways.

Appendix A: 1332 Waiver Overview

The ACA permits states to waive certain provisions of the ACA in order to increase access to affordable coverage. However, in order for both of the Secretaries of Health and Human Services (HHS) and Treasury to approve of the waiver, the State must complete an application in which it demonstrates that it has met the regulatory requirements.

In order for a 1332 waiver to be approved, the State must demonstrate that the waiver does not interfere with the four “guard rails”. The four guard rails are defined as:

- Coverage (there must be at least a comparable number of individuals with coverage under the waiver);
- Affordability (waiver must not increase out of pocket spending including premiums and cost sharing);
- Comprehensiveness (the waiver should not decrease the number of individuals with coverage that meets the essential health benefits (EHB) benchmark); and
- Deficit neutrality (the waiver should not increase the federal deficit).

States may receive funds from the Federal Government, often referred to as “Pass-Through” funds, commiserate with the federal savings the state waiver achieves.

Appendix B: Reliances and Caveats

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

- Publicly available reports and documents produced by Gorman Actuarial and Milliman, related to the merger and pass-through estimates, as well as State of Maine documents[9]
- Responses by Milliman and Gorman Actuarial as to their methodology, assumptions, and estimates for the impact of the merged market and reinsurance
- CMS' Effectuated Enrollment Report[10]
- CMS' Open Enrollment Report[11]

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

- Data Limitations. The entire year of 2020 was not yet available. As a result, there is uncertainty on attrition patterns or other changes to the 2020 year. Changes to base estimates could influence estimates. Furthermore, the Federal government has not released 2021 pass-through amounts yet. Differences in current pass-through amounts could indicate changes in methodology
- Political Uncertainty. There is significant policy uncertainty. Future federal actions such as additional unemployment insurance payments, or other Federal actions could change the estimates enclosed in this report. Additionally, the timing of the end of the Federal emergency declaration over COVID-19 could affect enrollment.
- Enrollment Uncertainty. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual enrollee and employees' responses to these changes also has uncertainty. There is considerable uncertainty as to enrollment patterns due to the economic downturn in both the individual and small group markets.
- Premium Uncertainty. Given the potential change in enrollment, metal level enrollment decisions or other enrollment decisions could influence the average premium in the market.

[9] https://www.maine.gov/pfr/insurance/legal/notices/maine_health_ins_pooled_market_option.html

[10] https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/Early-2020-2019-Effectuated-Enrollment-Report.pdf

[11] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Marketplace-Products/2020-Marketplace-Open-Enrollment-Period-Public-Use-Files

- Economic Uncertainty. There remains considerable uncertainty as to the economic conditions in 2021, which could impact the number of uninsured as well as ESI coverage, which could impact enrollment levels.

Appendix C: Disclosures and Limitations

Responsible Actuaries. Julie Peper is the actuary responsible for this communication. She is a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. She meets the Qualification Standards of the American Academy of Actuaries to issue this report. Michael Cohen contributed significantly to the analysis and memo.

Intended Users. This information has been prepared for the sole use of the state of Maine. 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 Maine or the issuers 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. Wakely provides actuarial services to a variety of clients throughout the health industry. Our clients include commercial, Medicare, and Medicaid health plans, the federal government and state governments, medical providers, and other entities that operate in the domestic and international health insurance markets. Wakely has implemented various internal practices to reduce or eliminate conflict of interest risk in serving our various clients. Except as noted here, the responsible actuary is financially independent and free from conflict concerning all matters related to performing the actuarial services underlying this analysis. In addition, Wakely is organizationally and financially independent of the state of Maine.

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 ‘Reliances and Caveats’ section 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. In addition, any changes in issuer actions as well as complete 2020 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.

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

ASOP No. 56, Modeling