Impact of Individual Mandate Penalty Elimination and Other Market Factors on Coverage Nationally and in California

Prepared for Covered California
Board Presentation
May 17, 2018

Agenda

Enrollment Projection and Scenarios

- **External Drivers**
  - Individual Mandate Penalty Elimination
  - Marketing and Outreach Spending
  - Limited Benefit Health Plans
  - Reinsurance
- Premium Impacts
- Market Overview: Potential Enrollment Changes

Unraveling of key ACA components during 2017 and inaction at the state and federal level threaten the stability of the individual markets in many states

2017 | 2018 | 2019

- HHS pulls funding for advertising/outreach for last days of AEP 2017
- FFM AEP 2018 shortened to 6 weeks, Ad budget cut by 90% for AEP 2018
- Covered CA commits over **$100M to marketing and outreach** for AEP 2018. Several SBMs do the same.
- October: **CSR payments halted; California loads onto Silver On-EX Plans**
- December: **Individual mandate penalty elimination included in Tax Bill (HR1)**
- Consumers indicate confusion about mandate penalty in 2018
- **FFM AEP 2018 ends.** FFM states' plan selections drop by ~5%, SBMs' increase slightly by 0.09%
- Proposed rule to broaden enrollment in **Limited Benefit HPs**
- **Individual mandate penalty no longer in effect**

- **Federal/state actions have fostered uncertainty, leading in some states to higher likelihood of and added risk of insurer exits and market destabilization**
- Individual mandate penalty eliminated effective 2019, but market uncertainty and factors such as reductions in marketing in FFM states likely caused enrollment decreases in the 2018 Annual Enrollment period (AEP)
- Despite the challenges, 2018 Annual Enrollment period results were relatively strong for the SBMs, not so the FFMs
  - **Plan selections decreased by ~ 5% for all FFMs.** New plan selections dropped 18% from 2017 to 2018 from 3M to 2.4M.
  - California's total plan selection decreased by ~ 2%. However, Covered California's new enrollment increased from 368K in 2017 to 388K in 2018 – an increase of 5%.

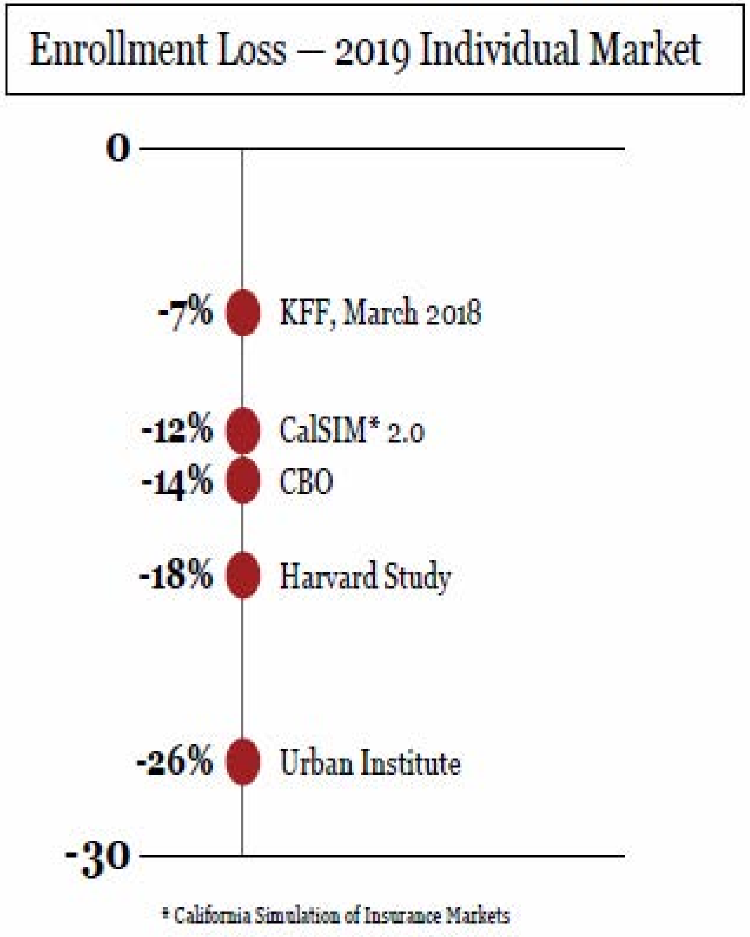
Sources: Center on Budget and Policy Priorities, Sabotage Watch: Tracking Efforts to Undermine the ACA; CMS Public Use Files for 2018/2017 Annual Enrollment Period plan selections; Covered California, Marketing Matters: Lessons from California to promote stability and lower costs in National and State Individual Insurance Markets; Kaiser Family Foundation Health Tracking Survey, March 2018

Projecting enrollment for 2019 requires consideration of range of factors

Driver	What may happen?
Elimination of Individual Penalty	Though there is substantial uncertainty as to how large the impact will be, the **removal of the mandate penalty will likely have a substantial impact on enrollment and premiums,** both on and off exchange.
Marketing and Outreach (Enhanced or Reduced Budget)	Promoting enrollment is a key factor to foster new enrollment and retention, and has a direct impact on risk mix and premium. Covered California will **continue to invest** in marketing and outreach in 2019. In contrast, the Federal government cut marketing funding 2018 and has made no indication of increasing the budget for 2019.
CSR Funding (Status Quo)	**Covered California projections assume the CSR payments will continue to be funded by the "silver surcharge work around" rather than paid directly through the Federal government in 2019.** Enrollment of unsubsidized individuals decreased in the 2018 Annual Enrollment Period, future significant unsubsidized enrollment decreases are not projected.
Minimum Wage Increases to $12	Minimum wage will rise to $12 in 2019. **Studies are not conclusive** on what the increases in realized income will be after minimum wage increases are implemented.
Limited Benefit Health Plans	The Trump Administration's Executive Order could expand the availability of short-term, limited-duration and Association Health Plans for sale, nationwide. **The effect on California will depend on the regulatory response from legislators or the Department of Insurance.**
Unemployment Increases	If unemployment were to reach 10% in CA by 2021, **Covered California may expect more enrollment** as those previously insured under ESI look for coverage.
Reinsurance	If fully funded, a **CA reinsurance program could reduce premiums on the individual market significantly**. However, it currently appears unlikely that the federal government or the state will start a reinsurance program for 2019.
State Mandate with additional subsidy funding	Impacts to enrollment would **depend on the design of the mandate and subsidy allocations**. Several states are considering state penalties/mandates or additional subsidies in 1332 Waiver Applications; however the Covered California projections do not consider such programs for 2019.

Sources: PwC Analysis

Elimination of the mandate penalty will reduce total individual market enrollment substantially but how much is uncertain



Source	Basis of Estimate	Potential Impact on Total Individual Market	
		Enrollment Impact	Premium Impact
KFF March 2018 (Survey)	National	-7%	N/A
CalSIM 2.0 (Microsimulation)	California	-12%	8%-10% increase
CBO (Microsimulation)	National	-14%	10% increase
Harvard (Survey)	California	-18%	5%-9% increase
Urban Institute (Survey*)	National	-26%	N/A

Discussion

- **Microsimulations and surveys predict 2019 individual market enrollment loss of -7% to -26% nationally due to the elimination of the mandate penalty**
- Insurers will increase premiums to account for deterioration in risk mix due to the removal of the mandate penalty. Increasing costs will likely cause individuals to forego coverage.
  - In addition to the enrollment losses reported by survey results, the sensitivity of certain enrollees to increases in premium **could increase enrollment loss another 0.5%-6% in 2019.**
- Covered California's **focus on marketing and outreach is likely to significantly dampen the impact of elimination of the mandate penalty** relative to markets that do not invest in marketing and outreach.

* The Urban Institute results combine those that indicated very (10%) and somewhat likely (16%) to drop coverage without a mandate penalty.

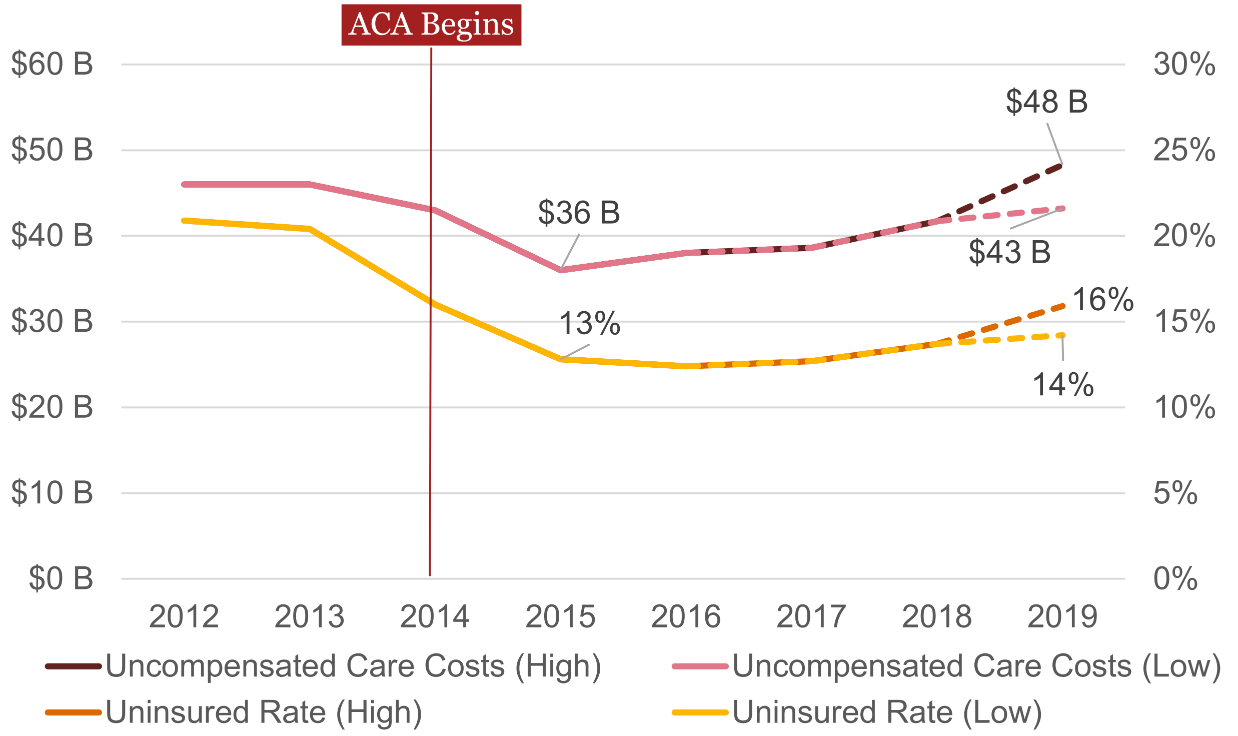
Sources: Health Affairs, Eliminating the Individual Mandate Penalty in California: Harmful but non fatal changes in enrollment and premiums, Match 2019; CBO, Nov. 2017; CalSIM Memo to CCA, Individual Market Effects of Eliminating the Individual Mandate Penalty, May 2018; Kaiser Family Foundation Health Tracking Survey, March 2018; Urban Institute Health Reform Monitoring Survey, quarter 1 2017, PwC Analysis

Eliminating the individual mandate penalty will have implications beyond the number of people without coverage

Broader Implications of the Mandate Penalty Elimination

- **Uncompensated care could rise ~ $1,000 per newly uninsured.** Depending on the impact of the individual mandate penalty elimination on enrollment, **the uninsured rate could reach 14% to 16% nationally, increasing uncompensated care by $1.5B-$7.0B in 2019**
    - **In California, hospital uncompensated care fell from $3.0B to $1.4B from 2013-2016.** Our estimates of the **newly uninsured population due to the loss of the individual mandate penalty indicate uncompensated care could grow by $420M-$1B in 2019**
- If all uncompensated costs not covered elsewhere were shifted to private insurance, **research indicates that the cost of employer sponsored coverage could increase by 2%-4%.** This increase is likely to be shared between the employer and the employee.

US Adult Uninsured Rate and Hospital Uncompensated Care[1,2]



1 Historic uninsured rate uses NHIS data for adults 18-64 years old.
2 Historic hospital uncompensated care amounts come from AHA and include some bad debt.

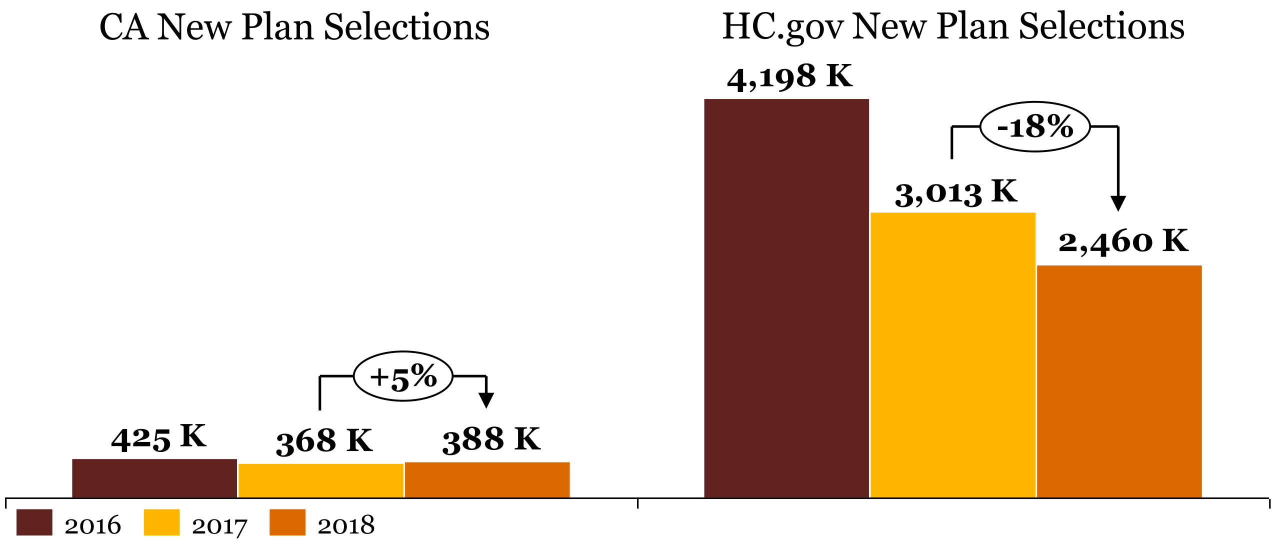
Sources: Coughlin et al., Uncompensated Care for Uninsured in 2013: A Detailed Examination, May 2014; Health Affairs, Safety Net Health Systems at risk: Who Bears the Burden of Uncompensated Care?, May 2018; CHCF, Uncompensated Hospital Care Costs in California Continued to Decline in 2016, March 2018; CDC, National Health Interview Survey Data, 2012 2017; Health Forum, AHA Annual Survey Data, 2012 2016; PwC Analysis

Aggressive marketing and outreach leads to better risk mix and lower premiums

Discussion

- New enrollment is essential to maintain healthy risk pool and stabilize premium. **Covered CA 2017 experience is that new enrollees had risk scores 16% lower than renewing enrollees.** Without new enrollees average risk mix will deteriorate over time.
- Covered California outspent the Federal government by more than 2 to 1 on total marketing and outreach, and by more than 4 to 1 on advertising for the 2018 Annual Enrollment period. **New enrollment in California has remained stable despite the market turmoil, while new enrollment in the FFMs has declined sharply.**
- Covered California found that for other states **increased marketing could yield as much as a 6:1 return on investment, producing as much as a 2.3% reduction to premium levels in 2019** and a 3.2% cumulative reduction by 2021. However, enrollment changes due to a decrease in marketing budget could cause premiums to rise by up to 2.6%.

California and Federal Marketplace Annual Enrollment Period New Plan Selections



Marketing and Outreach Budget for Annual Enrollment	2016	2017	2018
California	$122M	$99M	$111M
Healthcare.gov	$118M	$163M	$47M

Sources: Covered California, Individual Insurance Markets: Enrollment Changes in 2018 and Potential Policies That Could Lower Premiums and Stabilize the Markets in 2019, April 2018; CMS Annual Enrollment Period Public Use Files, 2016/2017/2018; Covered California, Marketing Matters: Lessons from California to Promote Stability and Lower Costs in National and State Individual Insurance Markets, January 2018

Final Federal rules and how California chooses to regulate Association, Short Term, and other Limited Benefit Health plans will dictate their potential impact to the individual market in 2019 and beyond

Potential Impact of Limited Benefit Health Plans, if sold in California*

	2019	2020	2021	2022
Individual Market Enrollment Decrease	**-10K to -210K**	**-15K to -20K**	**-25K to -30K**	**-25K to -30K**
Limited Benefit Health Plans Enrollment Increase	10K to 225K	15K to 75K	25K to 180K	25K to 275K

* Difference in expected Limited Benefit Health Plan increase due to enrollment loss in the individual market, plus smaller losses due to small employer workers moving from employer sponsored coverage to limited benefit plans.

Discussion

- **Limited Benefit Health Plans** such as Short-Term or Association Health Plans, Indemnity Plans or Ministry Plans have been highlighted by the Federal government as less expensive options to the ACA-compliant market.
- These plans do not offer the broad coverage or protections of ACA plans and can leave consumers with expensive uncovered medical bills.
- Due to the lower premium, these plans tend to appeal to younger and healthier consumers, which can lead to a deterioration in the risk mix of and a cycle of increasing premiums for the individual market .
- In the March 2018 Kaiser Health Tracking Poll, **12% of adult individual market enrollees indicated they would want to purchase a short-term plan.** Those in households without a pre-existing condition were more likely (15%) than those in households with a pre-existing condition (10%).
- While **current estimates are that there are only 10K Short Term Plans in California**, the impact could be higher if California does not restrict Association or Short Term Limited Benefit Health Plans sold in the state through legislation or regulation

Sources: PwC Analysis, CMS , Fact Sheet: Short Term, Limited Duration Insurance Proposed Rule, February 2018; Avalere Health, Association Health Plans: Projecting the Impact of the Proposed Rule, February 2018; Kaiser Family Foundation Health Tracking Survey, March 2018; CHCF, Short Term Plans Could Bring Long Term Risks to California s Individual Market, April 2018; CMS Office of the Actuary, Estimated Financial Effects of the Short Term, Limited Duration Policy Proposed Rule, April 2018

Reinsurance could help stabilize the market by reducing the impact of high cost enrollees on the risk pool

California Enrollment and Premium Impact Estimates from Reinsurance	
	2019
Attachment Point	$50,000
Max Charge	$250,000
Coinsurance	80%
Budget needed to fully fund reinsurance	$1.3B
Net Cost	$390M – $520M
Premium Reduction	13.8%
On-Ex Potential Enrollment Impact	5K to 30K
Off-Ex Potential Enrollment Impact	25K to 175K

Discussion

- Reinsurance could encourage health plan participation in the individual market by reducing the risk of enrolling the most expensive consumers
- **In year 1, if fully funded, the reinsurance program could reduce premiums by almost 14%, and increase enrollment for both the subsidized and unsubsidized.**
- Lower premiums will also lower APTC expenditures for the subsidized population. Net cost is estimated as 30%-40% of the reinsurance funding if the tax savings are applied to lower the total reinsurance expenditures
- Assuming the market size is stable, the reinsurance budget would need to increase over time to maintain the same premium impact
- Enrollment impact reflects the estimated impact of premium levels on demand for coverage (premium elasticity)

Sources: Covered California Analysis of Reinsurance Program Options; PwC analysis; Reinsurance program plan design from Milliman Memo, "Reinsurance Program Estimates 2019 2021 , prepared for Covered California, February 14, 2018

Summary estimates for potential premium increases nationally and in California based on selected market factors

Driver	Potential 2019 Gross Premium Increases
Healthcare Cost Trend	6% to 8%
Individual Mandate	5% to 13%
CSR Funding (status quo)	-
Annual Enrollment Period Change	-
Minimum Wage Increases	-
Limited Benefit Health Plans	0.3% to 3%
Unemployment Increases	-
One year HIPF Moratorium	-3% to -2%
Corporate Tax Savings from Tax Reform	-1% to 0%
Potential CA Premium Increase	**7.3% to 22%**
Marketing and Outreach (Enhanced or Reduced Budget)	-2.3% to 2.6%
2018 Enrollment Change Premium Impact	0% to 6.3%
Potential National Premium Increase	**5% to 30.9%**

Discussion

- These figures are based on our review of what could happen nationally. Local circumstances could drive rate increases outside of this range.
  - **California individual market is likely to be at the low to mid end of premium increase range** due to a healthier starting risk mix and commitment to marketing.
  - It is unlikely that all plans will achieve the lower range and premium increases may vary substantially by plan.
- Rate increases in 2019 will be impacted by many market factors, the largest being removal of the individual mandate penalty. The Health Insurance Provider Fee (HIPF) moratorium will have a one-year offset impact unless extended.
- Many health insurers benefited from the 2017 Tax Reform Bill, decreasing the corporate tax rate from 35% to 21%. **Realized savings for California insurers could reduce premium increases by as much as 1%.**
- A reinsurance or other risk transfer mechanism could significantly reduce rate increases, but is unlikely to be implemented in time to impact 2019 rates
- Sensitivity to large rate increases is expected to drive additional enrollees to leave coverage. **Lower income enrollees are very sensitive to small net premium increases, even though largely shielded from increases in gross premiums due to the APTC. Unsubsidized enrollees will feel the full effects of the rate increases.**

Sources: PwC Analysis; Health Affairs, Eliminating the Individual Mandate Penalty in California: Harmful but non fatal changes in enrollment and premiums, March 2019; CBO, Repealing the Individual Health Insurance Mandate: An Updated Estimate, November 2017; Covered California, The Roller Coaster Continues, January 2018; Covered California, Marketing Matters, September 2017; CMS Office of the Actuary, Estimated Financial Effects of the Short Term, Limited Duration Policy Proposed Rule, April 2018

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- **Market Overview: Potential Enrollment Changes**

Enrollment outcomes in 2019 based on the publically available range of individual mandate penalty elimination impacts

Drivers	Individual Market			Medi Cal	Uninsured
	Covered California	Off Exchange	Total		
Elimination of Individual Penalty	*Enrollment Loss:* ***-7% to -28%*** *(-90K to -350K)* *Premium Increase:* ***5% to 13%***	*Enrollment Loss:* ***-8% to -36%*** *(-90K to -430K)* *Premium Increase:* ***5% to 13%***	*Total Enrollment Loss:* ***-7.5% to -32%*** *(-180K to -780K)* *Premium Increase:* ***5% to 13%***	*Enrollment Loss:* *-240K*	***+420K to 1,020K***
Minimum Wage Increase to $12	*Enrollment Increase:* *15K*		*Enrollment Increase:* *15K*	*Enrollment Decrease:* *-105K*	***+90K***
Marketing and Outreach (Maintain Budget)	*Enrollment Increase:* *0K to 20K*	*Enrollment Increase:* *5K to 50K*	*Enrollment Increase:* *5K to 70K*		***-5K to -70K***
Limited Benefit Health Plans	*Enrollment Loss:* *-2K to -60K* *Premium Increase:* ***0.3% to 3%***	*Enrollment Loss:* *-10K to -150K* *Premium Increase:* ***0.3% to 3%***	*Enrollment Loss:* *-10K to -210K* *Premium Increase:* ***0.3% to 3%***		***0K***
Subtotal	***77K to 375K***	***95K to 530K***	***172K to 905K***	***345K***	***+505K to 1,250K***
Reinsurance	*Enrollment Increase:* *5K to 30K* *Premium Decrease:* ***-13.8%***	*Enrollment Increase:* *25K to 175K* *Premium Decrease:* ***-13.8%***	*Enrollment Increase:* *30K to 205K* *Premium Decrease:* ***-13.8%***		***-30K to -205K***
Total	***72K to 345K***	***70K to 355K***	***142K to 700K***	***345K***	***+475K to 1,045K***

Source: PwC Analysis

Potential Multi-Year Impacts of Individual Mandate Removal, 2019 -2023

Enrollment Loss Estimate, Range in Thousands

Enrollment Impact	2019	2020	2021	2022	2023	2019 2023
Medi-Cal[1]	-240K	-350K	-350K	-90K	-70K	**-1,100K**
Individual Market[2]	**-180K to -780K**	**-100K to -310K**	**-45K to -135K**	**-25K to -55K**	**0K to -20K**	**-345K to -1,300K**
Mandate Sensitivity	-170K to -635K	-90K to -215K	-45K to -80K	-20K to -25K	0K to -10K	**-325K to -965K**
Premium Sensitivity	-10K to -145K	-10K to -95K	-3K to -55K	-1K to -30K	0K to -10K	**-20K to -335K**
Uninsured	**420K to 1,020K**	**450K to 660K**	**395K to 485K**	**115K to 145K**	**70K to 90K**	**1,445K to 2,400K**

***Numbers may not sum due to rounding**

Assumptions	2019	2020	2021	2022	2023
Premium Increase (Range)	5% to 13%	3% to 10%	1% to 6%	0% to 3%	0% to 1%
Loss to Enrollment due to no mandate penalty					
Individual Market Mandate Sensitivity	**-7% to -26%**	**-4% to -13%**	**-2% to -6%**	**-1% to -2%**	**0% to -1%**

Discussion

- Elimination of the mandate penalty analyses project a **7%-26%** enrollment loss and premium increases of **5%-13%** for the national total individual market in 2019. However, estimates for projected premium increases are not available for the high end of the enrollment loss range. We assume that if losses to the individual market were as high as 26%, premium increases could be 13% or higher.
- California market estimates are derived from CBO national methodology applied to California health insurance market
  - Applied California proportion factors based on KFF insurance coverage estimates for 2016 with adjustments for where CA differs from national
  - Medi-Cal: Assume CA is 23% of CBO national reduction. Updated estimates from CalSIM 2.0 microsimulation are expected in June 2018.
- The premium impacts are developed using the Tebaldi, Yin, Saltzman and CalSIM estimates of premium elasticity.

1 Using CA adjusted CBO estimates and CalSIM 2.0 estimates.
2 Using KFF March Health Tracking Survey and Urban Institute Health Monitor Survey as lower and upper bounds.

Appendix

Estimates of losses to enrollment due to elimination of individual mandate penalty vary based on the assumptions made

Source	Impact to Individual Market 2019	Impact to Premium	Study Methodology
Microsimulation Estimates			
CBO **11/2017**	**-14%** (Total Individual Market)	**10%**	• **Microsimulation Model repeal of the Mandate** – although effects of penalty repeal are expected to be the same • Study estimated 3 Million more uninsured in the Non Group Market in the first year (2019), growing to 5 Million by 2021 (Table 1) • Impact estimated by taking the 3M (numerator) divided by total non-group enrollment as estimated by KFF • Premiums are estimated to increase by 10% or more year-over-year • CBO estimates that individuals' and employers' reaction to the elimination of the mandate will phase in more slowly than was previously projected (December 2016) • **Assumes APTCs and CSR subsidies are in place**
CalSIM 2.0 **5/2018**	**-12%** (Total Individual Market)	**8%-10%**	• **Microsimulation Model repeal of the Penalty** • Utilizes model v2.0, which incorporates several modeling improvements, additional California specific data elements and incorporates post-ACA data and policies compared to v1.9 • **Assumes that eliminating the penalty lowers the incentive to shop and enroll, leading to less enrollment overall. The result is a worsening risk mix and higher premiums, which further reduces enrollment** • Models the effect of the penalty, the resulting effect on premiums and then reruns the model with both the premium increase and eliminated penalty for the final enrollment impact results • **Finds a total individual market impact of ~300K, made up of ~200K Subsidized enrollees and ~100K Unsubsidized enrollees. CalSIM calculated a premium increase of 8-10% due to dropping the individual mandate**

Estimates of losses to enrollment due to elimination of individual mandate penalty vary based on the assumptions made (cont.)

Source	Impact to Individual Market 2019	Impact to Premium	Study Methodology
Survey Based Modeling			

Harvard SPH
2/2018
	-18%
	(Total individual market)
		5%- 9%	• **Survey Results (percent direct from report)**
			• Sampled 3,010 adult enrollees in **California's individual insurance market**
			• **18% of all individual market enrollees reported they would not purchase coverage without the mandate, while**
			    • **22% of on exchange participants would not have purchased coverage**
			    • **10.2% of off-exchange participants would not have purchased coverage**
			• **Survey Results applied to model**
			• Used the results of **18% of individual market who said they would not purchase insurance without the mandate to predict the potential relative change in premiums in 2017**. Those with lower projected medical costs were more likely to not purchase insurance
			• Without the penalty, **2017 premiums would have had to increase by 7% per enrollee** (CI 5% - 9%) in CA which is comparable but lower than the CBO 10% nationwide estimate.
			• Short term effects on exits would likely be smaller if many are unaware of the policy change or unclear on the details of how it might affect them personally. (KFF = 1/3 people knew about the mandate penalty repeal)
			• **Assumed no change in insurer participation.**

KFF **3/2018**	**-7%** (Total individual market)	**N/A**	• **Survey Results (percent direct from report)** • National telephone survey from February and March, 2018 nationally among a random sample of **2,534 adult US residents** • Respondents were considered non-group enrollees if they were between the ages of 18-64 and their main source of healthcare coverage is health insurance that they purchased themselves • Question asked: As you may know, Congress recently passed a law that eliminated the fine for people who don't get health insurance beginning in 2019. Knowing this, do you think you will continue to buy your own insurance in 2019, or will you choose to go without coverage? • 90% of non-group enrollees indicated that they would continue to purchase insurance, 7% indicated that they would not continue to purchase insurance, 3% declined to respond or did not know.

Estimates of losses to enrollment due to elimination of individual mandate penalty vary based on the assumptions made (cont.)

Source	Impact to Individual Market 2019	Impact to Premium	Study Methodology
Survey Based Modeling			

Urban Institute
3/2017
	-26%
	(Total individual market)
		N/A	• **Survey Results (percent direct from report - Figure 3)**
			• Data from nearly **9,500 nonelderly adults** who participated in the March 2017 Health Reform Monitoring Survey
			• Question : The 2010 health care law requires nearly all Americans to have health insurance or else pay a fine. This is sometimes referred to as the "individual mandate". If the individual mandate is repealed in 2017, how likely is it that you would decide to drop your current health insurance coverage? Very likely 1 Somewhat likely 2 Not too likely 3 Not at all likely 4
			• **9.9% of adults with non-group marketplace said that they would be very likely to drop coverage if mandate were repealed**. An additional 16.1% said that they were somewhat likely to drop coverage. (26% total)
			    • **12% of on exchange participants said that they were very likely and 19.8% said somewhat likely to drop coverage. (31.8% total)**
			    • **6.2% of off-exchange enrollees said that they were very likely and 9.9% said somewhat likely to drop coverage. (16.2% total)**

Actuarial/Economic Modeling			
Covered California **1/2018**	**N/A**	**8%- 13%**	• Report titled The Roller Coaster Continues – The Prospect for Individual Health Insurance Markets Nationally for 2019: Risk Factors, Uncertainty and Potential Benefits of Stabilizing Policies • Covered California analysis summarized enrollment and policy changes that occurred for 2018 and projected a range of the potential premium impacts for 2019, along with a review of some of the major mitigating policies that could be adopted. • **Building on previously-published Congressional Budget Office average premium impact due to individual mandate penalty removal, Covered California projected a range of potential state average increases**. • **The study noted that some states and individual carriers could be higher or lower depending on specific circumstances.**