COVERED CALIFORNIA POLICY AND ACTION ITEMS

October 18, 2018 Board Meeting

QUALIFIED HEALTH PLAN CERTIFICATION AND CONTRACTING STRATEGY FOR PLAN YEAR 2020 AND BEYOND

James DeBenedetti, Director, Plan Management

Discussion

MODEL CONTRACT 2017-2019

- Covered California is currently in second year of three-year contract period

- Typical certification cycle: For 2019 Certification process, applications would apply to next three-year contract period (2020-2022)

- Request extending current contract period for one year as Covered California plans to significantly refresh its requirements related to Quality, Network Management, and Delivery System Standards
  - Application during 2019 for 2020 plan year will be a continuation of the current contract

- Plan Year 2020 Certification Applications will be open to:
  - All licensed health and dental issuers
    - New entrants are eligible for one year contract term only - 2020
  - Covered California continues to encourage Medi-Cal Managed Care Plans to apply as new entrants
  - Covered California encourages existing issuers to expand to areas with less coverage

- Certification process in 2020 will apply to a new contract period 2021-2023

RATIONALE FOR EXTENSION

Evaluation of Attachment 7 articles identified the need for more time to analyze data and collect external data; and may result in significant revisions for the new contract period. This will not delay quality improvement strategy (QIS) work by issuers in the current cycle.

Extension would allow:

- Better engagement and alignment with other large purchasers
- Gathering additional data and analyses and conducting benchmarks (where applicable)
- Essential time to summarize and share results (as appropriate) with external stakeholders, solicit input, and incorporate feedback in new model contracts and attachments

BETTER ENGAGEMENT AND ALIGNMENT WITH OTHER LARGE PURCHASERS

- Increase engagement and alignment with other large purchasers in California: CalPERS, Medi-Cal, and DHCS.
- Review efforts by large national purchasers: e.g., Federal Employees Health Benefits Program, CMS, and large employers.
- What metrics and areas of service are other larger purchasers focused on and how to increase alignment?

EXTENSION ALLOWS TIME TO REVIEW RELEVANT ANALYSES AND INCREASE STAKEHOLDER ENGAGEMENT

- March 2019 – Share outcomes (as appropriate) with external stakeholders
- March/April - Obtain feedback
- May – July – Staff time dedicated to annual rate negotiation
- Aug/Sept – Integrate stakeholder feedback with development of new model contact and engage with stakeholders for review and feedback
- October – Final draft of New Model Contract
- November – Board presentation of 2021 New Model Contract
- January 2020 – Board approval of 2021 Model Contract

2021 MODEL CONTRACT TIMELINE

Analysis Reports and Benchmark Reviews

Rate Negotiations

Prep for Open Enrollment

Board review and approval 2021 Model Contract

Sept | Oct Nov | Dec | Jan 2019 | Feb | Mar Apr | May July | Aug | Sept | Oct | Nov 2019 to January 2020

Engage advocates & stakeholders on contract revisions:

- Attachment 7
- Performance Guarantees
- Other Contract Changes

Finalize 2021 Model Contract:

- Attachment 7
- Performance Guarantees
- Other Contract Changes

COVERED CALIFORNIA

REPORT TO LEGISLATURE ON MERGING INDIVIDUAL AND SMALL GROUP MARKETS (DRAFT)

PricewaterhouseCoopers

Discussion

www.pwc.com/

Covered California – Impact of Merging Markets

Key Findings

Covered California
October 18, 2018

Board Meeting

pwc

Background & Assumptions

California Legislature requested Covered California to evaluate the issues and considerations related to combining California's individual and small group markets into a single risk pool.

Scope

- The Affordable Care Act provided states with the option to merge the individual and small group markets
- The California Legislature asked Covered California to report on issues and considerations related to combining California's markets into a single risk pool
- PwC was engaged by Covered California to examine the impacts, and advantages and disadvantages of merging these markets

Merged Market Definition

- For this analysis, the merged market was defined as the merging of the risk pools of the individual and small group markets into a single pool for the purpose of rate setting and risk transfer calculations
- Each market would be subject to its own regulatory and licensing requirements, and can maintain the current product designs, issuer participation, and distribution channels.
- Only ACA compliant plans for both on-exchange and off-exchange were considered as part of the merged market
- These findings are based on the current market environment. Findings in the report should be reevaluated if there are significant changes in market conditions.

The concluding observations herein are preliminary. The content is subject to further comments and revisions.

Key Findings

1

Market Overview

Current state and comparison of the California individual and small group markets

2

Premium Impacts

Individual premiums expected to decrease, while small group premiums expected to increase

3

Impacts to Consumers

Consumers may see different premiums, issuer choices, and plan designs

4

Lessons from Other States

Massachusetts, Vermont, and District of Columbia

The concluding observations herein are preliminary. The content is subject to further comments and revisions.

Market Overview

The individual and small group markets in California share many similarities, but differences in key areas would impact a merged market.

Key Similarities

- Large and stable enrollment - approximately 2M members in each market
- Robust health plan participation - although in some counties, Individual market enrollees have limited or no choice of health plans
- Market and rating rules - guaranteed issue/renewability, no pre-existing condition exclusions, no health status rating, standardized rating formulas and age factors, EHB coverage, metal tiers, no annual or lifetime limits, same rating regions

Key Differences

- Enrollee risk characteristics - small group enrollees average 15%-20% lower risk than individual enrollees
- Available benefit and network options - more standardization exists in the individual market compared to the small group
- Product selections - small groups choose more generous benefit plans (average near Gold) compared to individual market enrollees (Silver on average)
- Differences in issuer participation between markets

Metric	Individual	Small group
Population size (member months)	2 Million Members (24.8 Million Member Months)	2 Million Members (24.0 Million Member Months)
Average metal level (actuarial value)	Silver (0.694[1])	near Gold (0.769)
Average risk score	1.306	1.115
Average premium PMPM	$440.39	$452.25

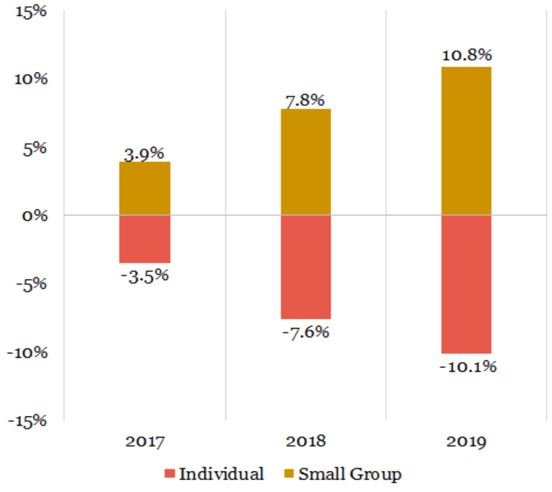
Note 1) The average includes individuals enrolled in subsidized Cost-Sharing Reduction (CSR) plans at the 73, 87, and 94% levels

Source: CA DMHC and CDI 2017 Enrollment Summary Reports; Center for Consumer Information & Insurance Oversight, CMS. Summary Report on Permanent Risk Adjustment Transfers for the 2017 Benefit Year, Released July 9, 2018 https://www.cms.gov/CCIIO/Programs-and-Initiatives/Premium-Stabilization-Programs/

Premium Impact

Merging the California markets into a single risk pool is estimated to decrease 2019 individual market premiums by an average of 10% and increase small group premiums by an average of 11%.

Estimated Change in Statewide Average Premiums Due to Merging the Markets



Source: 2019 DMHC and CDI Rate Filings for Issuers With >90% of Membership

Methodology:

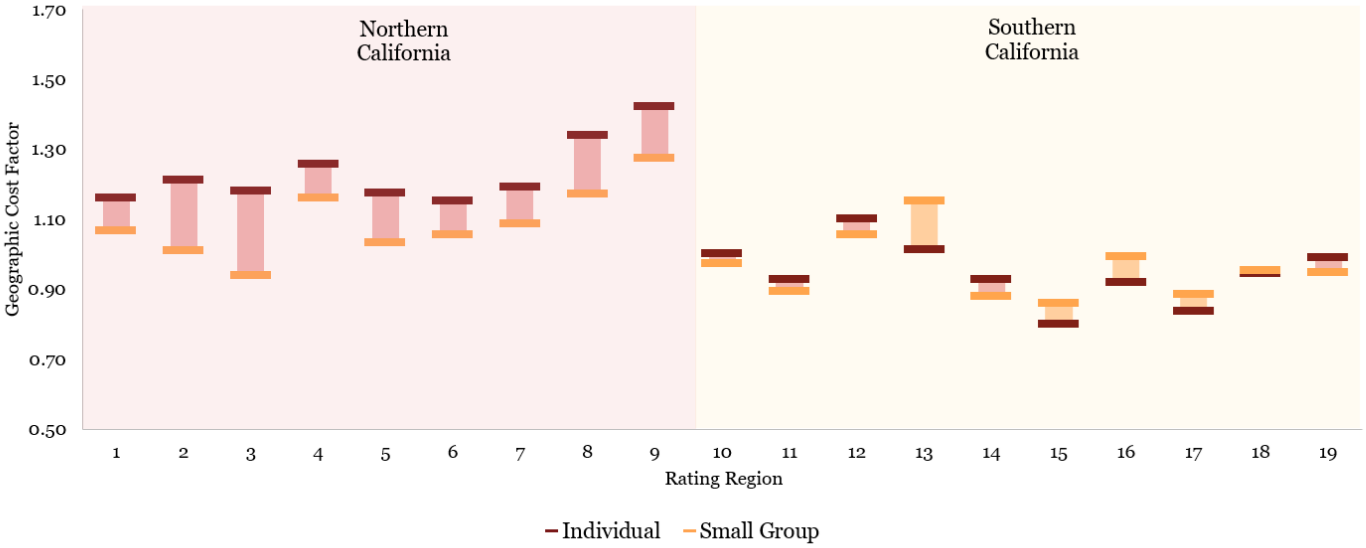
- Merged market premiums calculated using information from publicly available California Individual and Small Group rate filings
- Guidance from Uniform Rate Review Instructions published by CMS

Implications:

- Significant increase in small group rates to subsidize the individual market
- Merged market rate changes would vary widely by issuer
- Impacts on risk adjustment transfers and geographic rating factors is difficult to predict
- The magnitude of rate change is enough to destabilize the markets, and be particularly disruptive to small employers
- The uncertainty that is introduced would likely cause insurers to become more conservative at least in the short term, which would raise premiums and may limit choice

Premium Impact - Regional Variations

Merging the markets would cause additional short-term premium volatility due to issuer recalibration of geographic rating factors for the merged market. Merging the markets is unlikely to significantly impact the relationship between Northern California and Southern California premiums.



Source: Appendix B to 2017 Benefit Year Risk Adjustment Summary Report - HHS Risk Adjustment Geographic Cost Factor

Impacts to Consumers

A merged market would impact consumers in the two markets differently as they react to increasing or decreasing premiums and potential changes in coverage availability.

Consideration	Individual	Small Group
Premium Rates	• Unsubsidized individuals would benefit the most from premium decreases • Subsidized enrollees are largely insulated from rate changes • Much of the benefit of lower individual premiums accrues to the federal government through lower subsidy payments	• Premium increases may lead employers to rethink benefits offering or exit the market • Employees may experience a reduction in benefits and increases in coverage costs • Changes in enrollment and participation may impact risk score for a merged market
Insurer Choices	• Little impact on choice for individuals	• May impact which insurers participate in the market
Benefit Design	• Reduced premiums may provide individuals access to more generous benefit plans or expanded networks if offered	• Encourages benefit or network buy downs to keep costs down • More limited network products may reduce access to providers

The impacts of merging the markets would vary widely by issuer and region. While the lower premiums would be beneficial to individual market participants, the significantly higher small group premiums could reduce the number of people with ACA-compliant coverage.

Lessons from Other States

Other states that merged the individual and small group markets are so different from California that not much can be learned from them.

- Three states merged the individual and small group markets.
- A number of states, such as Washington and New Jersey, studied the impact of merging the markets, but did not proceed due to the increases to small group premiums and risk of potential instability in both markets.

State/District	Rationale	Circumstance	Result
Massachusetts	Reduction to individual premium rates, resulting in more affordable coverage	• Small individual market • Pre-existing similarities between markets • Individual mandate in effect • Low morbidity of the uninsured	Moderate increase in small group rates
Vermont	Increase options, reduce volatility, and decrease premiums in the individual and small group markets	• Small market overall • Guaranteed issue in place • No individual mandate	Additional options and benefit packages available to consumers including the incorporation of AHP members into Marketplace
District of Columbia	Administrative efficiency and stability	• Very small market • Low uninsured rate	Financially sustainable market with sufficient flexibility for small groups

The concluding observations herein are preliminary. The content is subject to further comments and revisions.

Concluding Observations

At this time, individual and small group markets are large and relatively stable. Merging the markets may destabilize both markets.

If markets were merged, small group premiums would increase while individual premiums would decrease.

Small group employers may look to offer cheaper benefits, limited network products, and/or reduce contribution.

Benefit of individual market premium decrease may encourage additional unsubsidized individuals to purchase insurance. However, benefits largely accrue to federal government.

In the short term, if markets were merged, consumers and issuers would face a significant amount of uncertainty and instability. Negative impacts to small employers may be particurly disruptive.

Longer term impacts are complex and difficult to predict.

The concluding observations herein are preliminary. The content is subject to further comments and revisions.

Thank You!

For more information, please feel free to contact any of our team members listed below

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MARKETING, OUTREACH AND ENROLLMENT ASSISTANCE ADVISORY GROUP AMENDMENT

Peter V. Lee, Executive Director

Action

SUMMARY

- California Health Benefit Exchange Board passed Resolution 2012-54 establishing the Marketing, Outreach and Enrollment Assistance advisory group (MOEA).
- The MOEA advisory group was established to provide a sounding board for marketing, outreach and enrollment assistance strategies to help us reach target and general audience populations.
- Board Resolution 2012-54 provided for 12 to 15 MOEA advisory group members.
- The MOEA advisory group met June 29, 2018 and provided guidance on continuing the group including a new selection process which was implemented and produced 30 applications for membership.
- The applicants represent a diverse group of stakeholders and interested parties that are uniquely qualified to provide valuable counsel to Covered California on marketing, outreach and enrollment assistance strategies.

BOARD ACTIONS

- Approve Board Resolution No. 2018-44 which states that we revise the Marketing, Outreach and Enrollment Assistance Advisory Group (MOEA) to allow for a maximum of 30 members.