



COVERED
CALIFORNIA

COVERED CALIFORNIA POLICY AND ACTION ITEMS
August 17, 2017 Board Meeting

2017-2019 QUALIFIED HEALTH PLAN ISSUER CONTRACT AMENDMENT FOR 2018

James DeBenedetti, Director of Plan Management Division

Action

2018 PLAN PARTICIPATION AND CONSUMER PRICE MODERATION: CONTRACT PROVISIONS

- Carriers could have increased rates significantly or exited the Exchange in light of continued uncertainty at the federal level and the potential for losses in 2018.
- To mitigate this risk, **Covered California has proposed new contract language that would allow issuers that incur losses in 2018 due to enrollment changes and certain federal laws and policies to increase its profit margin to recoup such losses** over the course of three years (plan years 2019, 2020, 2021)
 - Issuers incurring losses in 2018 due to changes in federal policy or enrollment levels may increase profit margins in 2019-2021
 - Issuers receiving profits due to uncertainty should factor such profits into a reduction of its premium rates over the next one to three plan years
 - Covered California will utilize the annual negotiation process to consider the duration and amount to supplement issuer profit margins for building or maintaining adequate reserves or to deduct the unanticipated 2018 profits from the issuer's future profit margins
 - If this process is invoked, Covered California would convey to the regulator its perspective on the reasonableness of profit margins given the exceptional circumstances as they conduct their own independent review

2018 PLAN PARTICIPATION AND CONSUMER PRICE MODERATION: FULL TEXT OF CONTRACT LANGUAGE

“In the Exchange’s review of the detailed rationale for each plan’s rate development, it has generally taken the view that absent extraordinary circumstances, as determined by the Exchange, profit margins over the range that have historically been considered to be reasonable would be unacceptable. The Exchange understands that considerable uncertainty exists with respect to potential enrollment changes and certain federal laws and policies that may impact premium rates for the 2018 plan year. The Exchange recognizes that “pricing for this uncertainty” could lead health plans to increase premiums in amounts that would have immediate and significant harmful impacts on consumers. In the context of this uncertainty and in recognition of Contractor’s establishing prices for the 2018 year to allow for that heightened ~~with higher than usual levels of~~ uncertainty, should Contractor incur additional losses in plan year 2018 due to shifts in federal policy and other uncertainties ~~these uncertainty factors~~, the Exchange may allow Contractor ~~may~~, over the course of the next three years (plan years 2019, 2020 and 2021), to increase its profit margin to recoup such losses. Likewise, should Contractor receive profits due to shifts in federal policy and other uncertainties ~~these uncertainty factors~~, Contractor should factor such profits into a reduction of its premium rates over the next one to three plan years. These adjustments shall be consistent with applicable state and federal laws, including the medical-loss ratio laws. The Exchange will utilize the annual negotiation process in future years to consider the duration and amount to supplement Contractor’s profit margins that may be appropriate to recoup such losses for the purpose of building or maintaining adequate reserves; or to deduct the unanticipated profits for the 2018 plan year from Contractor’s profit margins. In doing so, the Exchange will consider the Contractor’s documented historic profit margin with the Exchange and the need for Contractor to maintain sufficient regulatory reservessurplus. The parties understand that California’s insurance regulators – the Department of Managed Health Care and the California Department of Insurance – conduct their own independent review of rates subsequent to the parties’ negotiation. In the event the Contractor ~~seeksneeded~~ to invoke this contract provision ~~process~~, the Exchange would convey to the regulator its perspective on the reasonableness of profit margins and reserves given the exceptional circumstances.”

2017/18 BUDGET AMENDMENT

Jim Lombard, Director of Financial Management Division

Action

FY 2017-18 BUDGET UPDATE

- In June the Board formally set the Exchange's enrollment assessment rates for benefit year 2018, and approved the Budget, in the amount of \$314,257,627, for Fiscal Year (FY) 2017-18.
- Subsequent to the approval of the Budget there continues to be significant uncertainty at the federal level, in particular regarding the funding of the cost-sharing reduction subsidy program.
- Additionally, Anthem reducing its coverage areas in 2018 will lead to a large number of consumers both shopping for new plans and considering moving to plans that provide the best value.
- In order to mitigate the impact of these events Covered California is proposing an incremental increase of the budget of \$5.3 million for marketing activities during its upcoming open enrollment period.
- Including the additional marketing expenditures, the Proposed Amended Budget is \$319,557,627.
- While there is substantial uncertainty, Covered California remains in a sound position to respond to policy changes and will still close out FY 2017-18 with almost \$292 million in reserves, providing the ability to react to any changes in health care laws or policies.
- The multi-year forecast projects revenue will exceed expenditures in FY 2018-19 and that healthy levels of reserves will be maintained throughout the forecast and Covered California would still be able to reduce its plan assessment in coming years.

ELEMENTS OF PROPOSED INCREMENTAL MARKETING BUDGET SPEND

Increase Paid Media

- TV and Radio – higher weight levels for the weeks of 11/1, 11/6, 1/22 and 1/29
- Targeted Regional buys due to Anthem reducing its footprint
- Asian in-language Digital & Print
- Paid Social spend

Direct Mail

- Target off-exchange consumers to assure they maintain coverage
- Target specific consumer groups affected by CSR load
- Expanded direct mail to key prospects
- Additional outreach to “funnel” consumers for conversion around key deadlines

SUMMARY OF BUDGET CHANGES FROM JUNE AUTHORIZED TO PROPOSED AMENDED

	June Authorized	Budget Adjustment	Proposed Amended
Service Center	\$ 86,843,965	\$ -	\$ 86,843,965
Technology	\$ 60,654,039	\$ -	\$ 60,654,039
Outreach & Sales, Marketing	\$ 106,190,829	\$ 5,300,000	\$ 111,490,829
Plan Management & Evaluation	\$ 17,486,338	\$ -	\$ 17,486,338
Administration	\$ 43,082,456	\$ -	\$ 43,082,456
Total Expenses	\$ 314,257,627	\$ 5,300,000	\$ 319,557,627

- The Proposed Amended Budget contains a proposed addition of \$5,300,000 to the June Authorized Budget to fund additional marketing efforts in open enrollment that will help mitigate the impact of market and product changes caused by:
 - Increased levels of uncertainty from the lack of clarity surrounding how the federal government will fund the cost sharing reduction subsidy program, and enforcement of the penalty
 - Anthem's reduced coverage in 2018, resulting in impacted consumers shopping for a new plan

REVISED 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)	1,371,949	1,321,919	1,305,646	1,311,360	1,333,280
Opening Balance	\$325.1	\$296.7	\$291.6	\$300.4	\$311.4
Plan Assessments-Cash Basis	\$242.1	\$314.4	\$325.8	\$331.0	\$331.9
Expenditures Projected	(\$270.4)	(\$319.6)	(\$317.0)	(\$320.0)	(\$323.0)
Year-End Operating Reserve	\$296.7	\$291.6	\$300.4	\$311.4	\$320.3
<i>Number of months of reserve</i>	11.1	11.0	11.3	11.6	11.8
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%

- The revised multi-year outlook now incorporates final year-end assessments and expenditures for FY 2016-17, resulting in an opening balance in FY 2017-18 of \$296.7 million, approximately \$7 million higher than originally projected
- Revenues from plan assessments would fall slightly short of expenditures in FY 2017-18 if Covered California spends all budgeted amounts, but are expected to exceed expenditures in FY 2018-19 and in past years Covered California has generated savings from planned budgets
- The forecast continues to maintain reserves at a prudent level of approximately 11-12 months over the term of the outlook

RECOMMEND ADOPTION OF COVERED CALIFORNIA FISCAL YEAR 2017-18 BUDGET

- Staff recommends that the board adopt Board Resolution 2017-37 to:
- Revise the Budget for Fiscal Year 2017-18, providing an additional expenditure authority of \$5,300,000 for marketing, resulting in total expenditure authority of \$319,557,627.
- Continue the grant of authority to the Executive Director in Board Resolution 2017-32 to make adjustments to the Budget, provided that the 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.
- Continue the same per-member per-month assessment for plan year 2018 in Board Resolution 2017-32 of 4% of premiums on Qualified Health Plans, including dental plans, sold through the individual exchange and 5.2% of premiums for such plans sold through Covered California for Small Business.

INDIVIDUAL ELIGIBILITY AND ENROLLMENT REGULATIONS READOPTION

Bahara Hosseini, Legal

Discussion

PASSIVE HEALTH PLAN REPLACEMENT POLICY

- Due to the number of enrollees affected by Anthem's service area reduction for 2018, a passive renewal policy is needed for enrollees who lose access to their health plan. This will ensure coverage is maintained for enrollees who do not actively select a replacement.
- Covered California will implement an active outreach program to promote shopping by individuals who no longer have the option of remaining with their current health plan.
- To maximize both affordability and continuity, enrollees who do not actively select a replacement will be enrolled in one according to the following criteria / hierarchy. They will retain the ability to change this selection at any time during their renewal and open enrollment periods.
- The enrollee will be placed in the lowest premium health plan that is:
 1. The same metal tier (if available)
 2. From the same issuer (if available)
- Due to the wide variability in provider network sizes (e.g., some HMO networks are larger than some EPOs and PPOs in the same region), product types (HMO, EPO, PPO) will not be used as a criteria for passive enrollment into a replacement plan.

INDIVIDUAL ELIGIBILITY AND ENROLLMENT PROPOSED REGULATORY CHANGES

- Clarifying Income Inconsistency Process
 - Covered California is adding language to regulations that clarifies the manual income verification process. If a consumer does not pass automated verification through the Federal HUB with the 25% threshold, Covered California will ask them to provide documentation. This documentation must show an income within 10% of their attested income in order to be manually passed as verified.
- Proration of Premiums
 - Covered California is adding proration language to the regulations that will require carriers to prorate premiums for all transactions that result in a mid-month enrollment or termination. Some examples of mid-month transactions are appeals, birth, death, etc.
- Revising the Passive Renewal Regulations
 - Covered California is revising the passive renewal process. Consumers who do not actively renew their coverage for 2018 will be auto-renewed (cross-walked) into available plans and/or carriers, based on the approved hierarchy.

INDIVIDUAL ELIGIBILITY AND ENROLLMENT

PROPOSED REGULATORY CHANGES CONTINUED...

- Over-Age Dependent Age-Out Renewal Process
 - Covered California is aligning its over-age dependent age-out process with the Federal Marketplace allowing 26-year-old enrollees to remain on their parents' plan through the end of the benefit/calendar year in which they turn 26. During the renewal process, Covered California will passively renew the over-age dependent in to their own plan on the same application/account based on the approved passive renewal hierarchy.
- Employer Appeal Decision Implementation (notice to the employee) Process
 - Covered California is clarifying the process for implementation of the federal large employer appeals decisions. Covered California will be notifying the APTC enrollees whose employers appealed to the HHS and won. State Based Marketplaces were given the option to either act upon the appeal decision and redetermine these enrollees ineligible for APTC or notify them that they must report a change and receive an eligibility redetermination. Covered California has taken the latter option.