



COVERED CALIFORNIA POLICY AND ACTION ITEMS
May 17, 2018 Board Meeting

COVERED CALIFORNIA FY 2018-19 BUDGET AND ASSESSMENT PROPOSAL

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Discussion

TOPICS

- Overview and Introduction
- Strategic Direction Guiding Covered California's Budget
- Forecasting and Planning to Provide Stability and Certainty
- FY 2017-18 Financial Update
- FY 2018-19 Proposed Budget Overview
 - ✓ Enrollment and Revenue Forecast
 - ✓ Proposed Expenditures
 - ✓ Capital Projects Reserve
- 2019 Assessment Rate Recommendation
- Multi-Year Outlook

OVERVIEW AND INTRODUCTION

- It's a challenging time for the individual health market, which continues to face significant uncertainty.
- Enrollment in Covered California remains stronger than ever.
- Covered California remains fiscally sound and is well positioned strategically and financially to address uncertainty.
- We're proposing a budget for FY 2018-19 that will allow us to execute on our mission, that is aligned with our strategic pillars, and that funds activities that will allow us to continue to succeed.

COVERED CALIFORNIA'S PROMISE

Vision:

To improve the health of all Californians by assuring their access to affordable, high-quality care.

Mission:

To increase the number of insured Californians, improve health care quality, lower costs and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value.

Better Care • Healthier People • Lower Cost

COVERED CALIFORNIA: STRATEGIC PILLARS

AFFORDABLE PLANS	NEEDED CARE	EFFECTIVE OUTREACH AND EDUCATION	POSITIVE CONSUMER EXPERIENCE	ORGANIZATIONAL EXCELLENCE
Consumers purchase and keep Covered California products based on their perception that this is a good value for them.	Consumers receive the right care at the right time.	Consumers understand what we offer and have a positive attitude about Covered California.	Consumers have a positive experience from initial enrollment to keeping their coverage.	Covered California has the right tools, processes, and resources to support our team to deliver on our mission.

CROSS-CUTTING AREAS OF ATTENTION

Innovating for the long term and being nimble in the present.

Using Covered California's experience to inform policy in California and nationally.

Working with others to promote changes in care delivery that benefits all Californians.

COVERED CALIFORNIA STRATEGIC PILLAR: AFFORDABLE PLANS

Consumers purchase and keep Covered California products because they are a good value.

Broad Strategy

- Actively negotiate rates and benefits with carriers to provide best value.
- Invest in marketing/outreach to promote the value of coverage and maintain healthy risk mix.
- Offer patient-centered benefit designs to make care more affordable by increasing a consumer's understanding of benefits that maximize access to appropriate care.

Enhancements for FY 2018-19

- The new Consumer Experience Division will create a stronger focus on the enrollee to ensure he or she is empowered to choose the health plans and providers that provide the best value.

COVERED CALIFORNIA STRATEGIC PILLAR: NEEDED CARE

Consumers receive the right care at the right time.

Broad Strategy

- Work with all contracted qualified health plan issuers, in every corner of the state, to ensure consumers have ready access to doctors, hospitals and care.
- Hold health insurance companies accountable for improving the care delivered, addressing disparities of care and moving to a patient-centered system that rewards quality and value, rather than being rewarded for quantity only.

Enhancements for FY 2018-2019

- Expanding efforts to promote improvements in care delivery through clinical, enrollment and qualitative survey data to identify opportunities to promote change.
- Adding staff to the Plan Management Division to strengthen relationships with qualified health plan issuers to ensure that policies, processes and rules continue to meet the needs of our consumers.

COVERED CALIFORNIA STRATEGIC PILLAR: OUTREACH & EDUCATION

Consumers understand what we offer and have a positive attitude about Covered California.

Broad Strategy

- Make significant investments in marketing and outreach to motivate consumers to get and maintain their insurance coverage.
- Educate and support Covered California's 20,000 sales partners in order to promote enrollment and increase the number of insured Californians.

Enhancements for FY 2018-19

- The proposed budget includes more than \$107 million for marketing and outreach and \$105 million for our Service Center to help individual consumers.

COVERED CALIFORNIA STRATEGIC PILLAR: POSITIVE CONSUMER EXPERIENCE

Consumers have a positive experience from initial enrollment to keeping their coverage.

Broad Strategy

- Operate and staff Service Centers as well as partner with 20,000 Certified Insurance Agents, enrollers and Navigators to assist consumers in a variety of languages.
- Mobile website design allows consumers to use all features on any device.
- Ombuds Office established to help consumers as needed.

Enhancements for FY 2018-19

- The new Consumer Experience Division will measure the consumer experience directly as a baseline to ensure the experience improves over time.
- Investing in Information Technology (IT) to stay on the cutting edge of technologies that can benefit consumers.

COVERED CALIFORNIA STRATEGIC PILLAR: ORGANIZATIONAL EXCELLENCE

Covered California has the right tools, processes and resources to support our mission.

Broad Strategy

- Operate as a nimble and responsive enterprise that responds quickly to the changing environment in health care.
- Implemented “Healthier U,” a program designed to improve the health and wellbeing of state employees; an Employee Recognition Program to create a culture of acknowledgement; and a Career Development Program to help staff prepare for career advancement at Covered California.

Enhancements for FY 2018-19

- The new Covered California Leadership Academy will assure that managers and key staff are equipped to successfully manage and lead the organization.

CROSS-CUTTING INITIATIVES: INNOVATING FOR THE LONG-TERM AND BEING NIMBLE IN THE PRESENT.

- In the past year, Covered California developed and implemented a policy to protect consumers from being negatively affected by the administration's decision to end cost-sharing reduction reimbursement payments. This policy is known as the CSR surcharge. A majority of other states followed our example to protect their enrollees from unnecessary premium hikes.
- Executive leaders toured state-of-the-art businesses in California to learn about the latest advances in health care, how consumers will get care, and the tools they will use to stay healthy in the coming years.
- In planning for FY 2018-19, Covered California is developing efforts to communicate effectively to consumers the dangers of “junk” short-term, limited-duration insurance plans.

CROSS-CUTTING INITIATIVES: USING COVERED CALIFORNIA'S EXPERIENCE TO INFORM POLICY IN CALIFORNIA AND NATIONALLY.

- Covered California actively seeks opportunities to contribute to the policy-making discussions in California and Washington D.C. by sharing our experiences and analysis of how policy issues could affect the individual market and health care costs and quality more broadly.
- In the past year, analysis provided to the administration documented the dramatic drop in new enrollees in the federally facilitated marketplace, potential 3-year premium hikes of up to 90 percent in some states due to uncertainty at the federal level and the potential impact of the removal of the individual mandate penalty.
- Covered California learns from and shares its experiences with other state-based marketplaces, academic institutions, along with private and public partners to practice evidence-based policy development.

CROSS-CUTTING INITIATIVES: WORKING IN PARTNERSHIP WITH OTHERS TO PROMOTE CHANGES IN CARE DELIVERY THAT BENEFITS ALL CALIFORNIANS.

- Collaborating with the Department of Health Care Services (DHCS) to make “churn” smoother and addressing the complexities of enrolling mixed families for consumers moving between Medi-Cal and Covered California.
- Actively working with DHCS and other public and private purchasers to promote improvements in care by adapting common efforts, such as Smart Care California, which is currently focused on tackling the issues of opioids, lower back pain and overuse of C-sections.

FORECASTING AND PLANNING TO PROVIDE STABILITY AND CERTAINTY

FORECASTING AND PLANNING TO PROVIDE STABILITY AND CERTAINTY

- Covered California enters FY 2018-19 on solid financial footing and in a strong position to continue its mission.
- Our gains are driven by policies that put patients first and by significant investments in marketing and outreach.
- Covered California's robust outreach has helped address the uncertainty caused by the repeated attempts to "repeal and replace" the ACA and other destabilizing actions.
- The challenges facing the individual market will continue into FY 2018-19 with the elimination of the individual mandate penalty, and premium increases.

COVERED CALIFORNIA'S PROJECTION FOR 2019 POTENTIAL ENROLLMENT AND PREMIUM INCREASES

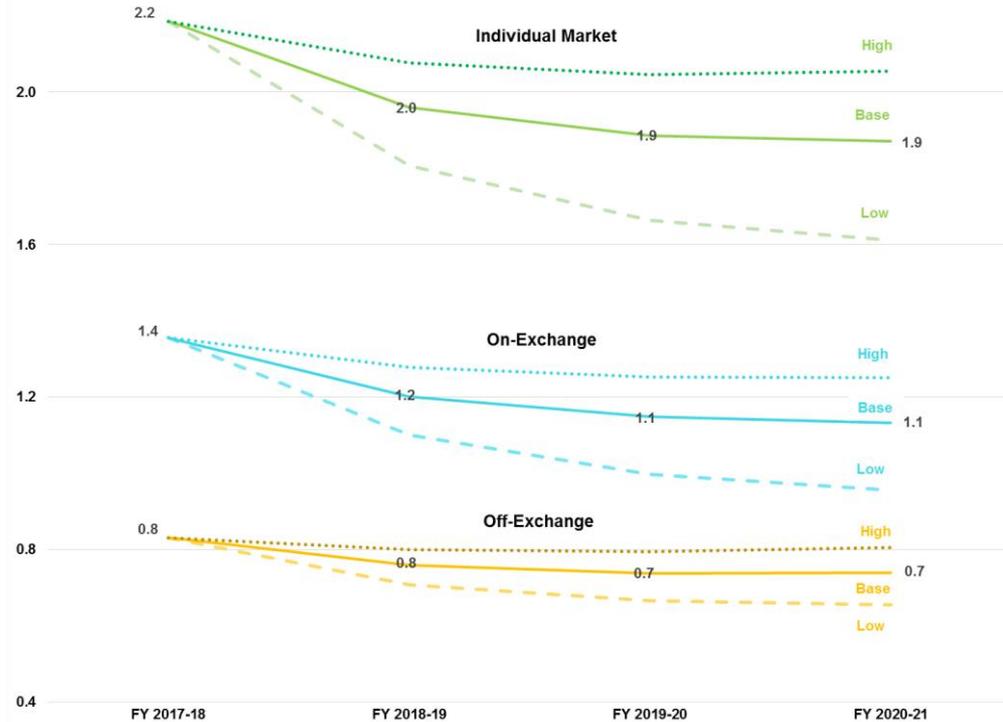
- PwC collected multiple sources of projections of individual market enrollment decreases and total premium changes. PwC's research reflected both California specific and national data sources.
- Covered California applied its experience and the input of staff and other experts to make the “best estimate” of Low, Base and High impact projections for 2019 and beyond.

Potential impacts to Enrollment and Premiums in 2019

	PwC Range	Covered California Projections		
		Low projected Decline in Enrollment and Increase in Premiums	Base Scenario	High projected Decline in Enrollment and Increase in Premiums
Enrollment	-7.0% to -26.0%	-7%	-12%	-18%
Premiums	7.3% to 22.0%	9%	11%	13%

BASED ON COVERED CALIFORNIA PROJECTIONS – ALL SCENARIO'S PROJECT SIGNIFICANT DECLINES IN INDIVIDUAL MARKET ENROLLMENT

Projections of California Individual Market Enrollment (millions)



FY 2017-18 FINANCIAL UPDATE

FY 2017-18 FINANCIAL UPDATE

- Projected expenditures for FY 2017-18 are \$318.6 million compared to the board approved budget of \$319.6 million
 - This includes \$308.6 million for operating expenses, including the funding of approximately \$10 million for appeals and surge vendor activities that were higher than anticipated in the Service Center, and
 - \$10 million for the initial funding of the capital projects reserve.
- Due to higher than anticipated enrollment, combined with higher premiums, revenue is projected to exceed original estimates by \$11.8 million.
- Additionally, the opening balance for FY 2017-18 has increased by \$11 million as a result of prior year projected expenditures that will no longer materialize.
- We now project to end FY 2017-18 with approximately \$310 million in reserves, the equivalent of 11 months of planned operating expenditures. This is \$24 million higher than anticipated in the FY 2017-18 Board approved budget

	FY 2017-18		
	Budget	Projected	Variance
Opening balance	\$ 292.0	\$ 303.0	\$ 11.0
Revenues-Cash Basis	\$ 314.4	\$ 326.2	\$ 11.8
Operating Expenditures	\$ (319.6)	\$ (308.6)	\$ 11.0
Margin-Cash Basis	\$ (5.2)	\$ 17.6	\$ 22.8
Capital Projects Reserve	\$ -	\$ (10.0)	\$ (10.0)
Year-End Operating Reserve	\$ 286.8	\$ 310.6	\$ 23.8
Months of Reserve	10.9	\$ 11.0	

2018-19 PROPOSED BUDGET OVERVIEW

FY 2018-19 PROPOSED BUDGET

- For FY 2018–19, Covered California proposes a budget of \$350.2 million, which includes an operating budget of \$340.2 million and funding for a capital projects reserve of \$10 million, along with 1,399 positions to ensure that our organization has the right tools, processes and resources to deliver on its mission.
- This budget includes a multi-year financial summary of all revenues, expenditures and staffing used by each of Covered California’s divisions in the delivery of essential services to improve the health of all Californians by ensuring their access to affordable, high-quality care.
- This budget aligns with and promotes our continued focus on our strategic pillars by providing funding that will allow Covered California to succeed in the face of federal uncertainty.
- Covered California is well positioned with solid reserves and a multi-year financial strategy that can adapt to federal and economic uncertainties.
- At the June meeting, we will be asking for the board’s approval of the proposed FY 2018-19 budget, plan year 2019 assessment and establishment of the Capital Projects Reserve.

ENROLLMENT AND REVENUE FORECAST

INDIVIDUAL ENROLLMENT AND REVENUE FORECAST

- Covered California completed its fourth renewal period and fifth open enrollment with total enrollment estimated at 1.4 million.
- Covered California drew on a broad range of resources to develop the ranges for the multi-year forecast, including PricewaterhouseCoopers (PwC) who performed background research and provided observations about the potential impact of the elimination of the mandate penalty and other factors that could impact Covered California's enrollment and premiums; and California's health insurance market in general.
- Analyses by other prominent experts, including the UCLA Center for Health Policy Research and the UC Berkeley Center for Labor Research and Education were also considered both by PwC in its analysis, and by Covered California's management in the development of the forecast parameters.

INDIVIDUAL ENROLLMENT AND REVENUE FORECAST – BASE SCENARIO

- The Base forecast reflects an estimated 12 percent enrollment loss as a result of the elimination of the individual mandate penalty. This is a midpoint estimate between the high and low scenarios and is compatible with the estimate from CalSIM version 2.0 and similar to the loss estimated by the CBO.
- The Base forecast assumes a total premium increase of 11 percent in 2019. This includes an incremental increase of 6 percent, over the 7 percent growth in medical costs, related to the impact of the elimination of the individual mandate penalty, offset by a decrease of 2 percent for the 2019 suspension of the Health Insurance Tax levied on ‘for profit’ health insurers. The projections for premium growth for plan years 2020 and 2021 are 13 percent and 9 percent, respectively.

Dollars in Millions

		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Base Enrollment Scenario	Effectuated Enrollment (fiscal year end)	1,355,520	1,201,447	1,148,049	1,131,528
	Plan Assessments-Cash Basis	\$316.3	\$338.1	\$323.6	\$324.6

INDIVIDUAL ENROLLMENT AND REVENUE FORECAST – ALTERNATIVE SCENARIOS

- The scenario with the highest impact to enrollment and revenue reflects an 18 percent reduction of enrollment, consistent with the results of the Harvard Study on the elimination of the individual mandate penalty. This alternative projects a total increase to premiums of 13 percent. The projection for plan years 2020 and 2021 are 14 and 10 percent respectively.
- The scenario with the lowest impact to enrollment and revenue reflects a 7 percent enrollment loss due to the elimination of the individual mandate penalty. This is consistent with the results of the two most recent Kaiser Family Foundation Tracking Polls. The impact to total premium growth rates are assumed at 9 percent. The projection for plan years 2020 and 2021 are 13 percent and 8 percent respectively.

Dollars in Millions

		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Highest Enrollment and Revenue Impact	Effectuated Enrollment (fiscal year end)	1,355,520	1,099,969	997,568	955,749
	Plan Assessments-Cash Basis	\$316.3	\$328.7	\$296.0	\$287.2
Base Enrollment Scenario	Effectuated Enrollment (fiscal year end)	1,355,520	1,201,447	1,148,049	1,131,528
	Plan Assessments-Cash Basis	\$316.3	\$338.1	\$323.6	\$324.6
Lowest Enrollment and Revenue Impact	Effectuated Enrollment (fiscal year end)	1,355,520	1,277,201	1,251,985	1,250,960
	Plan Assessments-Cash Basis	\$316.3	\$344.2	\$341.6	\$348.3

INDIVIDUAL ENROLLMENT AND REVENUE FORECAST – PROJECTED IMPACTS

IMPACTS	2019		2020		2021	
Highest Enrollment & Revenue Impact	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease
Mandate Elimination	8%		5%		3%	
Medical Cost Trend	7%		7%		7%	
HIPF Moratorium	-2%		2%		0%	
TOTAL	13%	243,000	14%	98,000	10%	40,000
Base Enrollment Scenario	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease
Mandate Elimination	6%		4%		2%	
Medical Cost Trend	7%		7%		7%	
HIPF Moratorium	-2%		2%		0%	
TOTAL	11%	162,000	13%	72,000	9%	34,000
Lowest Enrollment & Revenue Impact	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease	Premium Increase	Enrollment Decrease
Mandate Elimination	5%		3%		1%	
Medical Cost Trend	7%		7%		7%	
HIPF Moratorium	-3%		3%		0%	
TOTAL	9%	94,000	13%	51,000	8%	25,000

PROPOSED EXPENDITURES

FY 2018-19 PROPOSED BUDGET – COMPARED TO FY 2017-18 APPROVED BUDGET

	2017-18 Budget	2018-19 Budget	Difference	Percentage Difference
Outreach & Sales, Marketing	\$ 110,431,674	\$ 107,436,537	\$ (2,995,137)	-2.7%
Service Center & Consumer Experience	\$ 87,466,377	\$ 104,876,819	\$ 17,410,442	19.9%
Technology	\$ 64,685,070	\$ 70,101,195	\$ 5,416,125	8.4%
Administration	\$ 41,367,467	\$ 41,355,213	\$ (12,254)	0.0%
Plan Management & Evaluation	\$ 15,607,035	\$ 16,474,101	\$ 867,066	5.6%
Total Operating Budget	\$ 319,557,624	\$ 340,243,865	\$ 20,686,242	6.5%
Capital Projects Reserve	\$ -	\$ 10,000,000	\$ 10,000,000	
Total	\$ 319,557,624	\$ 350,243,865	\$ 30,686,241	

- The FY 2018-19 proposed operating budget provides \$340.2 million and 1,399 positions to fund program operations.
- To allow Covered California to execute on its mission and vision, and in alignment with its strategic pillars, this budget includes additional investments in Service Center and Consumer Experience, Technology, Plan Management and Evaluation (including investments in both the Plan Management and Policy Divisions).

CAPITAL PROJECTS RESERVE

ESTABLISH CAPITAL PROJECTS RESERVE

- Covered California's reserve balance and judicious fiscal policies have positioned us to establish the Capital Projects Reserve for impending facility costs.
- A Capital Projects Reserve is being proposed to pay for the acquisition or construction of capital assets that are facility related in order to adequately address the capital needs that will result from the impending expiration of existing lease agreements.
 - Facility projects are subject to board review and approval.
 - These costs are typically one-time, project and location specific as compared to the operating expenditures budget.
 - An accounting will be made of amounts added and expended each fiscal year as part of the annual budget approval process.
 - The actual amount available for capital projects will vary as any prior and current fiscal year unexpended funds are carried over for use in future fiscal years.
 - Approval of capital projects contracts shall adhere to established Covered California contracting procedures.

OPERATING BUDGET AND CAPITAL PROJECTS RESERVE

- The Covered California annual budget will now consist of two main expenditure allocations:
 - Operating Budget, and
 - Capital Projects Reserve
- The FY 2018-19 proposed budget of \$350.2 million is comprised of the following:
 - Operating Budget of \$340.2 million
 - Capital Projects Reserve of \$10 million
- The Capital Projects Reserve will receive an initial allocation of \$10 million from unspent funds in Fiscal Year 2017-18.

Dollars in Millions

CAPITAL BUDGET	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Opening Balance	\$0	\$10.0	\$10.0	\$15.0
Capital Projects Reserve	\$10.0	\$10.0	\$10.0	\$10.0
Projected Capital Expenditures	\$0	\$10.0	\$5.0	\$5.0
Year-End Capital Projects Balance	\$10.0	\$10.0	\$15.0	\$20.0

2019 ASSESSMENT RATE RECOMMENDATION

ASSESSMENT RATE RECOMMENDATION

- Consistent with Covered California’s previous multiyear fiscal plans that projected declining assessment rates beginning in 2019, staff proposes a reduction in the assessment rate for the individual market from its current 4.0 percent—levied since January 2017—to 3.75 percent in the 2019 plan year.
 - The 3.75 percent assessment rate will be assessed on the 1.4 million people currently enrolled in Covered California plans.
 - In addition to Covered California enrollees, there are also approximately 800,000 people in the individual market who benefit from the rates negotiated by Covered California, even though they are not directly enrolled through the exchange.
 - The Affordable Care Act requires the rates for all products on the individual market, both on and off exchange, to be the same and therefore effectively requires the health plans to spread the assessment across the entire individual market.
 - Since the health plans offered by Covered California represent approximately 60 percent of the total enrollment in the individual market, Covered California estimates that the actual average assessment rate for 2019 will be 2.3 percent across the entire market.
- The recommended rate for CCSB policies remains at 5.2% of premiums.

MULTI-YEAR OUTLOOK

- Including the recommended reduction to the assessment rate in 2019, and further reductions in the out years, the multi-year forecast projects maintaining operating reserves of 10 months through FY 2020–21; a level sufficient to address uncertainty.

Dollars in Millions

	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Effectuated Enrollment (fiscal year end)	1,355,520	1,201,447	1,148,049	1,131,528
Opening Balance	\$303.0	\$310.6	\$311.5	\$293.6
Plan Assessments-Cash Basis	\$326.2	\$351.1	\$339.2	\$343.1
Projected Operating Expenditures	(\$308.6)	(\$340.2)	(\$347.1)	(\$342.7)
Margin Contribution - Cash Basis	\$17.6	\$10.9	(\$7.9)	\$4
Capital Projects Reserve	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)
Year-End Operating Reserve	\$310.6	\$311.5	\$293.6	\$284.0
<i>Number of months of reserve</i>	11.0	10.8	10.3	9.8

Plan Year	2018	2019	2020	2021
	<i>h</i>	Proposed	Tentative	Tentative
Plan Assessment Rate	4.00%	3.75%	3.50%	3.25%
Plan Assessment Rate On/Off Exchange	2.5%	2.3%	2.2%	2.0%
Premium Growth Assumptions	18.4%	11.0%	13.0%	9.0%

FY 2018-19 PROPOSED BUDGET SUMMARY

- Covered California is well positioned with solid reserves and a multi-year financial strategy that will allow it to adapt to federal and economic uncertainties.
- We are expecting to begin FY 2018-19 with \$310 million in reserves, the equivalent of about 11 months of planned operating expenditures.
- Covered California is proposing a budget for FY 2018-19 that will allow it to execute on its mission and vision, and that is in alignment with its strategic pillars.
- The FY 2018-19 proposed operating budget is \$340.2 million, with an additional \$10 million for capital projects reserve, resulting in an overall budget of \$350.2 million.
- The budget includes an assessment rate of 3.75 percent of premium for plan year 2019 with a path to decrease through 2021.
- At the June meeting the Board will be asked to:
 - **Approve the Covered California FY 2018-19 Operating Budget at approximately \$340.2 million, pending any changes.**
 - **Approve assessments for individual medical and dental markets at 3.75 percent of premium, and 5.2 percent of premium for CCSB, for the 2019 plan year.**
 - **Approve establishment of the Covered California Capital Projects Reserve with an initial allocation of \$10 million in FY 2017-18 and \$10 million in FY 2018-19.**
- **Any comments or feedback on the budget may be sent to the following address:**
boardcomments@covered.ca.gov