COVERED CALIFORNIA POLICY AND ACTION ITEMS

June 15, 2017 Board Meeting

COVERED CALIFORNIA 2017-18 PROPOSED BUDGET AND 2018 ASSESSMENT RATES

Jim Lombard, Chief Financial Officer, Financial Management Division

Action

REVIEWED AT MAY BOARD MEETING

- Covered California: Financial Guiding Principles
- FY 2016-17 Financial Update
- FY 2017-18 Proposal Overview
- Enrollment Forecast
- FY 2017-18 Proposed Expenditures
- 2018 Assessment Rate Recommendation
- Multi-year Forecast

FY 2017-18 HIGHLIGHTS

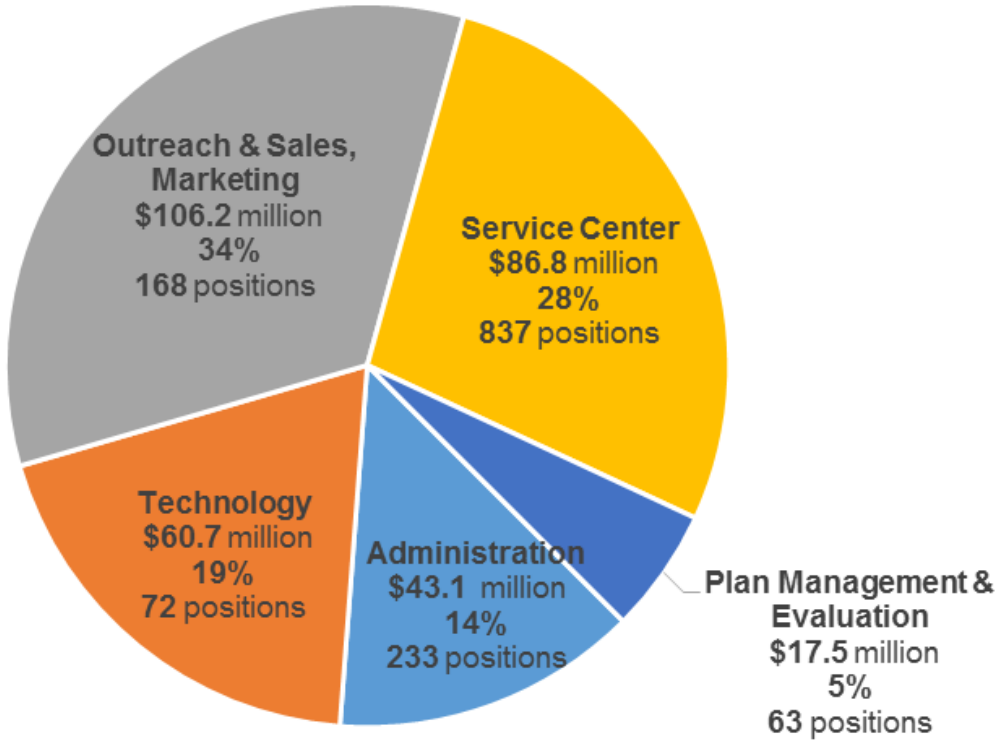
- The Board is being asked to formally set the Exchange's enrollment assessment rates for benefit year 2018, and is also being asked to formally approve the Budget for Fiscal Year (FY) 2017-18.
- Covered California's Proposed FY 2017-18 Budget of $313.9 million and 1,368 positions was submitted for your consideration at the May Board meeting.
- Subsequent to the issuance of the Proposed FY 2017-18 Budget there have been minor program changes, totaling approximately $382,000, for a total revised FY 2017-18 Budget of $314.3 million and 1,373 positions.
- In FY 2017-18 we project that revenue will exceed expenditures as Covered California continues to be funded entirely on health plan premium assessments.
- The budget proposes continuation of the 4 percent of premium assessment on those enrolled in Covered California plans, or about 2.5 percent when you also consider those enrolled in mirrored products off the exchange.
- While there is substantial uncertainty, the budget considers the possibility of policy changes and Covered California expects to begin FY 2017-18 with almost $289 million in reserves providing the ability to react to any changes in health care laws or policies.

INDIVIDUAL ENROLLMENT FORECAST (No Changes from May 2017)

- Covered California completed its third renewal period and fourth open enrollment with total enrollment estimated at 1.4 million, confirming the entry into a phase of enrollment stability
- To perform the current forecast, the enrollment model was revised to incorporate four years of experience and better understanding of enrollment activities
- The Base Estimate forecast is influenced in particular by the dampening impact of more stringent validation of special enrollment applications, offset by the positive impact of the increase in the minimum wage discussed in an analysis prepared by PwC in 2016
- The greatest uncertainties in the enrollment outlook stem from potential major federal legislative action to change key provisions of the ACA
- The forecast incorporates additional analysis by PwC to model the impact of the elimination of the individual mandate in the Low scenario
- The High scenario models a change in the ACA policy of using the cost of the self-only premium to determine affordability of employer sponsored insurance, raising the number of individuals eligible for exchange subsidies, combined with a stronger minimum wage impact
- Low, Base Estimate and High scenario enrollment forecasts are as follows:

Effectuated Enrollment (fiscal year end)	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Low	1,375,073	862,401	692,555	617,457	595,338
Base Estimate	1,375,073	1,321,919	1,305,646	1,311,360	1,333,280
High	1,375,073	1,332,407	1,472,568	1,594,449	1,685,158

FISCAL YEAR 2017-18 FINAL PROPOSED BUDGET OF $314.3 MILLION AND 1,373 POSITIONS



- The Proposed FY 2017-18 Budget includes: over $106 million for marketing and outreach, including a $6.5 million Navigator program and $41 million for paid media; $86 million for our service center, to promote enrollment and retention of consumers, a critical ingredient to assuring a good risk mix which helps keep premiums low for all consumers.
- The budget proposes $3.3 million to continue the Health Care Evidence Initiative that provides data analytics and modelling to inform public and private policy makers about issues related to disparities of care, value based benefit design and care delivery
- Continues investment in IT infrastructure to drive efficiencies throughout the organization and provide better customer service

SUMMARY OF BUDGET CHANGES FROM MAY PROPOSAL TO FINAL RECOMMENDATION

	May Proposed	June Revision	Final Proposed
Service Center	$ 85,943,965	$ 900,000	$ 86,843,965
Technology	$ 63,554,106	$ (2,900,067)	$ 60,654,039
Outreach & Sales, Marketing	$ 104,908,640	$ 1,282,189	$ 106,190,829
Plan Management & Evaluation	$ 15,486,338	$ 2,000,000	$ 17,486,338
Administration	$ 43,982,456	$ (900,000)	$ 43,082,456
Total Expenses	**$ 313,875,505**	**$ 382,122**	**$ 314,257,627**

The Final Proposed Budget contains net adjustments from the May Proposed Budget of approximately $382,000, including:

- An additional four staff to address workload in the Ombudsman's office
- One additional staff in Marketing to oversee the Spanish language marketing effort
- Fill the Health Equity Officer position in plan management to assist and serve as an organizational resource on health equity issues
- The movement of $4.1 million in IT project costs from Technology to the programs, including $2 million to Plan Management & Evaluation for the automation of a significant portion of special enrollment verification and $550,000 to Outreach & Sales, Marketing for upgrades to our web site
- The movement of $1.2 in contractual expenditures from Administration to Technology to be managed by the newly established Enterprise Project Management Office in IT

ASSESSMENT RATE RECOMMENDATION (No Changes from May 2017)

- Based on Covered California's longstanding multi-year fiscal strategy to break even in FY 2017-18 and to maintain prudent levels of reserves, staff recommend that the assessment rate for the individual market be set at 4.0% of premiums and the rate for CCSB policies be set at 5.2% of premiums for the 2018 plan year
- Analyses have indicated that reserve levels should be maintained at ~12 months
- The 2018 assessment rate recommendation puts Covered California in a position where revenues will exceed expenditures in FY 2017-18, puts reserves at an appropriate level to react to changes in health care laws or policies, and provides the opportunity to reduce the assessment in coming years
- Based on current Base Estimates, the table below illustrates the potential changes to Covered California's assessment over the next four years

Plan Year	2018	2019	2020	2021
Plan Assessment Rate	4.00%	3.75%	3.50%	3.25%
Plan Assessment Rate On/Off Exchange	2.49%	2.33%	2.17%	2.03%
Premium Growth Assumptions	9.00%	7.00%	7.00%	7.00%

MULTI-YEAR FINANCIAL OUTLOOK–BASED UPON BASE ESTIMATE SCENARIO

Dollars in Millions

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Effectuated Enrollment (fiscal year end)	1,375,073	1,321,919	1,305,646	1,311,360	1,333,280
Opening Balance	$325.1	$288.9	$289.0	$297.7	$308.8
Plan Assessments-Cash Basis	$237.6	$314.4	$325.8	$331.0	$331.9
Expenditures Projected	($273.8)	($314.3)	($317.0)	($320.0)	($323.0)
Year-End Operating Reserve	$288.9	$289.0	$297.7	$308.8	$317.7
Number of months of reserve	**11.0**	**10.9**	**11.2**	**11.5**	**11.7**

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- Revenues from plan assessments exceed expenditures in FY 2017-18
- Maintains reserves at a prudent level of approximately 11-12 months over the term of the outlook
- The Base Estimate projects premium increases at medical trends and assumes growth rates in medical premiums of 7 percent, with 2018 including a projected 2 percent additional one-time increase due to the end of the federal health insurance tax
- Assessments are at the recommended rates of 4 percent for the individual market and 5.2 percent for the small business market in 2018, with possible reductions in the out years for the individual market

RECOMMEND APPROVAL OF COVERED CALIFORNIA FISCAL YEAR 2017-18 BUDGET

Staff recommends that the board adopt Board Resolution 2017-32 to:

- Approve the Budget for Fiscal Year 2017-18, providing expenditure authority of $314,257,627.
- Grant authority to the Executive Director to make adjustments to the budget, provided that 2017-18 expenditures remain at or below the level of expenditure authority approved by the Board; and that any material adjustments to program budgets and positions must be reported to the Board.
- For plan year 2018, charge a per-member per-month assessment of 4.0% of premiums on Qualified Health Plans, including dental plans and 5.2% of premiums for such plans sold through Covered California for Small Business.

UPDATE TO THE 2018 PATIENT-CENTERED BENEFIT PLAN DESIGNS

James DeBenedetti, Director, Plan Management Division

Action

COVERED CALIFORNIA FOR SMALL BUSINESS (CCSB) SILVER HDHP UPDATE

- The IRS released the 2018 HDHP minimum deductible limits in Revenue Procedure 2017-37 on May 4th.
- The minimum deductible for a family increased from $2600 to $2700
- The individual-in-a-family deductible in the CCSB Silver HDHP will be changed to comply with federal law:

Deductible Type in CCSB Silver HDHP	Amount
HDHP Individual deductible	$2000
HDHP Family deductible	$4000
HDHP family plan: Individual deductible	~~$2600~~ $2700

- The plan design and Endnote #5 have been updated to reflect the change.

2018 DENTAL BENEFIT DESIGNS

Adult Coinsurance Plan

- Diagnostic and Preventive Services within the Procedure Category have been updated to reflect the same cost share as other services within the Diagnostic and Preventive Services Procedure Category, if covered:
  - Sealants per Tooth
  - Topical Fluoride Application
  - Space Maintainers – Fixed

Updated Actuarial Value

- The AV Certification was received after the Dental Standard Benefit Design was approved and has been updated for Children's and Adult Coinsurance and Copay Plans

End Notes

- Clarifying language to provide guidance on changes to Codes on Dental Procedures and Nomenclature (CDT-18)
  - The plans shall use either the 2017 CDT codes as they appear in this Standard Benefit Design, or the updated 2018 CDT codes at their discretion. Covered California understands that plans may want to use the updated 2018 CDT codes, to the extent that these codes do not diminish the benefits required in the Benchmark Plan. Covered California requests that the plan remain consistent in their use of one of the years CDT codes within a benefit design.
- End Note 14 has clerical updates to match the 2018 Copayment Schedule approved at the March Board Meeting

APPROVAL OF REVISIONS TO QHP ISSUER CONTRACT, INCLUDING COST-SHARING REDUCTION PROVISIONS

James DeBenedetti, Director, Plan Management Division

Action

COST SHARING REDUCTION PAYMENT: BACKGROUND

- The Affordable Care Act includes two types of financial support for those who qualify: monthly premium support (Advanced Premium Tax Credit or APTC) and Cost Sharing Reductions (CSRs) available only to Silver Plan members when they seek care.
- Right now the Administration has only committed to funding CSRs through the month of May 2017 with no guarantee it will continue. This subsidy is worth approximately $750 million to California's contracted health plans.
- Because Covered California is currently negotiating premium rates for the entire 2018 plan year, and premiums cannot change mid-year, a solution that takes into account the potential for non-payment of CSRs is needed to mitigate uncertainty.

COST SHARING REDUCTION PAYMENT CONTINGENCY PLAN PROPOSAL:

- Covered California issuers shall submit two rates: (1) a base rate assuming current CSR payments; and (2) a second set of rates they would charge if the CSR program is not funded. The rate increase attributable to the CSR program shall be loaded on the standard Silver Qualified Health Plan (QHP), including the mirrored Silver Qualified Health Plan sold off-exchange. Both rates, when finalized, would be submitted to the regulators in mid-July.
- In addition, as a condition of participation in Covered California, staff is seeking Board approval to amend its contracts with issuers to require them to offer an additional, separately rated, non-mirrored Silver plan outside of Covered California that is virtually identical to the Covered California Patient-Centered Benefit Design if the CSR program is not funded. This product would not include any load for the CSR program.
- In absence of clear and reliable federal guidance, Covered California will have plans move forward with rates for 2018 on the assumption that CSR's will not be directly funded through 2018 and the costs for the program will be built into rates. The deadline for the decision is under review and likely mid-August.

COST SHARING REDUCTION PAYMENT CONTINGENCY PLAN: RATIONALE AND STRATEGY FOR PROPOSAL

- This policy most clearly represents the stated intent of the Affordable Care Act and reflects federal regulations related to the fact that cost sharing designs and actuarial values are factors applicable to plan-specific pricing.
- Loading CSR costs onto Silver plans has a very different effect for the APTC recipients than for the non-APTC recipients.
  - For APTC recipients, the amount spent on premiums is a % of income based on the second lowest Silver plan in their service area, no matter how much the premium costs. If premiums go up due to CSRs being “loaded” (i.e., built into) the cost of the Silver QHP, the consumer should be insulated from this additional cost as it will be covered by additional APTC.
  - Those under 250% Federal Poverty Level (FPL) will still get the benefit of Cost Sharing Reductions, even if they are not funded by the federal government.
  - The non-APTC population pay the entire cost of the premium. Loading the CSR onto the premium for the silver QHP would increase their premiums by ~17% - with NO commensurate increase in value – unless that consumer chooses a health plan without the CSR load. (http://www.coveredca.com/news/pdfs/CoveredCA_Consequences_of_Terminating_CSR.pdf)

COST SHARING REDUCTION PAYMENT CONTINGENCY PLAN: RATIONALE AND STRATEGY FOR PROPOSAL, CONT.

- By providing for an off-exchange almost identical product without the CSR load, Covered California is mitigating the impact on unsubsidized individuals.
  - Covered California will actively encourage its enrollment that is non-APTC eligible to move off-exchange to the new (nearly identical) Silver product. Because of mirror product pricing, consumers in mirror off-exchange Silver will experience large price increases and will be encouraged by every method possible to sign up for the new Silver product as well.

COST SHARING REDUCTION CONTINGENCY PLAN: IMPLEMENTATION ISSUES

- Need for an additional, separately rated, non-mirrored Silver plan.
  - Covered California proposes using the same cost-sharing for all services as the standard Silver 70 plan, with one difference: Emergency medical transportation increase from $250 to $255 copay after deductible.
  - All other off-exchange non-QHPs would also NOT have the load for CSRs.
- Need for clear consumer communications – regarding (1) application of APTC to cover increased cost for subsidies; (2) impact (positive and negative) of different tier selection given higher total APTC; (3) options for non-APTC individuals to maintain or change plans and not incur CSR load:
  - Plan naming conventions
  - Renewal notices
  - Marketing materials
  - Agents/outreach partner materials
- Target date for deciding which set of premiums to use (needs “last possible” in concert with state regulators)
- Auto Enrollment – consideration of potential auto-enrollment of non-APTC Covered California Silver consumers in near identical off-exchange product with same carrier

COST SHARING REDUCTION CONTINGENCY PLAN: AUTO ENROLLMENT CONSIDERATIONS

- Auto enrollment from an issuer's off-exchange plan into its near identical off-exchange plan requires approval from California State regulators
- Auto enrollment of an unsubsidized exchange member into a near identical off-exchange plan requires approval both from California State Regulators and from the U.S. Department of Health and Human Services
- Issues with auto-enrollment:
  - Individuals who leave the exchange through this process cannot re-enroll with Covered California through the standard Special Enrollment Period (SEP) process if they experience certain life events:
    - Loss of income or change in federal poverty level (FPL)
    - Loss of a dependent, or no longer covered by a dependent, through divorce, separation, or death.
  - In these circumstances, Covered California could provide the consumer with an "exceptional circumstance" SEP event, allowing them to return to the exchange.

PROPOSED CONTRACT LANGUAGE

3.2.2 Standard Benefit Designs and Off-Exchange Silver Plan

a) During the term of this Agreement, Contractor shall offer the QHPs identified in Attachment 1 and provide the benefits and services at the cost-sharing and actuarial cost levels described in the Benefit Plan Design summarized at Attachment 2 ("Benefit Plan Designs"), and as may be amended from time to time under applicable laws, rules and regulations or as otherwise authorized under this Agreement.

b) During the term of this Agreement, for any plan year that the cost of the cost-sharing reduction program is built into the premium for Contractor's Silver-level QHPs, Contractor shall offer a non-mirrored, Silver-level plan, that is not a QHP, outside of Covered California that complies with the benefits and services at the cost-sharing and actuarial cost level described in the plan design at Attachment 3 ("Off-Exchange, Non-Mirrored Silver Plan Design"). This plan must not have any rate increase or cost attributable to the cost of the cost-sharing reduction program.

3.2.3 Offerings Outside of the Exchange

a) Contractor acknowledges and agrees that as required under State and Federal law, QHPs and ~~substantially similar~~ plans that are identical in benefits, service area and cost sharing structure offered by Contractor outside the Exchange must be offered at the same premium rate whether offered inside the Exchange or outside the Exchange directly from the issuer or through an Agent.

Link to current 2017-2019 Individual QHP contract (bottom right of page): http://hbex.coveredca.com/insurance-companies/