

CALIFORNIA HEALTH BENEFIT EXCHANGE BOARD MINUTES

Thursday, May 17, 2018  
Covered California Tahoe Auditorium  
1601 Exposition Blvd.  
Sacramento, CA 95815

**Agenda Item I: Call to Order, Roll Call, and Welcome (Discussion)**

Chairwoman Dooley called the meeting to order at 10:00 am.

**Board members present during roll call:**

Diane S. Dooley, Chair  
Jerry Fleming  
Dr. Sandra Hernandez  
Paul Fearer  
Art Torres

**Agenda Item II: Closed Session**

A conflict disclosure was performed and there were no conflicts from the Board members that needed to be disclosed. The Board adjourned into Closed Session to discuss personnel, contracting and litigation matters pursuant to Government Code Sections 100500(j), 11126(a), 11126(e)(1), and 11126.3(d).

Chairwoman Dooley called Open Session to order at 12:55 pm.

**Agenda Item III: Approval of Board Meeting Minutes**

Chairwoman Dooley asked for a motion and a second to approve the March 15, 2018 meeting minutes.

**Presentation:** March 15, 2018 Meeting Minutes

**Discussion:** None

**Motion/Action:** Board Member Torres moved to approve the March 15, 2018 Meeting Minutes. Board Member Fearer seconded the motion.

**Public Comment:** None

**Vote:** Roll was called and the motion was approved by unanimous vote.

**Agenda Item IV: Executive Director's Report**

**Announcement of Closed Session Actions (Discussion)**

Peter V. Lee, Executive Director reported contracting matters, litigation and personnel issues were deal with during the Closed Session. Mr. Lee expressed his emotions regarding Lizelda Lopez' departure from Covered California. Mrs. Lopez helped launch Covered California on the first day. She has been a huge contributor in Southern California, the Latino community and as a spokeswoman for the Affordable Care Act

with Telemundo's national broadcast. Mrs. Lopez left her position as the Deputy Director of Communications at Covered California and accepted the position of Communications Director for Senate President Pro Tem Toni Atkins.

Mr. Lee then recognized Taylor Priestley. Ms. Priestley has been appointed to the position of Health Equity Officer. Ms. Priestley has worked various roles in her five plus years with Covered California. Mr. Lee praised Ms. Priestley's contributions and announced her new role will include the management of a population care unit. This unit will have a staff of six and will work closely with Lance Lang, Medical Director.

The Board meeting schedule has been updated. There will be no meeting in August. The December meeting may be canceled. Mr. Lee encouraged everyone to "stay tuned" regarding further changes to the Board meeting calendar. There will be advanced notice if the September meeting is changed.

### **Executive Director's Update (Discussion)**

Peter V. Lee briefly outlined items for discussion in his Executive Director's Update. Mr. Lee discussed the meeting-day release of the budget book. He understood there was little time for the public to review the document and expressed his appreciation for their understanding. Mr. Lee stated a revised budget would be taken up for Action at the June 2018 Board meeting. He welcomed comments throughout the month and at the next Board meeting.

Mr. Lee then called attention to reports included in the Board Materials. Covered California submitted comments on the federal regulation of Short-Term Limited Duration plans. Mr. Lee encouraged examination of the reports and research related to the federal regulation of Short-Term Limited Duration plans, indemnity plans, and Sharing Ministry plans. Mr. Lee expressed Covered California's concern regarding the potential for these plans to mislead and/or harm consumers.

Mr. Lee also called attention to Covered California's letter to Secretary Azar and Administrator Verma. The letter's attached report analyzed telling data regarding changes in enrollment numbers. Mr. Lee explained the letter was sent to ensure Secretary Azar and Administrator Verma had data on hand to make good policy decisions. He stated they can still make decisions for 2019 to invest in enrollment. At the federal level, there is still time to make decisions regarding reinsurance which could reduce premiums for 2019.

Mr. Lee called attention to a last-minute addition to the reports and research. The report was a Kaiser Family Foundation study on market stability from 2017. The report found that after years of instability in the individual market, in 2017 health plans nationally were stabilized. Mr. Lee stated the stability of the markets may be different for 2018 but he believes the cost-sharing reduction strategies that Covered California helped to implement may mean this year will also be relatively stable.

Mr. Lee called attention to the California Health Care Foundations report. Dr. Sandra Hernandez commissioned the report. The report is about understanding the impact of the short-term plans and flagging concerns about other limited benefit products.

Mr. Lee also mentioned a report on the consolidation at the provider level. The report found that in the last six years, not only has market consolidation increased significantly but with that concentration providers were charging higher prices.

Mr. Lee then presented updates from Covered California. Mr. Lee expressed his pride in Covered California's commitment to public service. Covered California has 1,400 people working to make health care available.

Mr. Lee described the Innovation Tour as part of ongoing efforts to think about how Covered California's enrollees get the right care at the right time – now and in the future. On May 2<sup>nd</sup> and 3<sup>rd</sup>, the Covered California leadership team traveled to Silicon Valley to learn from leading technology experts and researchers who are on the cutting edge of healthcare innovation. Stops included: The Stanford Clinical Excellence Research Center, Mindstrong Health, the Lucille Packard Children's Hospital, the Palo Alto Medical Foundation Research Institute, 23andme, and Google.

Covered California was featured at the RevTechX State Technology showcase on May 16<sup>th</sup> and 17<sup>th</sup>. This was a statewide forum for state and local public-sector entities on "disruptive technologies" such as Artificial Intelligence, machine learning, and robotics. Covered California presented on three implemented technologies: Document Imaging and Verification Solutions (DIVS), ChatBot Pilot, and FastMaps/Geospatial Information Systems.

#### **Update on 2018 Special Enrollment Kickoff (Discussion)**

Mr. Lee stated that despite national stories of non-functioning markets, Covered California saw higher enrollment numbers during open enrollment from the previous year's numbers. When open enrollment was complete, Covered California shifted gears and launched into the special enrollment period. At the kickoff of special enrollment, Covered California acknowledged and celebrated the accomplishments and contributions of all the partners. There were four events in San Diego, Pasadena, Fremont, and Sacramento. The thousands of attendees included certified enrollment representative, carrier representatives, Medi-Cal representative, and community leaders. These events were facilitated by the Outreach and Sales Division, Field Operations, and Account Services Team.

The special enrollment campaign phase 1 began on February 1, 2018 and will run through July 30, 2018. The objective is to motivate and educate consumers who are experiencing a life changing event to find out if they qualify, compare options, and choose a health insurance plan through Covered California. Information is provided in various languages. Targeted segments include Latinos, African Americans,

Asian/Pacific Islanders, and LGBTQ. Certificates of Appreciation were distributed for efforts in helping Californians get health coverage.

### **Review of Navigator Criteria for 2019 (Discussion)**

Mr. Lee stated the Navigator Program is a very important part of Covered California's current success. Covered California would like to continue the strong partnerships and strong collaboration. There are currently forty-three navigator organizations and all of them have been partnered with Covered California since Open Enrollment 1. There are 466 locations statewide and they are in every one of the nineteen rating regions. Enrollers speak more than nineteen languages. There are 918 certified enrollment counselors. Year-round enrollment, education, and customer service support is offered. There are 775 publicly posted statewide local events by the Navigators through the Event Portal at <http://hbex.coveredca.com/navigator-program/>.

Despite the large size of the Navigator Program, only 5% of enrollments come from the program. The budget for the program is tiered to and geared to reflect the level of enrollment. A small increase in the budget is being taken to the Board. This will increase the grants by about \$200,000 across the board. Many of the existing partners are expected to want to continue in the next three-year round. Some underserved regions/populations will be targeted.

Mr. Lee stated his presentation on the Navigator is a very high-level overview but there will be a more detailed webinar in May.

The Navigator Program is currently funded through a Block Grant model. The proposed grant model is performance-based. There would be seven total payment periods. One payment would be based on the work plan. Five payments would be based on progress reports submitted for outreach activity goals. One payment would be based on effectuated enrollment. There is an urgency in that everything needs to be in place prior to September 1<sup>st</sup>. Decisions must be reached by mid-August. The final request for applications will be released after the June Board meeting. A draft request for applications will be posted before the next Board meeting.

Chairwoman Dooley asked if there were any public comments.

### **Public Comment:**

Maria Romero-Mora with the California Coverage and Health Initiatives. Ms. Mora stated they represent over thirty organizations across the state since before the implementation of the Affordable Care Act. Ms. Mora acknowledged that the open enrollment period is less than three months. She stressed that families seek assistance when they face glitches in enrollment. Often this assistance is sought after hours. Ms. Mora argued that more than 5% seek assistance through the Navigator Program.

Betsy Imholz, Consumers Union expressed appreciation on the creation of the Health Equity Officer role. Betsy also expressed her appreciation on the special enrollment period. Ms. Imholz believes outreach is more important than ever with the threat and

confusion coming from Washington on other limited kinds of policies. Ms. Imholz said she will watch for more information regarding the Navigator Program. She appreciates the value of the Program and believes they play an incredible role in the communities not just with enrollments but also with renewals. Ms. Imholz stated she plans to view the webinar.

Carrie Sanders, California Pan-Ethnic Health Network (CP-EHN) thanked Lizelda Lopez for her amazing work at Covered California. Ms. Sanders expressed her excitement in the filling of the Health Equity Officer position and said she looks forward to introducing her members and working together. Ms. Sanders is pleased to see everyone recognizing the value of the Navigator Program. She thinks about the way the Navigator's work is evaluated. She said part of it is effectuating enrollments and part of it is holding people's hands and helping them resolve their problems.

Jen Flory, Western Center on Law and Poverty stated their appreciation of Covered California's commitment to health equity. She congratulated Taylor Priestley on her appointment to the Health Equity Officer position. She said they are pleased the unit will contain several staff positions and not just one person in charge of health equity with regards to special enrollment. Ms. Flory said that Western Center's view has always been that special enrollment would be larger than open enrollment. She is pleased there is special attention to alert people regarding what those changes are and when they can enroll and get coverage. Ms. Sanders stated she relates to Maria Romero-Mora's comments regarding receiving their cases when consumers have tried a lot of different things. She said she understands that Navigators also work with Health Consumer Alliance partners on technical assistance when there are problems with specific cases. She stated they are thrilled to the Navigators in the budget and will leave them to decide on the feasibility of the plan going forward.

Beth Capell, Health Access California echoed previous comments regarding special enrollment, health equity and population health and looks forward to working with Taylor Priestley. Ms. Capell expressed her shared concern regarding short term plans and association health plans. She said they are expressing their concerns vigorously through legislation. Ms. Capell stated they appreciate the funding for the Navigator program. Ms. Capell said that the perspective of an executive director of a community-based organization thinking about budget may be lost. She suggested this perspective must be balanced with that of performance. She pointed out that Covered California has a budget but so do the organizations that serve as Navigators.

Peter V. Lee then stressed strong agreement and affirmation with the public comments. Mr. Lee stated Covered California looks forward to any input received from the webinar and prior to the next Board meeting.

### **Covered California for Small Business (CCSB) Program Review (Discussion)**

Peter V. Lee noted that more time is spent discussing the individual market as opposed to Covered California for Small Business. Some of this is natural because they are very small, have temporary subsidies available to some small businesses but they are not

comparable to what is available in the individual market. Mr. Lee plans to strategically review Covered California for Small Business over the next six months and to bring it back to the Board for consideration to determine where Covered California for Small Business fits relative to the small business market and the products offered. There will be three components to the strategic review: An Environmental Scan, an Infrastructure Review, and Framing Paths Forward.

Efforts will include stakeholders in the strategic review process to inform and validate research. This includes surveys, interviews, engagement with plan advisory committee and potentially other forums with the following: Small businesses (offering and not offering Covered California plans in 2019), Employees in businesses offering Covered California, Carrier, Current agents and GA's selling CCSB, Agents that sell small group business but do not sell CCSB.

Mr. Lee reported that a Board committee subgroup including Members Paul Fearer and Jerry Fleming will meet and talk regarding these issues and bring their thoughts back to the full Board. Mr. Lee presented some proposed completion dates. Board approval to proceed with the Covered California for Small Business strategic review is scheduled for May 17, 2018. The presentation of the findings to the Board is scheduled for October 1, 2018. Consideration of the Covered California for Small Business issues at Board meetings is scheduled for October 11, 2018 and/or November 8, 2018. These dates are subject to change.

Mr. Lee asked if there were comments from the Board.

Board Member Paul Fearer commented saying discussion regarding the need for this has been ongoing for several years but other items were prioritized. He believes it is a good time to examine whether the current small business offerings are responsive to an unmet need in the state, are we doing something that others are not, and are there other ways we can enhance or improve the benefit we are currently offering. Mr. Fearer stated we need to recognize other purposes (beyond the literal purpose) served in examining this offering. Beyond it being consistent with the requirements of the ACA it also helps to market Covered California.

Board Member Jerry Fleming described the impact Covered California has on the individual market. He explained that it is evident that Covered California can have an impact on this smaller enrollment market. Mr. Fleming briefly described some differences in the two markets and the challenges in attempting to impact the CCSB marketplace.

### **Federal Policy Update (Discussion)**

Peter V. Lee noted that Covered California is directly impacted by both state and federal policy. Covered California shares information on the federal level to provide examples of what could be done (at the federal level) to stabilize marketplaces. Mr. Lee reported that there have been fruitful discussions that were very bipartisan up until a month or so ago. There was recognition from both Republican and Democrats on ways to stabilize

the individual markets. Unfortunately, Mr. Lee believes much of the nation will experience severe premium increases in 2019. Mr. Lee expects the increases will not be as severe in California and credited the efforts to create a competitive marketplace. Covered California will continue to inform the discussions. Many of these discussions are now taking place at the state level. These discussions regarding affordability and access to health care coverage and a part of California's march toward universal coverage. Last October, the California's Assembly Select Committee on Health Care Delivery System Universal Coverage held a series of public hearings. Advocate labor organizations have also put forward bills. Covered California is working to understand these bills and, where appropriate, provide technical assistance to members of the legislature.

Mr. Lee then relayed service center information. Covered California handled 200,000 calls in April compared to 250,000 calls last year. In April, 79% of the calls were handled within thirty seconds compared to last year's 50%. Mr. Lee reminded everyone that Covered California's Call numbers fluctuate with the time of year.

Chairwoman Dooley asked if there were any public comments.

**Public Comment:**

Beth Capell, Health Access California acknowledged how the Affordable Care Act has provided to millions of Californians and Americans and recognized that the help provided is still not as much as advocates hoped for in 2009 and 2010. They look forward to working in California to provide more affordable health care for those both above and below the 400% poverty level. Ms. Capell described the costs for a married couple in their early 60s. She reported costs of \$14,000 to \$19,000 for a couple living on \$70,000 to \$80,000. She said this is for broad coverage with a deductible of \$3,000 or \$6,000. She stated this is an astonishing amount to expect them to pay on health care.

Ms. Capell then stated that Health Access along with Small Business Majority sponsored the California legislation that Governor Brown signed into law. She stated they could not have understood at that time, the roll that Covered California now has in the individual market. She believes it is a good time to contemplate the lessons learned from the small group market.

Jen Flory, Western Center on Law and Poverty concurred with Beth Capell regarding the premium assistance and cost-sharing reductions. Ms. Flory reported how they work with low-income consumers below 138% of the poverty level. She stated some of these consumers would qualify for free medical if not for their immigration status. Two percent is expensive for consumers. Ms. Flory stated their full support for legislative proposals that endeavor to acquire more assistance for this group and for all consumers on Covered California who are paying considerably more than people with employer coverage.

Mark Herbert with Small Business Majority spoke via telephone. Mr. Herbert said they appreciate the focus on Covered California for Small Business. They look forward to working with the Board and with staff in the future. They appreciate the work that has been done to date and hope to be a part of the conversation moving forward.

## **Agenda Item V: Covered California Policy and Action Items Proposed Covered California Budget and Review of 2019 Projections (Discussion)**

Peter V. Lee briefly outlined the budget presentations. He stated PricewaterhouseCoopers (PwC) would present first followed by a presentation by Dora Mejia and himself. Mr. Lee then spoke in memoriam about Sandi Hunt. Ms. Hunt led the PricewaterhouseCoopers team for many years. She recently passed away after a long battle with cancer. Mr. Lee praised Ms. Hunt for her leadership in PricewaterhouseCoopers and in her community. He described her as a truly remarkable extraordinary person who will be missed.

Chairwoman Dooley took the floor and explained the value in PwC's presentation in relation to the budget discussion. Ms. Dooley stated it is important to understand the effect of the penalty and enrollment because it is used to build the budget. They look at how enrollment numbers impact premium negotiations. Covered California is completely funded by a premium surcharge. Where that is set and anticipated revenue drives the budget discussion.

Susan Maerki introduced herself as a director in the health care practice at PricewaterhouseCoopers. Ms. Murphy agreed with Mr. Lee's comments regarding Sandi Hunt. Ms. Maerki credited Sarah Levi with a majority of the work in her presentation. Ms. Maerki summarized the presentation at a high-level.

Ms. Maerki presented a timeline of the unraveling of events impacting the national individual market and in California. Two major disruptors were in 2018, the government stopped funding the cost-sharing reductions. California (and two other states) responded by adding a surcharge to silver level plans on the exchange. This strategy served to increase the advanced premium tax credits and to minimize the impact of the premium increase for the subsidized population.

The major challenge impacting the 2019 open enrollment period is going to be the elimination of the penalty associated with the individual mandate. Ms. Maerki presented information on market factors considered as potential impacts. She explained that for the presentation, she would focus on three them: The elimination of the Individual Mandate Penalty, The impact of marketing and outreach budgets, and the potential for changes in CSR funding.

Ms. Maerki said they looked at the research that has been done on the estimated enrollment decreases that will be associated with eliminating the penalty. There have been survey and micro simulation models done at the national level and California level.



There is a broad range of estimates. She said it is important to think about this in three parts.

First, it is important to look at the immediate impact of the elimination of the mandate. Next, if enrollment decreases because younger and healthier people leave, it will increase the risk mix for those who remain. The third part is a secondary effect of this. People will not buy insurance because of the additional change in premiums due to the risk mix.

There are 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. 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.

Aggressive marketing and outreach leads to better risk mix and lower premiums. New enrollment is essential to maintain healthy risk pool and stabilize premium. The Covered California 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%.

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. 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

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

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

Sarah Levi then presented on the market overview. Ms. Levi first looked at **enrollment** outcomes in 2019 based on the publicly available range of individual mandate penalty elimination impacts. The information was arranged based on factors expected to have the largest impact. The elimination of the individual penalty was determined to have the most significant impact. Other factors include an increase in minimum wage, marketing and outreach, and limited benefit health plans.

There is an expected decrease in Medical enrollment because many people learn they are eligible for coverage when they visit Covered California's website. These people may be less likely to shop for coverage without the mandate. Overall the changes could lead to a potential increase in the number of uninsured of approximately 500,000 to 1.2

million. The goal is to keep enrollment losses and premium increases to the lower end of these ranges.

There are many potential multi-year impacts of individual mandate removal (2019 - 2023). 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.

Dr. Sandra Hernandez asked if PricewaterhouseCoopers looked at other states who have passed their own mandates to see what it might do to premiums and/or enrollment.

Ms. Maerki said the short answer is “no.” They do plan to watch for that data. Currently they only have old Massachusetts data that relates to this question but they do plan to follow up.

Dr. Hernandez stated the data PricewaterhouseCoopers presented make it quite clear that the mandate is by far the strongest device available to both maximize enrollment and reduce premiums. Ms. Maerki agreed.

Mr. Jerry Fleming asked about the range of estimates. Mr. Fleming asked if the data allowed them to see what the two or three key assumptions that move the numbers the most. Mr. Fleming stressed the need to watch for early indicators and asked if they had any insights.

Ms. Maerki stated the assumption that the subsidized population is more premium sensitive. The concern/consideration is whether the advanced premium tax credits are sufficient to help relieve consumer concern regarding the cost of health care. The general assumption is they will “stick” better than consumers off the exchange. People over the 400% bear the full brunt of the all the premium increases. Within the unsubsidized market there will be more premium issues. Well-to-do people are assumed to value health insurance. People with health needs will stay. We do not have a lot of information about the risk mix of people within the various income levels. The Harvard Survey did try to make an estimate and came up with about 5-9% premium increase.

Mr. Fleming stated that looking at the category of consumers right above the 400% poverty and beginning to look early on their termination or enrollment pattern would be important. Ms. Maerki agreed.

Mr. Art Torres then asked if there was data on what the demographics would look like of those people who are decreasing their participation because of the mandate.

Ms. Levi said that they do have anecdotal data. The surveys did provide a breakdown of different demographics but the data is national data. It can be difficult to translate them into something useful for California because it is a very different view. Surveys from Kaiser and the Urban Institute both provided demographic breakdowns on groups most likely to drop from coverage.

Mr. Torres asked if any of the information presented was indicative of California. Ms. Levi stated the Harvard Survey was California specific and provided demographics but those were just two end points out of the range.

Mr. Peter V. Lee thanked PricewaterhouseCoopers for their presentation. He acknowledged that the question of which of these “crystal balls” is clearest is difficult to answer. Mr. Lee described a situation where Covered California’s team did not fully agree with PricewaterhouseCoopers findings. One state has had a penalty in place (Massachusetts). No states have enacted a penalty after the Affordability Care Act was implemented. One other state (New Jersey) has legislation to enact a penalty but it’s not even been signed by their governor. We are dealing with several best estimates. Covered California has different projections from the assumption around subsidized verses unsubsidized. The Harvard Study is partially released. They are still trying to analyze who subsidized and unsubsidized people will react to the penalty. Covered California’s best estimates are that the likelihood to drop coverage is the same on and off exchange but it is easily as likely to see subsidized individuals more likely to drop coverage. The California Simulation of Insurance Markets (CalSIM) is performing new modeling which is expected to be released within a month or so. This model will update these numbers. It is important to understand that we are in a window of uncertainty. Everything will be certain in a few months. We need to make the best possible estimates now.

Mr. Peter V. Lee then transitioned to discuss the budget. He explained that he would present along with Dora Mejia. Mr. Lee first gave a brief overview of his presentation. He said it is a challenging time for the individual health market, which continues to face significant uncertainty. However, 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. The vision is to improve the health of all Californians by assuring their access to affordable, high-quality care. The mission is 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. Work at Covered California is organized around five pillars: affordable plans, needed care, effective outreach and education, positive consumer experience, and organizational excellence. There are three cross-cutting areas of attention. First, innovating for the long term and being nimble in the present. Second, using Covered California's experience to inform policy in California and nationally. Third, working with others to promote changes in care delivery that benefits all Californians.

Mr. Lee outlined the Affordable Plans pillar. Consumers purchase and keep Covered California products because they are a good value. The broad strategy has three parts. First is to actively negotiate rates and benefits with carriers to provide best value. Second is to invest in marketing/outreach to promote the value of coverage and maintain healthy risk mix. Third is to 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 include the new Consumer Experience Division. This 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.

Mr. Lee outlined the Needed Care pillar. The broad strategy to ensure consumers receive the right care at the right time has two parts. First, 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. Second, 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 include expanding efforts to promote improvements in care delivery through clinical, enrollment and qualitative survey data to identify opportunities to promote change. A second enhancement is 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.

Mr. Lee outlined the Outreach and Education pillar. Consumers understand what we offer and have a positive attitude about Covered California. The broad strategy is to make significant investments in marketing and outreach to motivate consumers to get and maintain their insurance coverage as well as educate and support Covered California's 20,000 sales partners 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.

Mr. Lee outlined the Positive Consumer Experience pillar. Covered California wants to ensure consumers have a positive experience from initial enrollment to keeping their coverage.

The broad strategy has three parts. First, 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. Second, the mobile website design allows consumers to use all features on any device. Third, the Ombuds Office was 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. Covered California is also investing in Information Technology (IT) to stay on the cutting edge of technologies that can benefit consumers.

Mr. Lee outlined the Organizational Excellence pillar. Covered California has the right tools, processes and resources to support our mission. The broad strategy has two parts. First, to operate as a nimble and responsive enterprise that responds quickly to the changing environment in health care. Second, Covered California 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.

Mr. Lee outlined the first (of three) cross-cutting initiative, 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. Most 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.

Mr. Lee outlined the second cross-cutting initiative, 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.

Mr. Lee outlined the third cross-cutting initiative, working in partnership with others to promote changes in care delivery that benefits all Californians. Covered California is 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. Covered California is also 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.

Mr. Lee then presented on 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. 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.

Mr. Lee then presented Covered California’s projection for 2019 potential enrollment and premium increases. PricewaterhouseCoopers collected multiple sources of projections of individual market enrollment decreases and total premium changes. PricewaterhouseCoopers’ 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. Based on Covered California projections, all scenarios project significant declines in individual market enrollment.

Dora Mejia, Chief Financial Officer, gave an update on the 2017-2018 budget. Covered California saved approximately \$1 million of the \$319.6 million budget and will end the fiscal year with \$310 million in reserve, which is equivalent to eleven months of operating expenditures. Ms. Mejia mentioned that Covered California is projecting to end the fiscal year with higher than expected revenue of \$11.8 million.

Covered California is proposing, in fiscal year 2018-2019, a budget of \$350.2 million, which includes \$340.2 million for expenditures, 3,199 positions and funding for a capital projects reserve of \$10 million. This budget funds and promotes Covered California’s focus on the strategic pillars and includes a multi-year financial summary. The Budget, the 2019 assessment rates and the new capital projects reserve will come back in June for Board approval.

Next, Ms. Mejia talked about Covered California’s Individual Enrollment and Revenue Forecast. As done in the past, Covered California looked at alternate enrollment assumptions using a variety of sources both inside and outside Covered California. Three enrollment scenarios have been modelled: High, base and low and considered premium impacts for premium drivers and potential enrollment decreases to arrive at a projected revenue estimate. The forecast is informed using the data presented

previously by PwC and prepared using an updated enrollment model, with projections that include the loss of the federal mandate, increasing medical costs and the health insurance provider moratorium for 2019.

The pre-enrollment forecast scenarios covered the enrollment loss due to the elimination of the mandate. For 2019, the enrollment loss for the elimination of the mandate ranged from 7% to 26% with the base being used for the budget is 12% with the potential enrollment loss of 162,000 members. Based on this information, Covered California is projecting a total premium increase of 11%. This includes a 7% increase in medical costs, 6% attributable to the elimination of the mandate and an offset of a 2% decrease due to the suspension of the health insurance provider fee. This base forecast is a midpoint between the high and low scenarios compatible with the CalSIM 2.0 model and similar to the loss estimated by the Congressional Budget Office.

Ms. Mejia reviewed the alternative scenarios that were reviewed that included an 18% enrollment reduction based on the Harvard Study and a 7% reduction based on the Kaiser Family Foundation study. Slides were presented to show how these possible scenarios would look and how they would impact revenue.

Ms. Mejia reviewed the 2018-2019 proposed budget numbers listed above and spoke about additional investments highlighted in the budget. The Consumer Experience Division will create a stronger focus on the consumer, drive and oversee divisions to optimize a consumer's experience through their healthcare coverage journey and cultivate a consumer centered culture. The Plan Management Division is receiving additional resources to strengthen Covered California's relationship with consumers, advocates, insurers, the California communities and its constituents. Population Care Resources will focus on equity, disparity and social detriments of health to analyze health care metrics with dedicated field resources tasked deep within the advocacy groups and the hospital systems. The Policy Division is also receiving resources to support several of Covered California's strategic priorities and cross-cutting initiatives. These additional resources have the capacity to inform state and federal policy, accelerate the development of evidence and health care purchasing strategies, respond to new proposals and cross-cutting initiatives, and monitoring previously implemented policies to ensure good practice and work with others to model a program to identify regulatory policies and procedures that may be outdated and inefficient.

Covered California is proposing the establishment of a capital projects reserve to pay for facility related projects to adequately address capital needs that will result in impending expiration of current lease agreements. For transparency, proposals will be subject to Board approval and amounts will be added and subtracted in line with the budget each fiscal year. The actual amount will vary and approval of projects will be subject to Covered California contracting rules.

Consistent with previous multi-year assessment plans, Covered California is proposing a reduction in the assessment rate in 2019's individual market from 4.0% to 3.75%. Covered California plans represent approximately 60% of total enrollment in the



individual market. Covered California estimates that the actual average assessment rate for 2019 will be 2.3% across the entire market. The recommended rate for Covered California for Small Business policies remains at 5.2% of premiums.

Covered California is starting 2018-2019 with a healthy reserve of approximately eleven months of operating expenditures and hoping to end 2019 with the same reserve. The outlook for 2021 is a reserve of approximately \$284 million. Covered California is well positioned with solid reserves and multi-year financial strategy.

Any comments or feedback on the budget should be sent to [boardcomments@covered.ca.gov](mailto:boardcomments@covered.ca.gov).

Ms. Mejia thanked her team, PwC and Covered California leadership for their hard work on the budget.

Board Member Sandra Hernandez, MD, thanked Ms. Mejia for the work on such a large budget. She mentioned that it was very understandable and applauded the investment in health equity. It is an important role and step toward Covered California's overall goals for population health. With the uncertainty that Covered California is operating under, the team should continue to focus on doing anything possible to mitigate decreases in enrollment and higher premiums.

Board Member Paul Fearer wanted to understand more about the contingency plans. Specifically, what happens if Covered California is operating at the lower enrollment as opposed to the mid-range. What would that mean for mid-year reductions and budget and operational implications. He remarked on how many of our numbers are calendar driven, but the budget is a fiscal year, which can cause some confusion.

Board Member Jerry Fleming echoed the comments that the budget was impressive. He remarked on all the factors that market issues can have on an organization. For instance, the size of the clientele Covered California serves, rates, etc., those will all hit the plan year and not the budget year. If things go wrong during the year, the next year would have to make up for it. This is something that should be included in the contingency plan. With regards to the assessment rate, is there a way to show how increasing rates and lowering the assessment fee affects the per member per month rate.

Chair Dooley responded to Board member Fleming by saying that even in year seven, Covered California has never been completely stable and without uncertainty which is why there has always been reserve and Covered California operates more like a non-profit whereas the reserve offsets the difference between plan year and fiscal year. Covered California has time to plan for something catastrophic and are conservative in the planning. She is proud of the work being done and of the 1400 employees that are committed to the organization. Everyone is holding their apprehensions at bay and working through the uncertainties together.

Mr. Lee thanked the Board members for their comments. Covered California is very committed to decreasing the concerned about the negative spirals of decreasing enrollment. California has benefited by virtuous cycle of enrolling more and healthier people, premiums have gone down, more people have signed up even in the face of the penalty. Covered California will continue to do everything to stay on this virtuous cycle.

Mr. Lee echoed Chairwoman Dooley's comments on the multi-year planning and having enough time to shift and adjust. He pointed to Table 7 of the budget book that outlines four years and what happened to enrollment. This projection gives Covered California time to adjust revenue and reduce expenses if needed.

Mr. Lee then discussed Board member Fleming's point regarding the lower assessment as a percentage of premium and Covered California is doing that even in a time of uncertainty. If future years, Covered California will review what is being charged as a percentage of premium but also per member, per month. Covered California serves the entire individual market, which is why the budget was presented in both forms. All 2.2 million people in California benefit from what Covered California is doing whether they purchase from the Exchange or not. When the cost is spread across the entire market, it is 2.3%.

This budget is a product of the people working at Covered California, and advocates and Mr. Lee welcomes any comment.

**Public Comment:**

Beth Capell, Health Access California, commented on the analysis done by PwC. She said that, although reluctantly, they have come to the realization that California should have an individual mandate and it is because of studies like the one PwC provided that her thoughts are based on. Ninety percent of the federal penalty payments made in 2018 were from households within the \$75,000 range, is consistent with California's range. Regarding the state penalty, Ms. Capell says to think about balancing the value of the subsidies and the income limitations to those below 400% Federal Poverty Level. Improving affordability is key to increase take-up and can be improved by increased revenues among other things. She also commented on the stability of the marketing and outreach budget because of their importance for enrollment. Lastly, she commented on contingency planning for economic downturn in the next year or two.

Jen Flory, Western Center on Law and Poverty and the Health Consumer Alliance, compared the amount it would cost to do reinsurance and adding additional subsidies. It appears to her that it would be better to give money to consumers. Next, she commented on the budget and that she was happy to see Health Consumer Alliance funded. Ms. Flory gave the Board a brief overview of what the Alliance does monthly with Covered California staff. She applauded the fact that Covered California not only invited critical feedback, but also pays for it.

Betsy Imholz, Consumers Union, commented on how every year, even though uncertainty, Covered California can produce a well thought out budget with

contingencies built in. She echoed statements of Covered California being a national model. She acknowledged the health equity investment, marketing and outreach and the consumer experience and service center investments as worthy budget investment items.

Carrie Sanders, California Pan-Ethnic Health Network (CPEHN), gave praise to Price Waterhouse Coopers enrollment report. It was very sobering. One concern that CPEHN is raising are the potential public charge regulations. These regulations could affect Covered California's enrollment and risk mix by making it more difficult for permanent residents and families with children to enroll in coverage and take advantage of the tax credits provided. She also praised Covered California's investment in the Health Consumer Alliance, consumer experience and health equity. It is a commitment to transform the health system.

Alicia Kauk, National Health Law Program and the Health Consumer Alliance expressed thanks to Covered California for its continued work to inform the federal policy landscape and its commitment to robust marketing efforts, particularly in the wake of the removal of the tax penalty for the individual mandate. She applauded Covered California's marketing efforts with the Medi-Cal to Covered California population, which she was involved in. She echoed her colleague's statements around funding Health Consumer Alliance again and is looking forward to continuing the work.

Wendy Soe, California Association of Health Plans, expressed their readiness to work with state leaders and other stakeholders to help protect California's individuals and families from coverage disruptions and higher premiums that are stemming from the federal level. The PwC analysis shows the importance of moving forward on the requirement to maintain coverage and improve affordability by providing increased subsidies to low income individuals and families. She notes that Californians are already familiar with the federal mandate so California should extend this requirement. They project the individual mandate will generate \$300 to \$400 million in penalty revenue that could be used for subsidies for the California marketplace.

John Newman, Kaiser Permanente, reiterated what others have said regarding the PricewaterhouseCoopers report. Kaiser's forecast falls within theirs in terms of enrollment impact. They see the loss of the individual mandate as a factor and believes a restoration of it could positively impact enrollment and premiums.

Mr. Lee reminded the public that comments on the Budget are welcomed for the June revision. He also announced that a Covered California Fresno Service Center employee, Stefan Madrigal, was awarded the annual Medal of Valor for intervening in an attack in which he was injured. He stopped an incredible injury from happening to someone. This shows what impeccable people are working for Covered California. He has been honored by the State of California and asks that all join in recognizing him for his valor.

The meeting was adjourned at 3:24 pm