COVERED CALIFORNIA POLICY AND ACTION ITEMS

May 16, 2019 Board Meeting

2020 PATIENT CENTERED BENEFIT DESIGNS

James DeBenedetti, Director of Plan Management

FINAL 2020 NOTICE OF BENEFIT AND PAYMENT PARAMETERS

- CMS finalized a change to the *premium adjustment percentage* using a new premium growth measure that includes individual market and employer-sponsored insurance.
- The premium adjustment percentage helps determine the required contribution percentage and the maximum annual limitation on cost sharing.
- The revised formula changes the 2020 annual limitation on cost-sharing from what was proposed in January:
  - Final 2020 annual limitation on cost sharing: **$8,150*** (3.16% / $250 increase from 2019) (Limit in Proposed NBPP was $8,200)
    - Silver 94 and Silver 87: $2,700 ($100 increase)
    - Silver 73: **$6,500** ($250 increase) (Limit in Proposed NBPP was $6,550)
  - Dental MOOP limit for stand-alone dental plans: $350 (no change)

*Covered California limit is $**7,800**

PROPOSED CHANGES TO MARCH 14TH BOARD-APPROVED 2020 PLAN DESIGNS

- Decrease maximum out-of-pocket by $50 to meet final NBPP annual limitation on cost sharing in 11 of the 16 plan designs
- Increase the Specialist visit cost share from $60 to $65 in the Individual-only Gold Plans to allow all issuers to meet AV requirements
- Bronze High-Deductible Health Plan:
  - Set deductible to $6,900
  - Maximum out-of-pocket display in the plan design: “See endnote”
  - New endnote #31: “The Bronze high-deductible health plan is contingent upon meeting the actuarial value requirements in state law. The out-of-pocket maximum in the Bronze high-deductible health plan shall be equal to the maximum out-of-pocket limit specified by the IRS in its revenue procedure for the 2020 calendar year for inflation adjusted amounts for high-deductible health plans linked to Health Savings Accounts (HSAs), issued pursuant to section 26 U.S.C Section 223.”

NEW MAXIMUM OUT-OF-POCKET FOR THE 2020 PLAN DESIGNS

The following Board-approved (March 14th) plan designs have a maximum out-of-pocket (MOOP) amount set above the annual limits in the final NBPP:

	MOOP for 3/14 Final Approved Design	AV for 3/14 Final Approved Design	Adjusted MOOP to meet NBPP limit	New AV with Adjusted MOOP
Individual-only Gold Coinsurance	$7,850	81.90%	$7,800	81.84%*
Individual-only Gold Copay	$7,850	78.29%	$7,800	78.25%*
CCSB-only Gold Coinsurance	$7,850	78.05%	$7,800	78.10%
CCSB-only Gold Copay	$7,850	79.65%	$7,800	79.68%
Individual-only Silver	$7,850	71.73%	$7,800	71.79%
Silver 73	$6,550	73.82%	$6,500	73.88%
CCSB-only Silver Coinsurance	$7,850	70.47%	$7,800	70.52%
CCSB-only Silver Copay	$7,850	70.15%	$7,800	70.21%
Bronze	$7,850	61.29%	$7,800	61.36%
Catastrophic	$8,200	N/A	$8,150	N/A

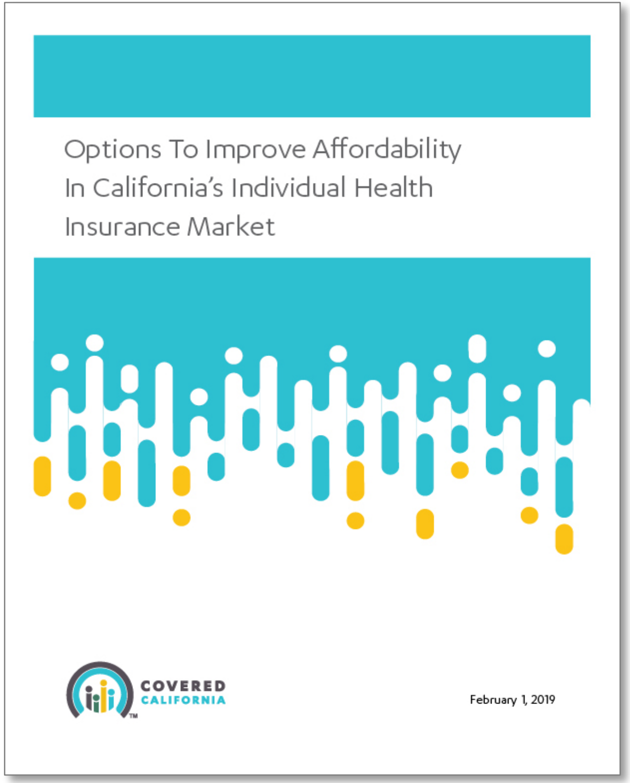
*Additional change made to Specialist visit to arrive at final AV

CALIFORNIA INDIVIDUAL MARKET STABILIZATION AND AFFORDABILITY PROPOSALS

Katie Ravel, Director of Policy, Eligibility and Research

COVERED CALIFORNIA'S WORK TO INFORM OPTIONS TO IMPROVE AFFORDABILITY IN CALIFORNIA'S INDIVIDUAL HEALTH INSURANCE MARKET

- Developed pursuant to AB 1810 (Committee on Budget, Chapter 34, Statutes of 2018), to develop and present options to improve affordability for low- and middle-income Californians to the Governor, Legislature, and Council on Health Care Delivery Systems.
- Five-month engagement of academic experts and Covered California's Policy Division with a workgroup of stakeholders, legislative staff and broad community input.
- Report presents multiple options to improve affordability in the individual market building on tools of the Affordable Care Act.
- Report available at: https://hbex.coveredca.com/data-research/library/CoveredCA_Options_To_Improve_Affordability.pdf


Options To Improve Affordability In California's Individual Health Insurance Market

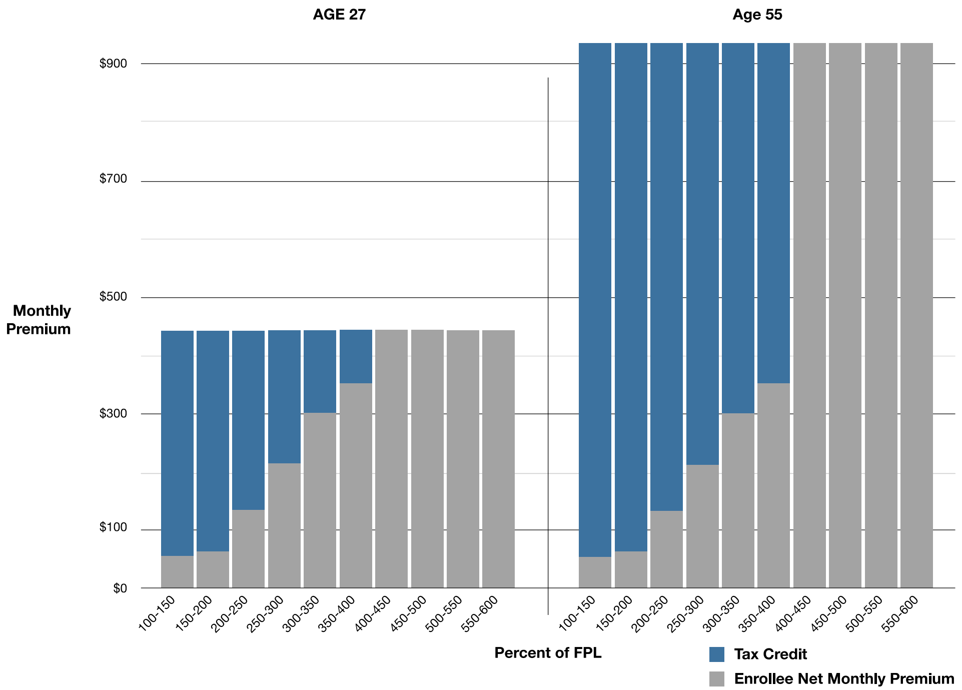
COVERED CALIFORNIA

February 1, 2019

AFFORDABILITY REMAINS A CRITICAL CHALLENGE FOR MIDDLE INCOME CONSUMERS

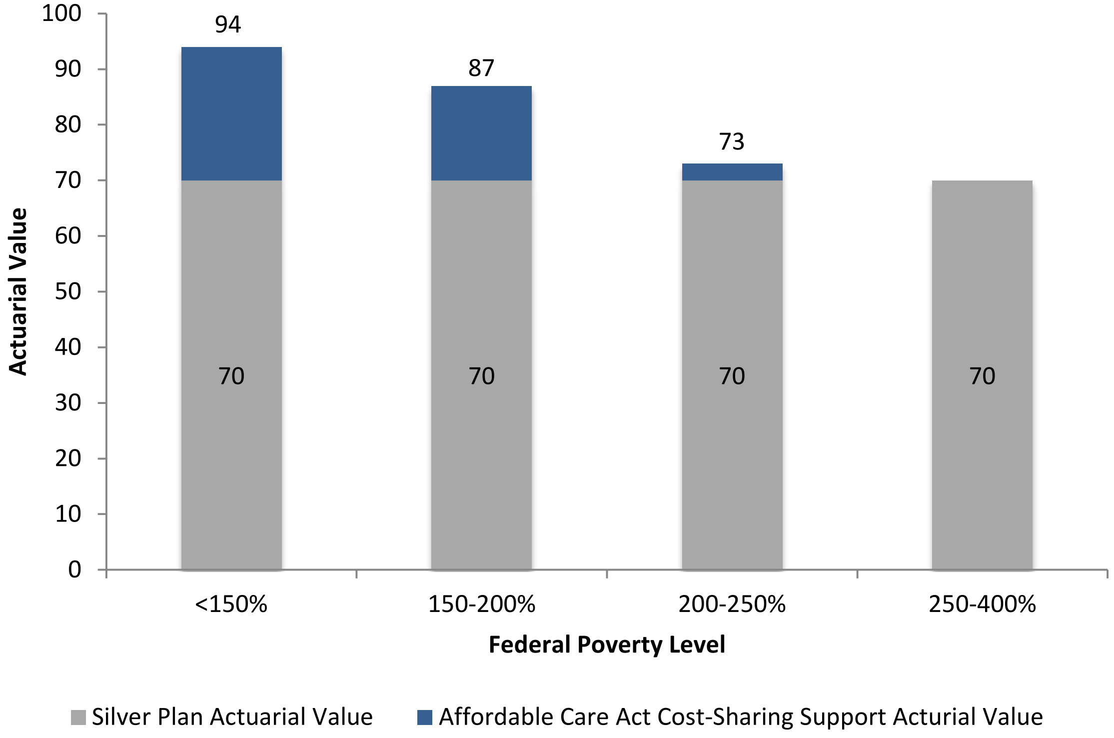
- Consumer share of premium (grey bars) jump for those just over the "subsidy cliff" at 400 percent of Federal Poverty Level. The impact is most severe for older consumers and those living in regions with higher health care costs.

Monthly Premium and Tax Credit by Age and Income Range in Alameda County



COST-SHARING CREATES AFFORDABILITY CHALLENGES FOR LOW & MIDDLE INCOME CONSUMERS

- Federal support for cost-sharing scales back significantly for individuals at 200 percent of the Federal Poverty Level and ends at 250 percent of the Federal Poverty Level.



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CURRENT AFFORDABILITY PROPOSALS

- Governor Newsom's fiscal year 2019-20 budget proposes to reinstate the individual mandate and penalty and offer premium subsidies for individuals between 200 and 600 percent of the Federal Poverty Level (FPL).
- Several bills have been introduced in the legislature that propose to reinstate the individual mandate and penalty; and, improve affordability through premium subsidies, or a combination of premium and cost-sharing subsidies.

COVERED CALIFORNIA IS PROVIDING TECHNICAL ASSISTANCE TO INFORM PROPOSALS

- **Modeling** building on the AB 1810 affordability report.
- **Program design considerations**
  - *Key points:* (1) in order to launch in 2020, premium subsides must mirror federal subsidy structure, (2) additional cost sharing subsidies cannot be implemented in time for 2020, (3) legislation must be passed in June to impact 2020 premiums and to be programmed into the eligibility system.

KEY ELEMENTS OF MAY REVISION PROPOSAL

- The proposal would reinstate the individual mandate and penalty to closely mirror the federal structure prior to the penalty being “zeroed out”.
- Penalty revenue would be used to provide additional premium subsidies for individuals from 200 to 400% FPL and new subsidies for qualified individuals from 400 to 600% FPL who do not qualify for federal premium subsidies.
- Consumers would have to purchase coverage through Covered California and would have to otherwise meet eligibility requirements for federal premium subsidies, with the exception of income, to receive the state subsidies.
- Subsidies would be advanceable and would be reconciled at year-end through the Franchise Tax Board.
- California penalty would be permanent but the amount would be offset if federal penalty was reinstated.
- State financial assistance program would sunset December 31, 2022.

FEDERAL POVERTY LEVEL FOR 2020 PROGRAM ELIGIBILITY

FEDERAL POVERTY LEVEL FOR 2020										
		SILVER 94 (100%-150%)		SILVER 87 (>150%-200%)	SILVER 73 (>200%-250%)					
	% OF FPL	100%	150%	200%	250%	300%	400%	450%	500%	600%
HOUSEHOLD SIZE	1	$12,490	$18,735	$24,980	$31,225	$37,470	$49,960	$56,205	$62,450	$74,940
	2	$16,910	$25,365	$33,820	$42,275	$50,730	$67,640	$76,095	$84,550	$101,460
	3	$21,330	$31,995	$42,660	$53,325	$63,990	$85,320	$95,985	$106,650	$127,980
	4	$25,750	$38,625	$51,500	$64,375	$77,250	$103,000	$115,875	$128,750	$154,500
	5	$30,170	$45,255	$60,340	$75,425	$90,510	$120,680	$135,765	$150,850	$181,020
	6	$34,590	$51,885	$69,180	$86,475	$103,770	$138,360	$155,655	$172,950	$207,540
	7	$39,010	$58,515	$78,020	$97,525	$117,030	$156,040	$175,545	$195,050	$234,060
	8	$43,430	$65,145	$86,860	$108,575	$130,290	$173,720	$195,435	$217,150	$260,580
	additional person add	$4,420	$6,630	$8,840	$11,050	$13,260	$17,680	$19,890	$22,100	$26,520

ANNUAL SUBSIDY PROGRAM DESIGN CYCLE

- Franchise Tax Board to estimate individual mandate penalty revenue through the state budget process.
- Department of Finance to provide to Covered California: (1) required use(s) of funding, (2) subsidy spending target for budget year and out-years, (3) allocation of funding above and below 400 percent FPL through the state budget process.
- Covered California Board to adopt annual program design in accordance with budget targets.
- Director of the Department of Finance to provide approval of the program design following notification to the Joint Legislative Budget Committee.

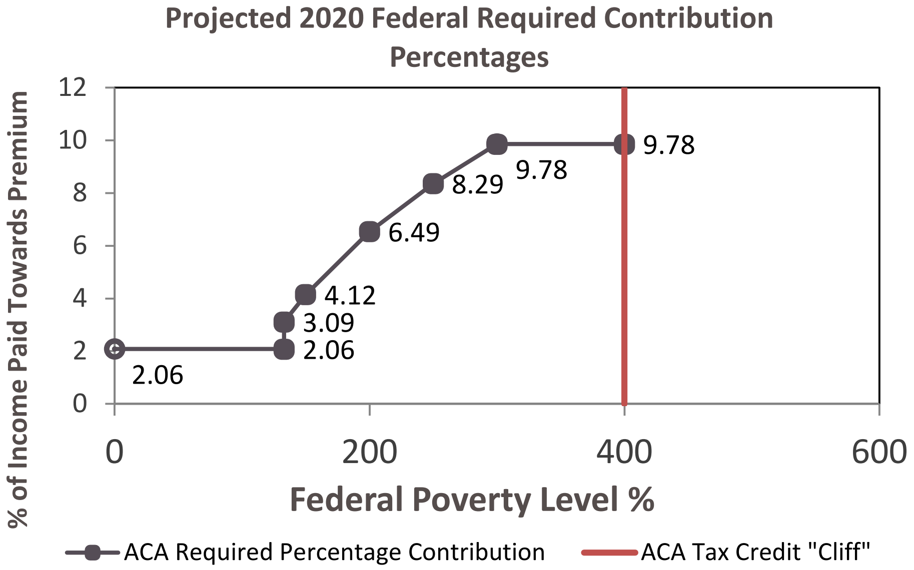
ADMINISTRATION'S PROPOSED HEALTH INSURANCE SUBSIDIES (GENERAL FUND, IN MILLIONS)

Administration's proposal calls for $295 million in state general fund for premium subsidies in 2020, with 75 percent of funding to be directed to those above 400 percent FPL.

Subsidy levels would have to be adjusted in coverage years 2021 and 2022 to maintain a budget-neutral program over three years.

	2019-20	2020-21	2021-22	2022-23	Total
Revenues	-	$317.2	$335.9	$352.8	$1,005.8
Expenditures	295.3	330.4	379.9	-	1,005.6
Totals	**-$295.3**	**-$13.2**	**-$44.0**	**$352.8**	**$0.2**

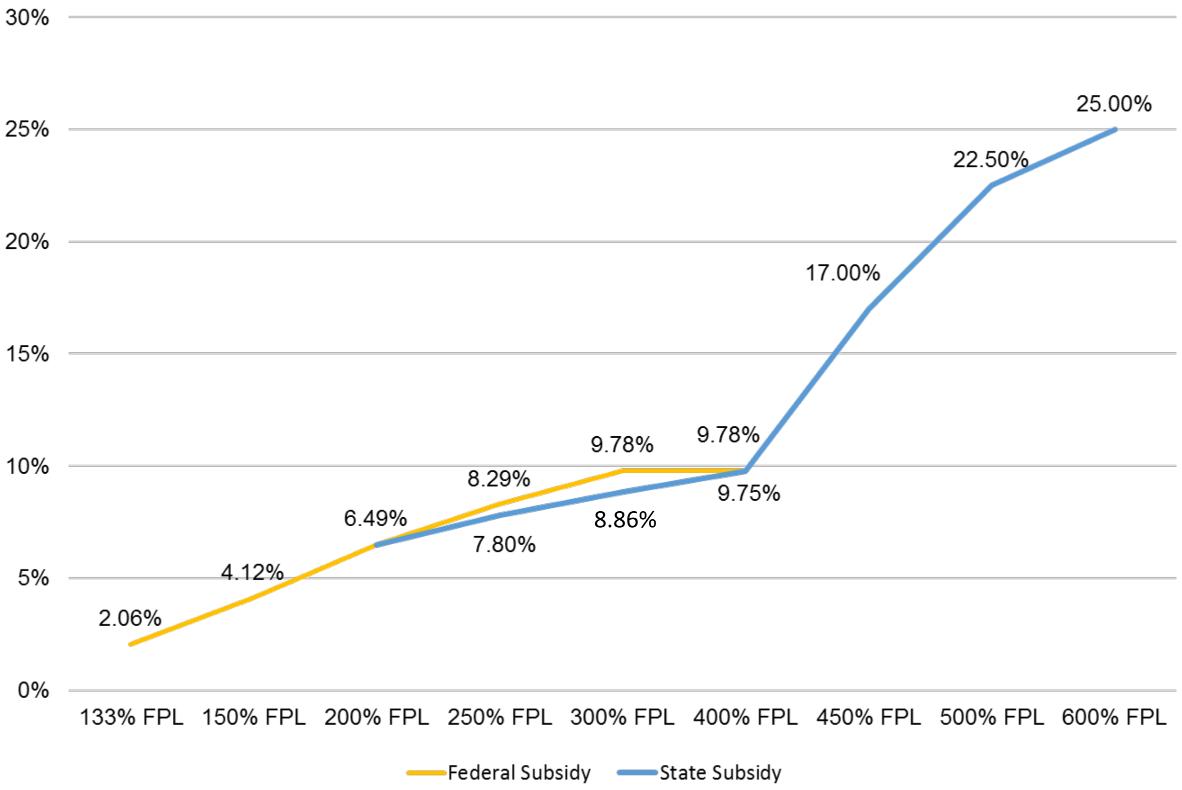
BUILDING ON THE FEDERAL METHODOLOGY FOR CALCULATING PREMIUM TAX CREDITS



Projected 2020 Monthly Benchmark Premium Contributions for a Single Consumer		
Federal Poverty Level	**Low**	**High**
Less than 133%	$21	$29
At least 133% but less than 150%	$43	$64
At least 150% but less than 200%	$64	$135
At least 200% but less than 250%	$135	$216
At least 250% but less than 300%	$216	$305
At least 300% but not more than 400%	$305	$407

The required contribution is the maximum amount that a household must pay toward their monthly premium. The required contribution amount is calculated as a percentage of the taxpayer's household income, based on the federal poverty level. This percentage increases on a sliding scale as the taxpayer's household income increases and is indexed each year through federal regulations. The premium tax credit is determined by taking the difference between the second lowest cost silver plan available in the consumer's region and the required contribution.

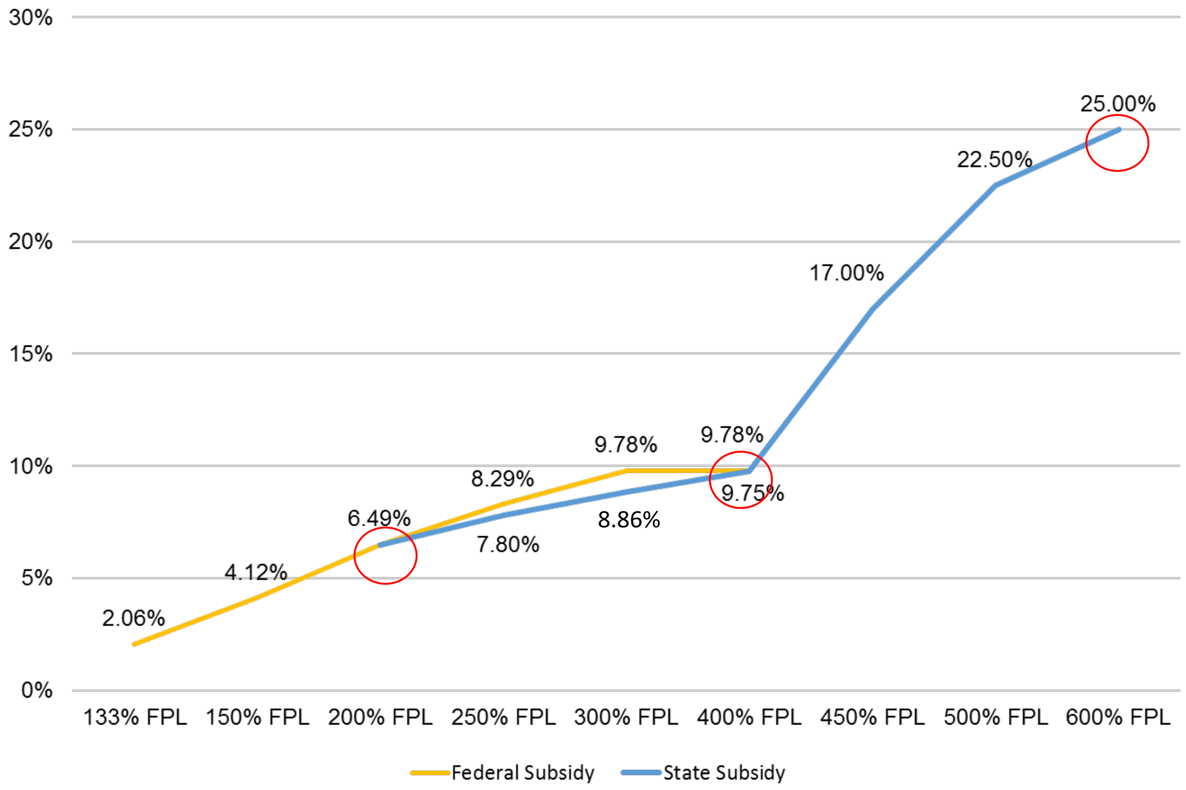
POTENTIAL STATE REQUIRED CONTRIBUTION LEVELS FOR 2020 BASED ON MAY REVISION PROPOSAL



KEY DYNAMICS FOR ESTABLISHING ELIGIBILITY LEVELS FOR THE ADMINISTRATION'S PROPOSAL

- Funding split above and below 400 percent FPL
- Budget "exposure" above and below 400% FPL
- Accounting for out-year cost growth
- Shape of the curve
  - Linear versus cliffs
  - Interaction of federal and state curves

DISCUSSION OF POTENTIAL ADJUSTMENTS TO THE REQUIRED CONTRIBUTION PROPOSAL



COVERED CALIFORNIA

PRELIMINARY MODELING OF KEY IMPACTS OF MAY REVISION PROPOSAL

Projected Outcomes, Coverage Year 2020	Total	Below 400% FPL	Above 400% FPL
Number of Individuals Eligible to Receive a State Subsidy	850,000	660,000	190,000
Average State Subsidy Per Household		$13	$144
Total State Subsidy Cost ($ millions)	$293,800,000	$72,500,000	$221,300,000
Estimated Number of Newly Insured Individuals through Covered California	178,000	101,000	77,000
Potential Range of Decrease in Premium Growth (compared to status quo)		4% - 8%	

Note: we estimate that an additional 45,000 Californians would be newly insured off-exchange under this proposal.

Economists Wesley Yin, University of California at Los Angeles, and Nicholas Tilipman, University of Illinois at Chicago, along with Covered California staff, have analyzed the potential impacts of the proposals on both Covered California's enrollment and the cost to the state of providing these subsidies.

ILLUSTRATING POLICIES THROUGH CONSUMER SCENARIOS

Subsidies provided to individuals between 400 and 600 percent of poverty will provide support to middle class Californians who are not eligible for federal premium tax credits.

Erin and Francis 62 years old Live in a high cost region Income: $72,000 425% FPL *Based on the second-lowest Silver plan offered in Oakland, CA.*		Affordable Care Act Baseline	Potential State Subsidy Design for May Revision Proposal
	Monthly Premium (SLS)	$2,414	$2,414
	Net Premium	$2,414	$801
	Net Premium Income Share	40.3%	13.4%
	Federal Premium Subsidy	$0	$0
	Proposed State Subsidy	$0	$1,613
	Silver Plan Medical Deductible (family)	$5,000	$5,000

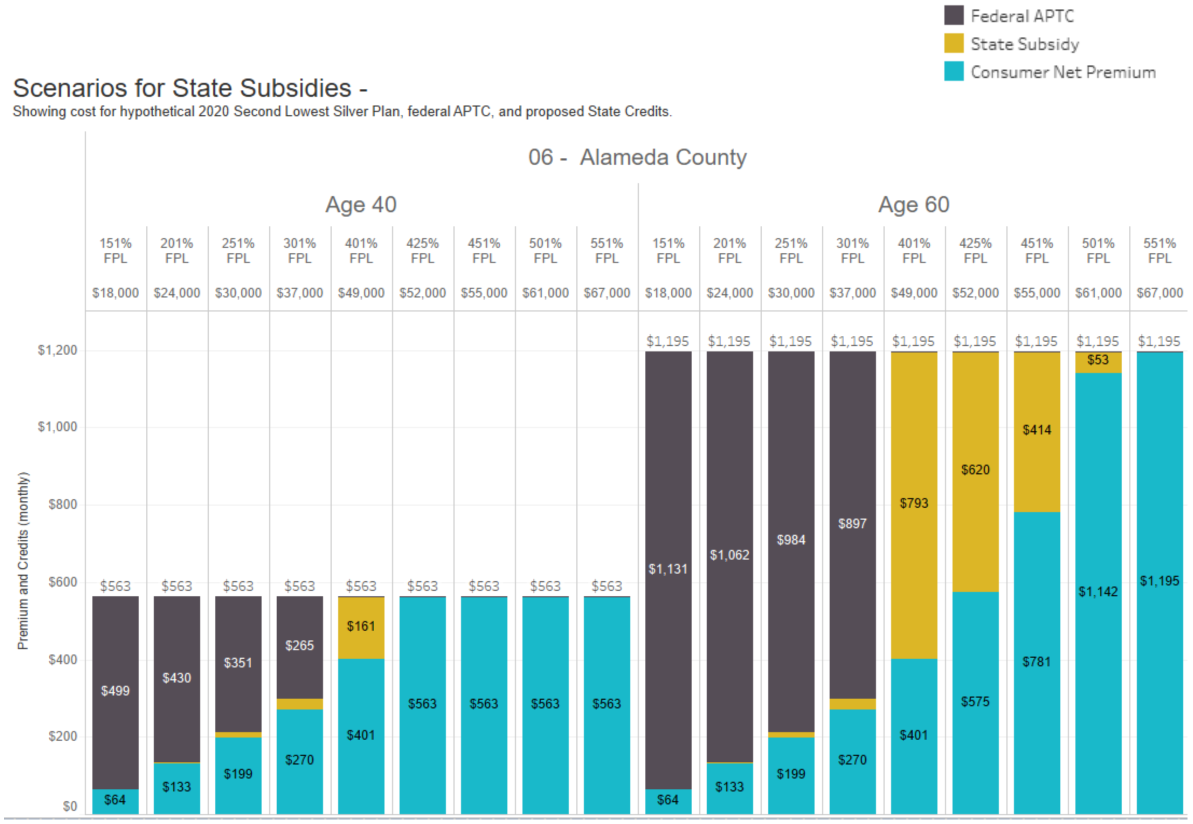
ILLUSTRATING POLICIES THROUGH CONSUMER SCENARIOS

Subsidies provided to individuals between 200 and 400 percent of poverty will provide additional support on top of the federal premium tax credit.

Alfonso 25 years old Lives in a low cost region Income: $34,000 275% FPL *Based on the second-lowest Silver plan offered in West Los Angeles.*		Affordable Care Act Baseline	Potential State Subsidy Design for May Revision Proposal
	Monthly Premium (SLS)	$301	$301
	Net Premium	$259	$238
	Net Premium Income Share	9.0%	8.3%
	Federal Premium Subsidy	$43	$43
	Proposed State Subsidy	$0	$20
	Silver Plan Medical Deductible (family)	$2,500	$2,500

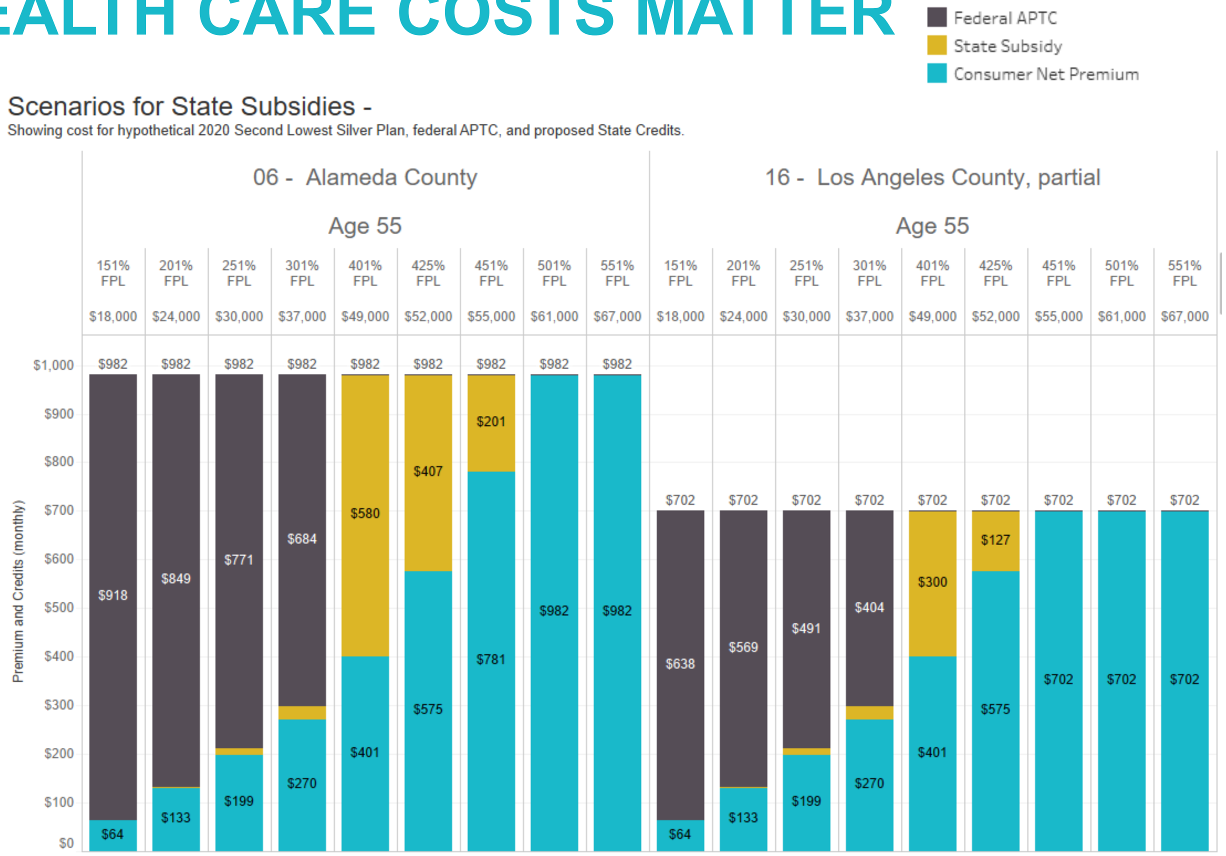
CREDITS WOULD VARY BY AGE, REGION, AND INCOME: AGE MATTERS

The state tax credits will be much more substantial for older consumers because they pay a much higher percent of their income on premiums than younger consumers.



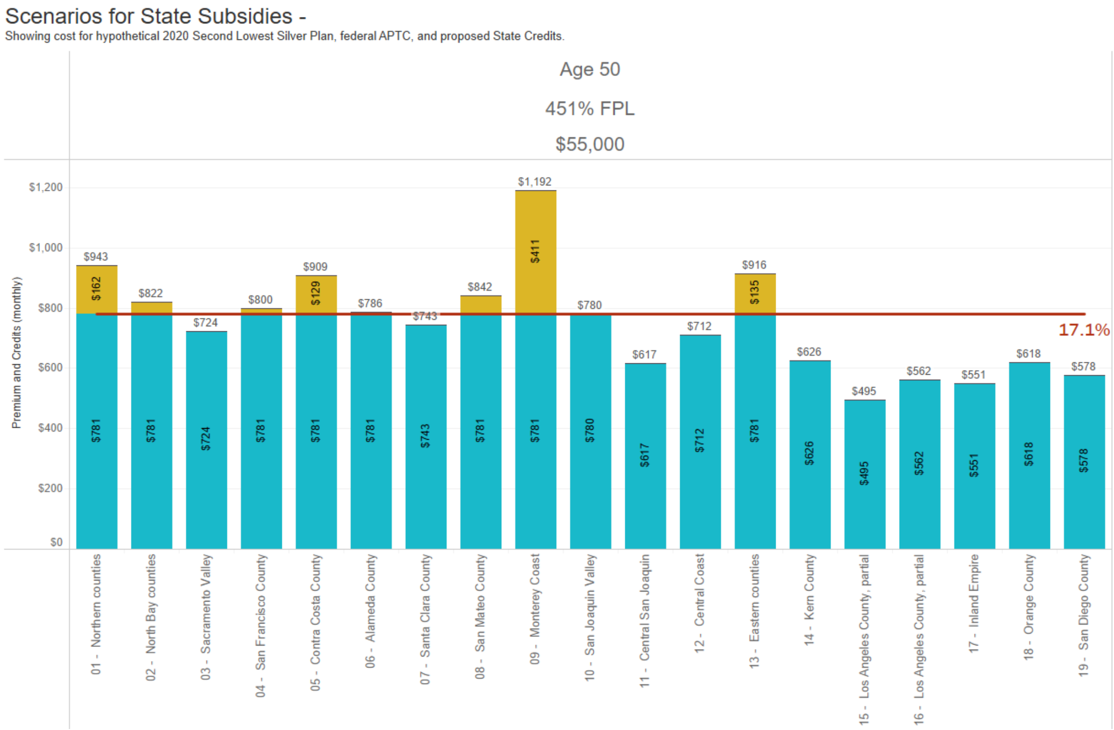
CREDITS WOULD VARY BY AGE, REGION, AND INCOME: REGION/LOCAL HEALTH CARE COSTS MATTER

Consumers living in areas with the highest health care costs will get the most help.



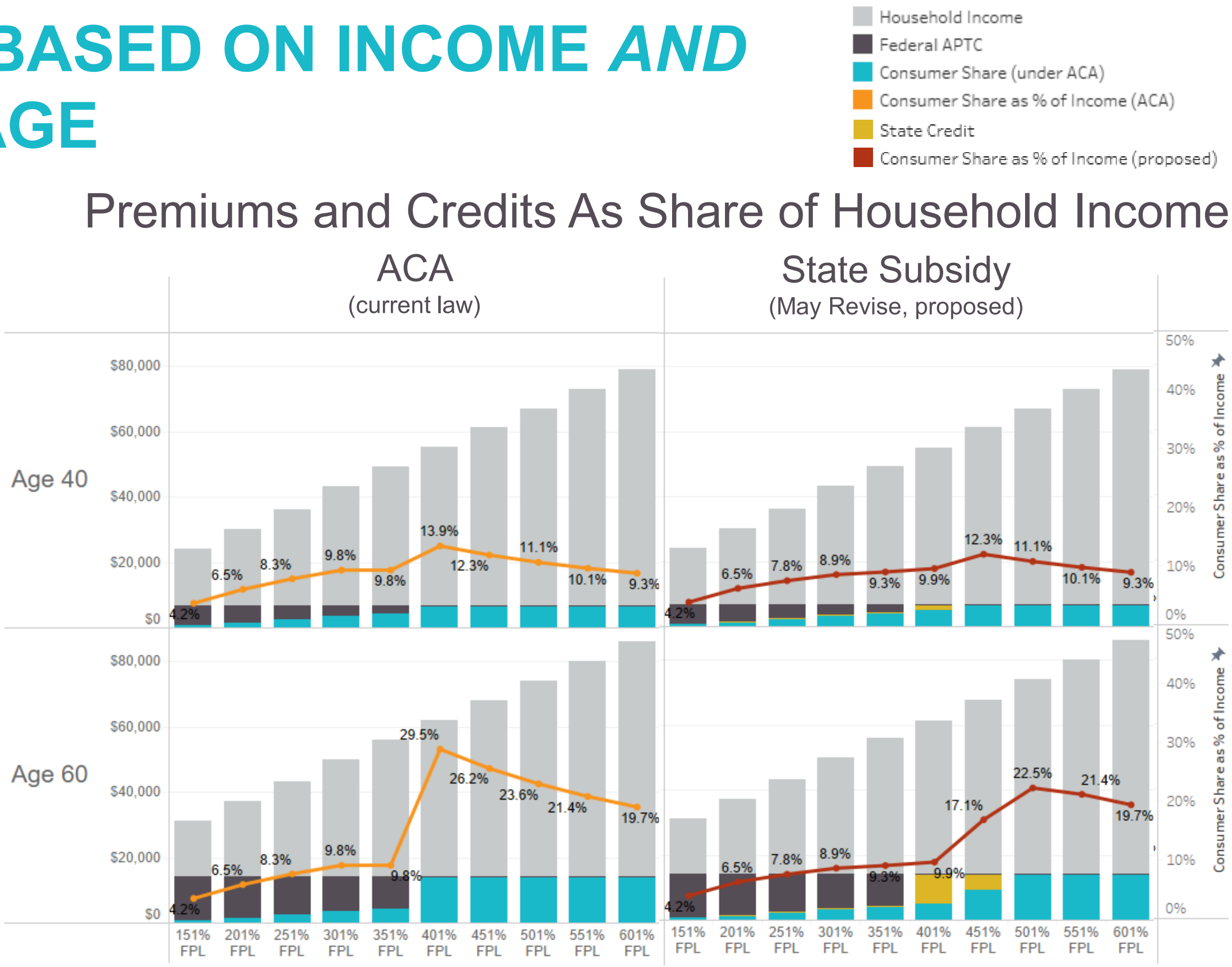
REGION/LOCAL HEALTH CARE COSTS MATTER

In many cases, premiums for those over 400% FPL are already below the maximum contribution set under the proposal. At right, we show that some 50 year old consumers at 451% FPL would receive subsidies and some would not because they would have access to a benchmark plan that is priced below 17.1% of the consumer's income.



FINANCIAL HELP BASED ON INCOME *AND* COST OF COVERAGE

At right, the orange line represents the percent of one's income needed to purchase a "benchmark" Silver plan under current ACA law. The amount a consumer spends for the benchmark plan varies by age and region.



Showing premiums for hypothetical 2020 Second Lowest Silver Plan as share of household income (bars), with APTC and proposed premium subsidies. Line shows consumer net premium as % of income (secondary axis).

YEAR-END CONSUMER RECONCILIATION OF ADVANCED PREMIUM SUBSIDIES

- The Administration's proposal would require consumers to reconcile their advanced premium subsidies at year-end through the Franchise Tax Board.
- This requirement mirrors the requirement that consumers reconcile their federal advanced premium tax credit.
- Federal reconciliation adjusts the consumer's final premium tax credit based on their year-end income compared to the income they projected when they applied for coverage.
- Through federal reconciliation, consumers may receive additional premium tax credit if their year-end income is lower than they projected when they applied with Covered California or they may have to repay all or a portion of the credit they received in advance if their year-end income is higher than they projected.
- Reminder that the federal advanced premium tax credit lowers the consumer's monthly bill, but advanced payment is made by the federal government to the health plan. The consumer's monthly net premium is the gross premium charged by the health plan minus the tax credit. The year-end reconciliation adjusts the percentage of the total premium paid by the consumer and the federal government.

FEDERAL RECONCILIATION CAPS

- Repayment of the federal premium tax credit is capped for individuals whose year-end income in at or below 400 percent FPL.
- Consumers whose year-end income exceeds 400 percent FPL must repay the entire amount of credit they received in advance.

Household FPL	Single	All other filing statuses
Less than 200%	$300	$600
At least 200% but less than 300%	$775	$1550
At least 300% but less than 400%	$1300	$2600
More than 400%	No limit	No limit

IMPORTANT DYNAMICS WHEN COMBINING FEDERAL AND STATE ADVANCEABLE PREMIUM SUBSIDIES

- Adding a state premium subsidy above 400 percent FPL will create large reconciliation flows when income shifts across 400% of FPL between enrollment and tax filing
  - Shift from 390% to 410%: consumer will owe back federal premium tax credit and be owed a California premium subsidy. Without reconciliation, the federal tax credit “cliff” would still exist for consumers who end the year above 400 percent FPL
  - Shift from 410% to 390%: consumer will owe back California premium subsidy and be owed federal premium tax credit. Without reconciliation, consumers could receive a refund of federal premium tax credit without repaying the state premium subsidy.

CONSIDERATIONS FOR DEVELOPING STATE RECONCILIATION CAPS

- Covered California staff will present recommended reconciliation caps at the June Board meeting.
- In developing recommendations, staff will consider:
  - Federal caps and the relationship of federal caps to premium subsidies received by consumers;
  - Extending caps beyond 600 percent FPL to mitigate the impact of the cliff.

INDIVIDUAL MANDATE PROPOSAL

- Would require California residents to enroll in and maintain minimum essential coverage, receive an exemption or pay a penalty.
- Generally mirrors the federal individual mandate and penalty with adjustments for California's filing threshold and other adjustments needed for a state-level penalty.
- Franchise Tax Board would collect the penalty through the income tax system.
- Covered California would grant exemptions year-round for hardship and religious conscience and Franchise Tax Board would grant additional exemptions (e.g., low income, unaffordability of coverage, short term gaps in coverage) through the filing process.

COVERED CALIFORNIA'S ROLE IN THE ADMINISTRATION'S INDIVIDUAL MANDATE PROPOSAL

- Administration's proposal requires Covered California to administer exemptions for hardship and religious conscience.
  - Hardship includes financial hardship and other life circumstances that would prevent an individual from obtaining coverage
  - Hardship exemptions can be granted throughout the year and entitle a consumer to purchase a catastrophic plan if desired.
- Using data provided by the Franchise Tax Board, Covered California will perform outreach to individuals who pay the penalty or receive exemptions.

COVERED CALIFORNIA'S ROLE IN ESTABLISHING THE PREMIUM SUBSIDIES: PROGRAM DESIGN DOCUMENT

- Administration's proposal requires Covered California's Board to adopt a an annual program design document.
- For the 2020 benefit year, the program design document must establishe eligibility levels and reconciliation caps designed to meet budget targets and required funding allocation to direct 75 percent of the funding to individuals above 400 percent FPL.
- Draft program design will be presented for discussion today to be ready for adoption at the June Board meeting.

OVERVIEW OF THE DRAFT PROGRAM DESIGN DOCUMENT

- The program design document has five main components:

1. Establishes the required contribution amounts for the state premium subsidy for 2020. The amounts are based on modeling performed by Covered California and designed to meet a $295 M budget with 75 percent of funding allocated over 400 percent FPL.
2. Establishes the calculation of the advanced payment of the state premium subsidy which mirrors the calculation of the federal premium tax credit with the exception that the advanced payment of the state premium subsidy amount is reduced by any federal advance payment of the premium tax credit. The consumer's total monthly credit will be the difference between the gross premium for the second lowest cost silver plan and the consumer's income-based required contribution.
3. Establishes eligibility requirements for state premium assistance that mirror the requirements for the federal premium tax credit with the exception of the federal income limits.
4. Defines key terms related to the calculation of the state premium assistance.
5. Sets up a framework for reconciliation caps. Note that Covered California staff are currently developing a proposal for reconciliation caps based on the proposed premium subsidy structure.

OPERATIONAL CONSIDERATIONS: 2020 RATE DEVELOPMENT

- Covered California must finalize rates in early July and transmit to State Regulators.
- Program parameters must be included in the budget to allow carriers to factor premium reductions into their final rate submissions.
- Covered California is coordinating with carriers and State Regulators on timing and other operational issues.

OPERATIONAL CONSIDERATIONS: SYSTEM DEVELOPMENT

- Covered California is developing system requirements for key components including:
  - Eligibility determinations which will begin in October for the 2020 plan year;
  - Carrier payments of the state premium subsidy amount which will begin in the first quarter of 2020; and
  - Reconciliation of the state subsidies which will begin in the first quarter of 2021.

OPERATIONAL CONSIDERATIONS: MONITORING EXPENDITURES

- The Administration's proposal is not an entitlement, therefore Covered California must be prudent in setting eligibility levels to fit within the budget targets.
- However, should expenditures exceed program funding within a benefit year, the budget bill provides a mechanism for Covered California to request a funding augmentation.
- Supplemental appropriations would likely be deducted from future years' program budgets.

KEY MILESTONES AND NEXT STEPS

Key Milestones	Dates
Administration's May Budget Revision Released	May 9, 2019
May Board Meeting - informational presentation and discussion of draft program design	May 16, 2019
Reconvene AB 1810 Affordability Advisory Group	Week of May 27, 2019
Qualified Health Plan Negotiations	June 2019
Deadline for Legislature to Pass the Budget Bill	June 15, 2019
Reconvene AB 1810 Affordability Workgroup	Week of June 17, 2019
June Board Meeting – presentation of budget outcome and action on program design if appropriate	June 26, 2019
Qualified Health Plan Preliminary Rates Announcement	July 2019
CalHEERS System Testing	July – September 2019
Start of Renewal for 2020 Benefit Year	October 2019

Meeting dates, times and agendas will be available online:
https://hbex.coveredca.com/stakeholders/AB_1810_Affordability_Workgroup/

Questions and feedback can be sent to policy@covered.ca.gov

COVERED CALIFORNIA
FY 2019-20 REVENUE, BUDGET AND ASSESSMENT PROPOSAL

Peter V. Lee, Executive Director
Dora Mejia, Chief Financial Officer

COMBINED ANNUAL REPORT TO THE GOVERNOR AND LEGISLATURE AND BUDGET BOOK

- Previously Covered California issued two separate reports: Fiscal Year 2018-2019 Budget, and Annual Report to the Governor and Legislature Fiscal Year 2016-2017.
- Both reports share common areas of information.
- Content from the Annual Report to the Governor and Legislature was merged with the Budget report.
- Starting in fiscal year 2019-20, a new combined report: Covered California Annual Report: Fiscal Year 2019-20, incorporates the Annual Report to the Governor and Legislature with the Budget report.

FY 2018-19 FINANCIAL UPDATE

FY 2018-19 FINANCIAL UPDATE

- Projected expenditures for FY 2018-19 are $320.0 million, which includes $193.8 million for operating expenses, $110.4 million for personnel services, and $15.8 million for Pro Rata and Supplemental Pension Payments; as compared to the board approved budget of $340.2 million.
- The remaining $20 million in savings will be transferred into the Capital Projects Reserve.
- Revenue is projected to be higher than budget by $23.9 million. The fiscal year began with higher than expected enrollment, and despite federal changes to remove the individual mandate penalty, enrollment stayed mostly intact due to an increasing number of existing consumers that renewed their coverage in 2019. This higher than anticipated retention of existing consumers offset the decrease in new signups.
- The opening balance for FY 2018-19 was higher than anticipated by approximately $12 million due to prior year expenditures that did not materialize in FY 2017-18. FY 2018-19 is projected to end with approximately $350 million in reserves, $36 million higher than expected.

	FY 2018-19 Approved Budget	FY 2018-19 Projected Actuals	Difference
Opening Reserve Balance	$313.6	$325.6	$12.0
Plan Assessments-Cash Basis	$351.1	$375.0	$23.9
Projected Operating Expenditures	($340.2)	($320.0)	$20.2
Margin Contribution - Cash Basis	$10.9	$55.0	$44.1
Capital Projects Reserve	($10.0)	($30.0)	($20.0)
Year-End Operating Reserve	$314.5	$350.6	$36.1
Number of months of reserve	**10.9**	**11.6**	

FY 2018-19 FINANCIALS: EXPENDITURE SAVINGS

Anticipated savings of $20.2 million, of which approximately $7 million is salary savings, can be found in the following program areas:

- Marketing, Outreach/Sales & Other: Savings of $10.8 million from lower than expected contract expenditures, including supporting paid media efforts.
- Service Center and Consumer Experience: Savings of $6.2 million is associated with appeals adjudication workload and salary savings from unfilled Permanent Intermittent positions.
- Technology: Lower than expected contract expenditures are attributed to a shorter than budgeted vendor CRM overlap, resulting in savings of $1.2 million.
- Administration: Savings of $1.7 million is primarily due to lower than expected contract expenditures which include litigation support, premium accounting services, facility operations and legal consulting and hearing services.
- Plan Management, Evaluation/Research: Savings of $400,000 is a result of salary savings from vacancies, offset by continued contract work on health plan quality improvement strategies not previously funded.

Dollars In Millions

	FY 2018-19 Approved Budget	FY 2018-19 Projected Actuals	Variance	%
Marketing, Outreach/Sales, & Other	107.4	96.6	(10.8)	-10%
Service Center & Consumer Experience	102.0	95.8	(6.2)	-6%
Technology	70.1	68.9	(1.2)	-2%
Administration	44.2	42.5	(1.7)	-4%
Plan Management, Evaluation/Research	16.5	16.1	(.4)	-2%
Total	**$340.2**	**$320.0**	**($20.2)**	**-6%**

ENROLLMENT AND REVENUE FORECAST FY 2019-20 AND BEYOND

INDIVIDUAL ENROLLMENT FOR 2019

- Covered California completed its fifth renewal period and sixth open enrollment with total plan selections estimated at 1.5 million, which is virtually identical to plan year 2018's total, despite federal changes.
- A key reason for the steady enrollment is that more people entered the renewal process for 2019 coverage after a strong enrollment period for 2018 and an increasing number of existing consumers are staying enrolled in their health plans.
- While overall enrollment remained mostly intact, the removal of the federal mandate penalty had a substantial impact on new enrollment, leading to a decrease of 23.8 percent in net new plan selections during open enrollment.

Covered California Plan Selections 2018 vs 2019

	2018	2019	Change
New Sign-ups	388,344	295,980	-23.8%
Renewals	1,133,180	1,217,903	7.5%
Total	**1,521,524**	**1,513,883**	**-0.5%**

INDIVIDUAL ENROLLMENT AND REVENUE FORECAST – BASE SCENARIO

The FY 2019-20 Base enrollment and revenue forecast is based on better than expected results from the sixth open enrollment period and assumes:

- Continuation of the elimination of the federal mandate penalty.
- Approximately three-quarters of the ultimate enrollment losses occurred in the first year of the elimination of the federal penalty.
- Year-over-year reductions in new enrollment effectuations will continue for plan years 2020 through 2022.
- Future premiums will escalate in line with long-run medical cost trends, 7 percent per year on average, and the presumed end of the moratorium on the Annual Fee on Health Insurance Providers, which would boost premiums 1.6 percent in 2020 only.

Dollars in Millions

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Base Enrollment Scenario	Effectuated Enrollment (fiscal year end)	1,358,870	1,327,497	1,291,608	1,281,825
	Plan Assessments-Cash Basis	$375.0	$373.7	$369.5	$362.7

MULTI-YEAR ENROLLMENT FORECASTS: CURRENT FEDERAL PENALTY VS. STATE SUBSIDY AND PENALTY PROPOSAL

- Covered California produced two different models to project FY 2019-20 enrollment and revenue forecasts: one, the steady state, with the continued impact of the elimination of the federal mandate penalty, and another with adoption of a state subsidy and state-level penalty.
- Both models include a Base Scenario and alternative estimates.
- The implementation of a state subsidy and state-level penalty is projected to increase Covered California enrollment to almost 1.6 million Californians at the end of FY 2019-20. This represents an increase of more than 250,000 over the steady state Base forecast, and does not include additional enrollment gains from off exchange.

Contrasting Enrollment with and without State-Level Penalty and New Subsidies

	FY 2019-20	FY 2020-21	FY 2021-22
Base: Current State/Federal Policy	1,327,497	1,291,608	1,281,825
Base: Including the Governor's Proposal - Penalty and Subsidy	1,584,975	1,585,329	1,592,473
Enrollment Increase with State Action	257,478	293,721	310,648

MULTI-YEAR OUTLOOK

COVERED CALIFORNIA MULTI-YEAR FINANCIAL FORECAST: BASE ENROLLMENT ESTIMATE

Dollars in Millions	*FY 2018-19 Approved Budget*	**FY 2018-19 Projected Actuals**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Effectuated Enrollment (fiscal year end)	*1,201,447*	1,358,870	1,327,497	1,291,608	1,281,825
Opening Reserve Balance	*$313.6*	$325.6	$350.6	$343.0	$320.3
Plan Assessments-Cash Basis	*$351.1*	$375.0	$373.7	$369.5	$362.7
Projected Operating Expenditures	*($340.2)*	($320.0)	($361.4)	($372.2)	($383.4)
Margin Contribution - Cash Basis	*$10.9*	$55.0	$12.3	($2.7)	($20.7)
Capital Projects Reserve	*($10.0)*	($30.0)	($20.0)	($20.0)	($20.0)
Year-End Operating Reserve	*$314.5*	$350.6	$343.0	$320.3	$279.6
Number of months of reserve	*10.9*	**11.6**	**11.1**	**10.0**	**8.5**

Plan Year Individual Market	**2018**	**2019**	**2020 Proposed**	**2021 Tentative**	**2022 Tentative**
Total Annual Individual Market Premium ($ millions)	$13,685	$14,564	$15,444	$16,083	$17,078
Plan Assessment Rate - Percentage On Exchange	4.00%	3.75%	3.50%	3.25%	3.00%
Plan Assessment Rate - Percentage On/Off Exchange	2.6%	2.4%	2.3%	2.1%	2.0%
Average Monthly Gross Premium	$545	$590	$641	$686	$734
Premium Growth Assumptions	19.2%	8.4%	8.6%	7.0%	7.0%
Plan Assessment Estimated Per Member/Per Month On Exchange	$21.46	$22.16	$22.48	$22.36	$23.76
Plan Assessment Estimated Per Member/Per Month On/Off Exchange	$13.99	$14.45	$14.66	$14.58	$15.49
Plan Assessment Estimated PMPM Year-over-Year Change	19.5%	3.26%	1.44%	-0.53%	6.26%

The Base Multi-Year estimate assumes:

- Continued moderated impacts from the elimination of the federal mandate penalty.
- It does not include the impact from expanded subsidies to promote affordable coverage, or the implementation of a state mandate.
- Growth in average premiums of 8.6 percent in 2020, and 7 percent in 2021 and 2022
- An assessment rate reduction from 4.0% to 3.5% for plan year 2020, 3.25% in 2021 and 3.0% in 2022.
- Projected operating reserves of at least 8 months through FY 2021-22.
- A year-over-year increase in operating expenditures of 3.0% beginning in FY 2020-21

PROPOSED HEALTH INSURANCE SUBSIDIES

- The Governor's FY 2019-20 May Revise Budget proposes a State Financial Assistance and Individual Shared Responsibility program to begin on January 1, 2020.
- The program includes a General Fund (GF) appropriation of $295.3 million in 2019-20, $330.4 million in 2020-21, and $379.9 million in 2021-22 to provide these subsidies to consumers.
- This appropriation does not increase Covered California's operating budget, augment the California Health Trust Fund, change the agency's status as an independent public entity, or impede the Board's authority to authorize expenditures from the California Health Trust Fund to pay program expenses to administer operations.

COVERED CALIFORNIA MULTI-YEAR FINANCIAL OUTLOOK BASE SCENARIO WITH STATE PENALTY AND SUBSIDIES

Dollars in Millions	*FY 2018-19 Approved Budget*	**FY 2018-19 Projected Actuals**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**
Effectuated Enrollment (fiscal year end)	*1,201,447*	1,358,870	1,584,975	1,585,329	1,592,473
Opening Reserve Balance	*$313.6*	$325.6	$350.2	$361.0	$387.9
Plan Assessments-Cash Basis	*$351.1*	$374.6	$392.2	$419.1	$418.0
Projected Operating Expenditures	*($340.2)*	($320.0)	($361.4)	($372.2)	($383.4)
Margin Contribution - Cash Basis	*$10.9*	$54.6	$30.8	$46.9	$34.6
Capital Projects Reserve	*($10.0)*	($30.0)	($20.0)	($20.0)	($20.0)
Year-End Operating Reserve	*$314.5*	$350.2	$361.0	$387.9	$402.5
Number of months of reserve	*10.9*	**11.6**	**11.6**	**12***	**12***

* Estimated reserves currently exceed 12 months in these out-year periods. Appropriate adjustments will be made if necessary.
Expenditures do not include an internal variable cost of approximately $20 million per year for consumer support

The Base estimate includes:

- Enrollment gains of 285K in 2020 from state subsidies and mandate.
- An assessment rate reduction from 4.0% to 3.5% for plan year 2020, 3.25% in 2021 and 3.0% in 2022.
- Projected operating reserves of approximately 12 months in FY 2019-20.
- A year-over-year increase in operating expenditures of 3% beginning in FY 2020-21.
- Average premium growth rates of 2.6% in 2020, compared to 8.6% in “steady state”.

COVERED CALIFORNIA'S BUDGETED EXPENDITURES TO SUPPORT NEW SUBSIDIES AND STATE PENALTY

Covered California's FY 2019-20 proposed operating budget will provide the additional resources needed to ensure that our organization has the necessary tools, processes and capabilities to meet its expanded responsibilities as follows:

- $15 million over 3 years for enhancements to the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) to integrate the state financial assistance program including reporting requirements with Franchise Tax Board, data warehouse functionality, processing subsidy payments to health plans on behalf of consumers and enrollment reconciliation.
- $150,000 for the creation of a new process to grant exemptions from the state individual mandate in accordance with legislation.
- $100,000 in data integrity initiatives to ensure consistent and accurate data within the core systems of CalHEERS for the proposed enhancements.

MULTI-YEAR OUTLOOK CAPITAL PROJECTS RESERVE

In FY 2018-19 the capital projects reserve included a budgeted $10 million and an additional transfer of $20 million in unspent funds from the operating budget. There were no expenditures from the capital projects reserve in FY 2018-19; however, Covered California anticipates spending approximately $10 million in lease and workspace improvements for the Fresno and Rancho Cordova Service Centers starting in FY 2019-20.

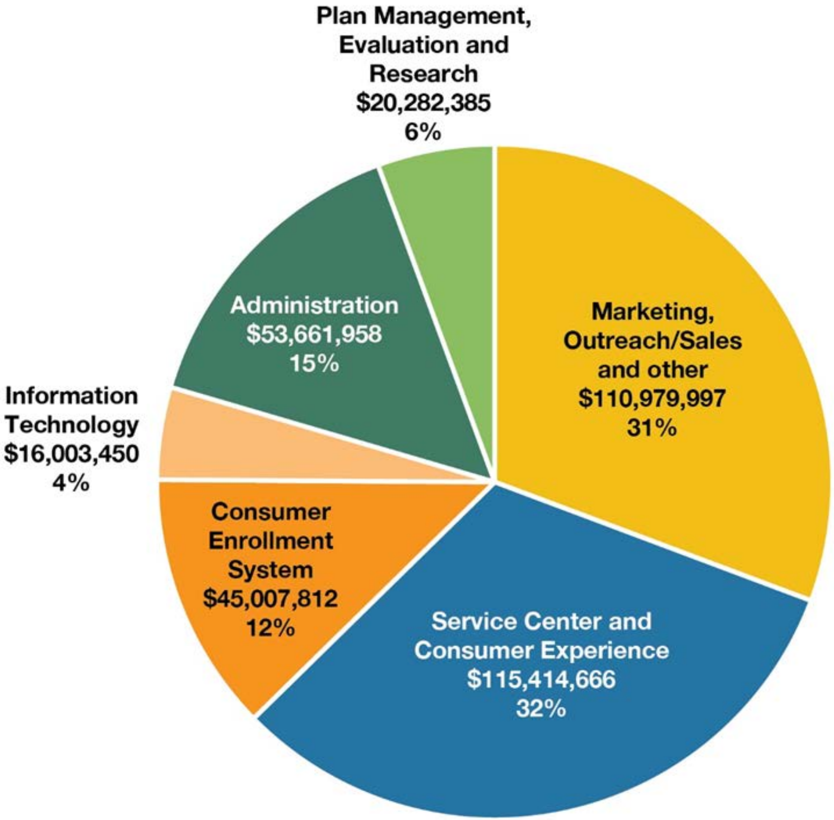
In Millions	2018-19	2019-20	2020-21	2021-22
Opening Balance	10.0	40.0	50.0	65.0
Capital Projects Budget	10.0	20.0	20.0	20.0
Transfer Savings from Operating Budget	20.0	.0	.0	.0
Projected Capital Expenditures	.0	(10.0)	(5.0)	(5.0)
Year-End Capital Projects Balance	**$40.0**	**$50.0**	**$65.0**	**$80.0**

FY 2019-20 PROPOSED BUDGET OVERVIEW

FY 2019-20 PROPOSED BUDGET

- For FY 2019-20, Covered California proposes a total budget of $381.4 million, which includes an operating budget of $361.4 million and 1,386 positions, in addition to $20 million for funding of the capital projects reserve.
- This budget is one component of an annual planning process that ensures the organization's efforts are focused on meeting our mission and strategic objectives, with appropriate revenues, expenditures and reserve levels over a multi-year period.
- The budget aligns with and promotes our continued focus on our strategic pillars by providing funding that will position Covered California to succeed in the face of federal uncertainty.
- At the June meeting, we will be asking for the board's approval of the proposed FY 2019-20 Operating and Capital Projects Reserve budget and plan year 2020 assessment.

PROPOSED FY 2019-20 OPERATING BUDGET: $361.4 MILLION



PROGRAMMATIC HIGHLIGHTS FOR FY 2019-20

- Covered California will effectively implement any penalties and subsidy programs adopted by the Legislature and Governor.
- Build upon and maintain marketing and outreach efforts to promote and retain enrollment including $111 million for outreach, sales and marketing, which includes $45 million for paid media, and $115 million for our Service Center and Consumer Experience Divisions.
- Hold health plans accountable for delivering quality care and promoting health care delivery systems.
- Build upon patient-centered benefit designs by promoting coverage for consumers with chronic conditions through “value-based insurance designs.”
- Build upon Covered California’s Healthcare Services Initiative to identify and develop strategies focused on assessing the quality of care delivered to its enrollees, including differences in health outcomes based on race, ethnicity, gender, income, or other factors.
- Invest in operational efficiencies, such as a Human Capital Management solution to automate manual and paper-based human resource processes and new workforce planning tools for the Service Center. Conduct a review of our lease and space planning to ensure appropriate long-term decisions are made.

FINANCIAL HIGHLIGHTS FOR FY 2019-20

- Covered California proposes a total budget of $381.4 million, which includes an operating budget of $361.4 million and $20 million to fund the capital projects reserve.
- The operating budget will support ongoing investments in marketing, outreach and customer service, needed to promote a stable market with a good risk mix and to keep health care affordable for all Californians.
- Our projected reserve position of $350 million going into FY 2019-20 allows us to remain financially nimble with the capacity to adapt to new program requirements due to changes in federal or state policy.
- Our enrollment and revenue forecasts are well informed by the analysis of health experts.
- Projected revenue in FY 2019-20 is $373.7 million in the Base scenario.
- We continue to be a self-funded organization funded entirely by a percentage assessed on health plan premiums. The budget for FY 2019-20 reflects an assessment fee rate for plan year 2020 of 3.5 percent, a reduction from 3.75 percent in plan year 2019. This equates to an assessment of about 2.3 percent for consumers who purchase mirrored products off the exchange.
- The rate for CCSB policies remains at 5.2% of premiums.

FY 2019-20 PROPOSED OPERATING BUDGET – COMPARED TO FY 2018-19

Dollars In Millions

	FY 2018-19 Approved Budget	FY 2019-20 Proposed Budget	Variance	%
Outreach & Sales, Marketing	*107.4*	111.0	3.6	3%
Service Center & Consumer Experience	*102.0*	115.4	13.4	13%
Information Technology	*70.1*	61.0	-9.1	-13%
Administration	*44.2*	53.7	9.5	21%
Plan Management & Evaluation	*16.5*	20.3	3.8	23%
Total Operating Budget	***$340.2***	**$361.4**	**$21.2**	**6%**

- The FY 2019-20 proposed operating budget provides $361.4 million and 1,386 positions to fund program operations.
- The budget will fund ongoing investments in marketing, outreach and customer service that are needed to promote a stable market with a good risk mix and thereby keep premiums as low as possible and ensure that our organization has the right tools, processes and resources to focus on our strategic pillars and deliver on its mission.
- Certain Information Technology resources in FY 2019-20 have been included in the budgets of specific programs.

FY 2019-20 PROPOSED BUDGET SUMMARY

- Covered California is well positioned with solid reserves and a multi-year financial strategy that will allow it to adapt to federal and economic uncertainties.
- We are expecting to begin FY 2019-20 with $350.6 million in reserves, the equivalent of about 11.6 months of planned operating expenditures.
- Covered California is proposing a budget for FY 2019-20 that will allow it to execute on its mission and vision, and that is in alignment with its strategic pillars.
- The FY 2019-20 proposed operating budget is $361.4 million, with an additional $20 million for capital projects reserve, resulting in an overall budget of $381.4 million.
- The budget includes an assessment rate of 3.50 percent of premium for plan year 2020 with a path to decrease through 2021.
- At the June meeting the Board will be asked to:
  - **Approve the Covered California FY 2019-20 Operating Budget of $361.4 million, pending any changes.**
  - **Approve assessments for the individual medical and dental markets at 3.50 percent of premium, and 5.2 percent of premium for CCSB, for the 2020 plan year.**
  - **Approve the Covered California Capital Projects Reserve allocation of $20 million in FY 2019-20 and transfer FY 2018-19 savings of $20 million to the Capital Projects Reserve.**
- Any comments or feedback on the budget may be sent to the following address: boardcomments@covered.ca.gov

APPENDIX – INDIVIDUAL ENROLLMENT AND REVENUE FORECAST – ALTERNATIVE SCENARIOS

- The scenario with the highest impact to enrollment and revenue assumes there is no future impact to enrollment due to the elimination of the federal mandate penalty. It also assumes a higher renewal rate and an increase in the monthly retention rates. Premium growth rates are consistent with the Base scenario.
- The scenario with the lowest impact to enrollment and revenue reflects a variety of negative case assumptions that would lead to lower enrollment, including more significant on-going losses due to the elimination of the penalty and federal regulatory changes. It also assumes that enrollment behavior dynamics, including lower renewal rates and lower monthly retention rates, revert back to the highest levels seen in prior years. In this scenario, severe enrollment losses are not assumed to be counter balanced by compensatory increases in premiums.

Dollars in Millions

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
High Enrollment Scenario	Effectuated Enrollment (fiscal year end)		1,470,163	1,537,733	1,607,212
	Plan Assessments-Cash Basis		$394.9	$421.7	$441.0
Base Enrollment Scenario	Effectuated Enrollment (fiscal year end)	1,358,870	1,327,497	1,291,608	1,281,825
	Plan Assessments-Cash Basis	$375.0	$373.7	$369.5	$362.7
Low Enrollment Scenario	Effectuated Enrollment (fiscal year end)		1,178,887	1,038,437	955,757
	Plan Assessments-Cash Basis		$351.1	$312.2	$289.7

STAKEHOLDER CONSULTATION PLAN AMENDMENT

Peter V. Lee, Executive Director

SUMMARY

- In 2012, the Board established the following three advisory groups to provide advice, recommendations, and to serve as sounding boards to the Covered California Board and staff (Resolution 2012-54):
  - **Plan Management Advisory Group**: to advise on qualified health plan selection, monitoring, recertification, decertification, quality rating, and standard benefit designs.
  - **Marketing, Outreach and Enrollment Assistance (MOEA) Advisory Group**: to advise on marketing strategies by target population and media channel, effective community outreach strategies, and strategies for providing in-person assistance with enrollment in insurance affordability programs.
  - **Small Employer Health Options Program (SHOP) Advisory Group**: to advise on strategies to raise interest in the SHOP and ensure that it provides value for small employers.

SUMMARY

- In the original Stakeholder Plan, the Board set requirements for the scope, structure, and process for the advisory groups, including membership and quarterly meetings.
- Since 2012, the advisory groups have matured and each have their own unique membership needs and meeting cadence.
  - For example, in October, 2018, the Board increased the membership of MOEA to 30 members.
  - On March 7th, 2019, the MOEA Advisory Group membership approved a new charter that determined meeting a minimum of twice per year was sufficient.
  - The topics of discussion for the SHOP Advisory Group are now better suited for the Plan Management Advisory Group.
- The Plan Management Advisory Group continues to meet on a monthly basis, one week prior to a meeting of the Board of Directors.

RECOMMENDATION TO THE BOARD

- Transfer the SHOP Advisory Group functions to the Plan Management Advisory Group so that the two advisory groups are the:
  - Marketing, Outreach and Enrollment Assistance Advisory Group, and
  - Plan Management Advisory Group.
- Delegate to the Executive Director, the authority to establish the scope, structure, and process for the advisory groups, which shall be done in consultation with the respective advisory group, and included in the advisory group charter.

ELIGIBILITY AND ENROLLMENT REGULATIONS, COVERED CALIFORNIA FOR SMALL BUSINESS (CCSB) AUTHORIZATION TO SUBMIT EMERGENCY RULEMAKING PACKAGE TO THE OFFICE OF ADMINISTRATIVE LAW

Linda Anderson, Covered California for Small Business (CCSB)

BACKGROUND

- Covered California was granted emergency rulemaking authority by the Legislature through January 1, 2022 for the eligibility and enrollment regulations for the individual and small business exchanges.
- CCSB regulations currently limit the fee charged for processing a check returned to Covered California for nonsufficient funds to $25.
- This fee represents a fraction of the cost of actually processing a nonsufficient fund payment.
- Government Code 100504 and 100503 authorizes the Board to adopt regulations to operate CCSB including this one.
- CCSB would like to recover the actual costs of processing a payment returned for insufficient funds while staying competitive.

PROPOSED REGULATORY CHANGES

- Program proposes amendments to recover the actual costs of processing a payment returned for insufficient funds.
- Reasonable charges for this service are to be set by Covered California annually.
- Amendments would also require employers to submit a money order or cashiers check after two non-sufficient payments within a 12-month period.

PROPOSED REGULATORY CHANGES

6532(e): If a qualified employer makes a premium payment that is returned unpaid for any reason, the SHOP shall apply a ~~$25.00 insufficient funds fee.~~ reasonable charge for the returned check that reflects the actual cost incurred for processing the returned check. A reasonable charge for this service shall be set annually by Covered California and shall not exceed the actual costs incurred. This fee will be noticed to all qualified employers on the premium billing. When a second payment is returned unpaid for any reason, the qualified employer is required to submit premium payment and the fee for insufficient funds and ongoing monthly payments in the form of a cashier's check or money order for a period of 12 months beginning the first of the month following the last paid through date. If payment is not submitted in one of these two forms, the qualified employer group may be subject to termination of non-payment as described in 6538 (c) (2).

NEXT STEPS

- Any additional proposed changes to the SHOP Eligibility & Enrollment Regulations will be communicated to stakeholders for review and commenting prior to Action in June for Emergency Rulemaking.