

COVERED CALIFORNIA BOARD MINUTES
Thursday, May 16, 2019
Covered California Tahoe Auditorium
1601 Exposition Blvd.
Sacramento, CA 95815

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

Acting Chairman (Vice Chairman), Paul Fearer called the meeting to order at 10:01 am.

Board Members Present During Roll Call:

Secretary Mark Ghaly
Paul Fearer
Art Torres
Dr. Sandra Hernandez
Jerry Fleming

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).

Acting Chairman (Vice Chairman) Paul Fearer called Open Session to order at 1:15 p.m.

Agenda Item III: Approval of Board Meeting Minutes (Action)

Motion/Action: Acting Chairman (Vice Chairman) Fearer asked for a motion and a second to approve the March 14, 2019 meeting minutes.

Presentation: March 14, 2019 Meeting Minutes

Discussion: None

Motion/Action: Dr. Sandra Hernandez moved to approve the March 14, 2019 Meeting Minutes. The motion was seconded.

Public Comment: None

Vote: Secretary Mark Ghaly abstained from the vote as he was not present at the previous meeting. Roll was called. The motion was approved by unanimous vote of the voting members.

Agenda Item IV: Executive Director's Report

Peter V. Lee welcomed Secretary Mark Ghaly to the Board.

Announcement of Closed Session Actions (Discussion)

Peter V. Lee reported on several contracting matter issues discussed in closed session. He said there was a deep-dive introduction into the negotiating sessions Covered California is about to enter into with health plans. Lease agreements were also discussed during closed session.

Executive Director's Update (Discussion)

Mr. Lee gave a brief preview of items on the Agenda. He then described the change to the meeting room's arrangement and instructed attendees wishing to comment on the new podium location.

Peter V. Lee called attention to the Press and Media Board Materials. On May 7th, Covered California, with Washington and Massachusetts, presented data on Covered California's first-year Open Enrollment. Renewal information was updated. There was a drop in enrollment that affected most of the nation. Massachusetts had a penalty in place and did not see a drop and instead saw a 31 percent increase in enrollment.

Mr. Lee then spoke about passive renewals. Covered California's press release stated that in California, Massachusetts, and Washington, health coverage has proven to be "sticky." Once people obtain health coverage, they want to keep it.

Mr. Lee said that the San Francisco Chronicle ran an op-ed that he drafted comparing the mandate to have health insurance to the requirement to wear a seatbelt. The seatbelt requirement means that when people are in a car accident, they are less likely to die. Mr. Lee explained that the penalty makes a difference. It encourages people to do the right thing.

Mr. Lee then highlighted items included in the Reports and Research Board Materials. Covered California's Medical Director, Lance Lang, wrote a letter to the head of the Office of Statewide Health Planning and Development. He advised Mr. Calvert on considerations in embarking on an all-payer claims dataset.

Mr. Lee then highlighted a report by the Kaiser Family Foundation on the individual market in 2018, stabilizing California analysis on what has happened in California.

Mr. Lee listed some of the many organizations from which Reports and Research are included in the Board materials.

Mr. Lee shared a slide titled “Promoting More Engagement of Medi-Cal Managed Care Plans in Covered California.” Since 2014, Covered California has contracted with between ten and twelve Qualified Health Plan Issuers representing a variety of plan types including large national carriers, regional carriers, Medi-Cal Managed Care Plans, and Local Health Plans. Many Medi-Cal Managed Care Plans are locally based, not-for-profit plans serving as public plan options in communities throughout the state. Covered California has long partnered with L.A. Care – a Public Managed Care Plan that also contracts to serve the individual market. Partnerships like this further mission alignment and help foster robust plan choice for consumers and Covered California while continued work toward having more Medi-Cal Managed Care Plans actively participate in the marketplace. Covered California has contracted with Health Management Associates to assess the feasibility of Medi-Cal Managed Care Plans entering the individual market. Findings are due in mid-July and will help inform current and future discussions about the potential inclusion of more Medi-Cal Managed Care Plans in the exchange.

State and Federal Policy Update (Discussion)

Mr. Lee stated that Katie Ravel would later talk about state policies, specifically the subsidy options. Mr. Lee reminded attendees of the work Covered California was commissioned to do under the AB 1810 legislation. He said that Covered California believes it's a core part of their role to provide independent, expert, technical advice to the legislature, to the Governor, and others in Congress. Covered California gets requests regularly from members of Congress from both sides of the aisle to provide technical assistance. Mr. Lee said that since the last board meeting, Covered California submitted comments to Secretary Azar regarding consumer choice of the sale of individual products across state lines. There have been a range of initiatives proposed by the current administration that, in many ways, cause Covered California grave concern that it's going backwards in terms of going to a period of time when insurance was opaque, insurance often didn't cover what consumers needed, insurance often screened people with pre-existing conditions from getting coverage. This letter, dated May 6, 2019, was posted on the website. Mr. Lee said that Covered California continues to seek to provide opportunities to comment to both the Federal Administration and also the elected officials in California.

Board Comment:

Secretary Mark Ghaly said that, on the heels of the budget, it's exciting and he is looking forward to the next presentation. California is continuing to be a leader. He said, what can be heard from other states, such as Washington, is that California is on to something good. Secretary Ghaly said that L.A. Care is a very meaningful product.

Peter V. Lee said that Covered California would ensure the Board was kept up-to-date on the four Medi-Cal plans that they've been in discussion with.

Agenda Item V: Covered California Policy and Action Items

2020 Patient Centered Benefit Designs (Action)

Peter V. Lee said that there were very small revisions. He then introduced James DeBenedetti.

James DeBenedetti said he would move very quickly through the revisions. Every year, the Federal Government issues what they call payment notice that sets the limits for what you can have for maximum out-of-pocket and other aspects of benefit design. There was a change in the requirements. The maximum out-of-pocket went down by \$50. This change prompted changes in the benefit design in order to remain in compliance. Mr. DeBenedetti presented slides detailing the changes.

Mr. DeBenedetti then reminded everyone of the complex issue (raised a couple of months ago) regarding the Bronze High-Deductible Plan. There is not a final resolution yet. In order to avoid monthly updates, Mr. DeBenedetti proposed setting the deductible at \$6,900. This would be the maximum out-of-pocket as well. A footnote would be added stating: "The Bronze High Deductible Health Plan is contingent upon meeting the actuarial value requirements in state law." Mr. DeBenedetti said that this is something that the State is trying to change in order to make it possible for Covered California to offer this benefit. The out-of-pocket maximum in the Bronze High Deductible Health Plan shall be equal to the maximum out-of-pocket limit established 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.

Motion/Action: There was a motion and a second to approve.

Board Comment: None

Public Comment:

Beth Capell, Health Access California said they are always happy when the maximum out-of-pocket is lower. They are never happy when the co-pay is higher, but she acknowledged the need to make adjustments. Ms. Capell said she was pleased to report that the Senate Budget Subcommittee would be adopting the necessary language to allow Covered California to proceed with the High-Deductible Health Plan in Bronze. She said she hoped that by the time this is resolved in the legislative process, the endnote will accurately reflect what California law is. She said they are pleased to sponsor that.

Jen Flory, Western Center on Law and Poverty, welcomed Secretary Ghaly. Ms. Flory said she wished to echo the comments made by Beth Capell. They appreciate the transparency of the staff and the circumstances that everyone is working under, i.e. the federal amounts coming out very late in the year. Ms. Flory said she is happy for the continued work.

Peter V. Lee added his thanks to the health plans and especially Health Access for sponsoring the legislation. Covered California does not take positions on legislations. Covered California was caught between required changes, given the federal rules and standards and the state legislation. Mr. Lee again offered his thanks to those that addressed the issue.

Vote: Roll was called. The motion was approved by unanimous vote.

Potential State Based Subsidy Structures (Discussion)

Peter V. Lee said he wanted to underscore that there is a proposal from the Governor reflected in the May revision. It is now in the hands of the legislature and the legislature works with the Governor. These elected bodies understand the urgency. In order for this to be in effect in 2020, it needs to be completed in June. This has implications for Covered California's budget and, more importantly, for consumers in California. Mr. Lee thanked the Covered California team, consultants, and stakeholders for their effort.

Katie Ravel, Director of Policy, Eligibility and Research commented on the excellent engagement with stakeholders, carriers, and association partners. Ms. Ravel chaired the AB 1810 Affordability Workgroup. One problem that was discussed was the subsidy cliff at 400 percent of the Federal Poverty Level. Ms. Ravel showed a slide with a chart showing that impact is most severe for older consumers and those living in regions with higher health care costs.

The next slide showed how cost-sharing creates affordability challenges for low and 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.

Governor Newsom's fiscal year 2019-2020 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. 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 the premium and cost-sharing subsidies.

Ms. Ravel said that Covered California is providing technical assistance to inform proposals. The modeling builds on the AB 1810 Affordability Report. There were three key points in the program design considerations. (1) in order to launch in 2020, premium subsidies 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.

Ms. Ravel said the remainder of her presentation would focus on the May revision proposal and the technical assistance that was provided. She said the policy and

operational issues will be relevant regardless of whatever the ultimate budget decision is and the enacted budget of the State.

Ms. Ravel showed a slide on the key elements of the 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 percent of the Federal Poverty Level and new subsidies for qualified individuals from 400 to 600 percent of the Federal Poverty Level 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 the Federal Penalty was reinstated. The state financial assistance program would sunset on December 31, 2022.

Ms. Ravel then showed a slide detailing the annual subsidy program design cycle.

The next slide showed the Administration’s proposed health insurance subsidies. 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 of the Federal Poverty Level. Subsidy levels would have to be adjusted in coverage years 2021 and 2022 to maintain a budget-neutral program over three years.

Ms. Ravel presented a series of slides with graphs and charts comparing what is happening currently to the proposals for change. She presented scenarios with people of different ages, income levels, and in different regions.

Ms. Ravel said that the Administration's proposal would require consumers to reconcile the subsidies they received. This is very similar to what consumers do with a federal subsidy. The federal reconciliation adjusts the consumer's final tax credit against what they receive throughout the year through federal reconciliation, and some consumers may owe if they've under-projected their income, or they may receive a refund. The Federal Tax Credit lowers the consumer's monthly bill, but the payment is actually made from the Federal Government to the health plans.

The reconciliation at year-end adjusts the total premium paid by the consumer versus the share that's paid by the Federal Government. The Federal Government does have reconciliation caps, so, repayment is capped for individuals whose year-end income is at or below 400% of the Federal Poverty Level. But consumers who exceed 400% must repay the entire amount of the credit. That's part of the cliff. Ms. Ravel said she would present recommended caps at the June Board Meeting. In developing those caps, the workgroup will consider the federal cap structure and the relationship of what the caps are to what the average premiums are and different metrics around that. The group will

also look at extending the cap beyond 600% of FPL to mitigate the impact of the new state cliff.

Ms. Ravel said she would move on to the individual mandate. The individual mandate would require California residents to enroll in and maintain minimum essential coverage, receive an exemption, or pay a penalty. This generally mirrors the federal individual mandate and penalty with adjustments for California's filing threshold and other adjustments needed for a state-level penalty. The 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 the Franchise Tax Board would grant additional exemptions (e.g., low income, unaffordability of coverage, short term gaps in coverage) through the filing process.

The Administration's proposal requires Covered California to administer exemptions for hardship and religious conscience. Using data provided by the Franchise Tax Board, Covered California would perform outreach to individuals who pay the penalty or receive exemptions.

The Administration's proposal requires Covered California's Board to adopt an annual program design document. For the 2020 benefit year, the program design document must establish eligibility levels and reconciliations caps designed to meet budget targets and required funding allocation to direct 75 percent of the funding to individuals above 400 percent of the Federal Poverty Level. Ms. Ravel said the draft program design would be presented during the meeting and would be ready for adoption at the June Board Meeting.

Ms. Ravel then presented a slide detailing an overview of the draft program design document. The next few slides detailed the operational considerations. The last slide presented key milestones and next steps including dates.

Peter V. Lee thanked Ms. Ravel and her team for the work done on the Affordability project. Mr. Lee noted that it is not the job of this Board or Covered California to set the overall policy. The issues of the dollar amount, the split, sunset or not, is for the legislature and the Governor to decide. One of the issues that's in discussion is the whole issue about a sunset. A sunset doesn't mean it does sunset because the legislature could consider at any point to continue it; and in particular, there are pieces of federal legislation in discussion today to address the cliff at a federal level. One of the first things the Governor did when he took office day one was to send a letter to, not just the President, but to the Congress saying the ACA should be built upon and improved, including addressing, federally, the need to have a penalty, and including addressing the needs of middle-class Americans across the country who right now need the help that this proposal is addressing in California. So, part of the issues of a sunset is, if there's a federal subsidy that takes its place before the sunset, that would take place first, and whatever would be a delta would be picked up by this.

Mr. Lee said that Covered California is doing work today to be ready to have policies take effect in 2020. All of those efforts are anchored in the absolute key element in this time frame to have them based on the federal structures.

Mr. Lee then explained the note around caps above 600. Today, if a consumer gets a subsidy because they're at 395% of poverty, that subsidy may be for \$6,000. If for -- and it's something they didn't anticipate. They do a little better. They get a bonus they didn't anticipate, and their income goes to 401%. They must pay 100% of that subsidy received back to the IRS. Covered California sees appeals on this. Consumers say, "what do you mean I have to pay back \$7,000, I only made 800 more dollars and I've got to pay 6,000 back?" That's the law. That's the federal law. And the fact that California as a state is looking at having something different from that that would incrementally say if you make a little bit over 600, you've got to pay something back, but maybe not the entire amount.

Mr. Lee said that when the mechanism for Covered California requests a funding augmentation, Covered California get no funds under this. This is to augment the amount of resources able to be given in subsidies to consumers through their health plans to reduce their premium. The augmentation would be the budget you've seen proposed by the Governor, which would be altered by whatever comes out of the legislative process, is 295 million. Through the year, Covered California might that many more people have signed up than expected. Covered California would then need to go back to be able to augment that money. Covered California is still 100% funded on the assessments of the premiums. What Covered California is talking about funding is giving more real dollars in premium assistance to Californians.

Board Comment:

Jerry Fleming said this was an impressive piece of work. He asked about the adjustments made to caps in terms of percent of income. He asked if it was in regard to the first three years or if it was beyond three.

Ms. Ravel replied that was the first three years. Adjustments might be needed in the second and third year. The Administration has talked about having a credit that tracks and grows a little bit based on the average credit. That might grow a little bit year over year; but it might not cover the full increase in premiums in the second year and the third year of the Program.

Mr. Fleming replied that when looking at that, they had to remember, that most people don't understand when they sign up for Covered California that they've gotten a subsidy and, so, when they go from year-to-year, they'll see that change as just a larger rate increase.

Ms. Ravel agreed.

Peter V. Lee stated that, as Ms. Ravel described, with the federal subsidies, consumers under 400% of poverty are generally shielded from those 6, 7, 8% premium increases. They're protected because it's tied to their income level. In this structure, it means those over 400% it wouldn't be a 23% increase, but they would be feeling a 7% increase and they wouldn't be protected from that. Right now, they're paying the 7% with no help at all. It is not having a comparable being shielded from the premium increases of healthcare in the above 400%.

Mr. Lee said that Mr. Fleming's observation on consumers not understanding their subsidy and only looking at their bottom line, is important. They're saying I'm paying this much. They forget pretty quick that some of it's covered by a tax credit and some isn't. It is absolutely the case that those over 400, if you aren't applying a mechanism to keep the overall cost down, will be bearing the full cost, largely, of premium increases they would have borne anyway without the offset of the subsidy.

Mr. Fleming said that he feels that healthcare costs seem to go up faster than incomes. He said it's important to think about how the consumers will see things.

Public Comment:

Beth Capell, Health Access California said they appreciate the work of the AB 1810 Workgroup and the Covered California staff. They appreciate the Administration's proposal to improve affordability and to have an individual mandate. She said that in the process of that conversation with the legislature, they have conveyed to the legislature that they have long had a good working relationship with Covered California and trust the competence of the Franchise Tax Board to implement their part of this.

Ms. Capell said that having said that, they did not think the January budget, which was funded at \$500 million a year, was adequately funded. They regard this proposal as severely underfunded. She said they had difficulty defending a proposal that required people to pay more than 10% of their income for premiums, even if that was better than the current reality. To face a proposal that caps premiums at 20 to 25% of income is quite astonishing to them. There are simply not sufficient funds in this proposal. To compound it by indicating that if there is an overspending of a new program that they would deduct the amount and thus make this even worse from a consumer perspective is, to them, extremely troubling. Ms. Capell said that they regard the amount of help for those under 400% as quite insufficient. Ten bucks a month is not very much for somebody making \$36,000 or \$40,000 a year. The refusal to provide help to people below 200% of poverty is also extremely troubling. There are Californians who are in the Medi-Cal income range that are spending \$25 to \$30 a month for premiums, who, if they were eligible for Medi-Cal, would have zero premiums. The refusal to help lower income Californians is perplexing. She said they are further perplexed regarding the sunset the affordability help but not the mandate. She said they are both complicated new proposals and if one is going to sunset, both should sunset. She said they are troubled that the proposal insists on tax reconciliation for ten dollars. She said that they

will continue to participate in good faith in the discussion while they continue to advocate for more adequate funding. She said the proposal, as is, is troubling.

Jen Flory, Western Center on Law and Poverty, said they represent the people who have been excluded from this proposal. Ms. Flory said she would reiterate a lot of what Ms. Capell said. Ms. Flory said they were also proud participants in the AB 1810 Affordability Workgroup and one of the biggest take-aways for us from that workgroup was money spent at the lower end results in huge take-up rates, much greater than money spent at the higher end of the income scale. What that means is that increases enrollment and that increases the market overall, which can bring down premiums for everybody. She said they do not deny that middle-class people need additional assistance, even when you look at the very sympathetic example of Francis and Aaron, the 60% they have left in their income after paying that huge 40% on healthcare, is still well over ten grand more than the households at 200% and below. People below 200% of the Federal Poverty Level, as well as data on, you know, consumer reporting, has shown that people who are getting the cost-sharing reductions and people who are getting the subsidies, still report the same difficulty in accessing care as people who aren't eligible for that. More affordability help is needed across the board. Ms. Flory said that she understand that Covered California's role is not to set the State budget and is not to advocate in the legislature, but they do think there is a gold mine of data that was done with the AB 1810 Workgroup that explains why more help across the board would actually do greater help for the market overall and help everybody, including the low income people.

Ms. Flory said that regarding the individual mandate, they are having real difficulty with the idea that money would be taken from people and giving it to someone else and you're moving it from lower income households to higher income households. She called this the reverse Robin Hood. She said they don't want any policy that would do this. She said that we need to all come together to get the legislature and the Governor to understand that this is well worth doing, but it's well worth doing right so we get the most bang for the buck.

Cary Sanders, California Pan-Ethnic Health Network, welcomed Secretary Ghaly to his first Board Meeting. Ms. Sanders said she appreciates Covered California's analysis and discussion of the nuances of the Governor's May revised proposal. She said this was still a proposal. The current May revised proposal is much more generous to those above 400% of the Federal Poverty Level, and less, though, to those below 400%. Ten dollars a month doesn't go far enough for folks who are really struggling with other bills. From Covered California's own analysis, we know from the January report that providing subsidies and additional financial assistance to folks below 400% can really move the needle, can really improve enrollment. There's a much greater potential to increase enrollment at lower numbers. She said they appreciate Covered California's position that it doesn't set policy regarding California's budget decisions; but it can influence discussions around what's best for consumers. She said that is what they are asking Covered California to do. The assembly is considering potentially providing

additional affordability help. She said they would like to see an analysis of what that would actually look like in Covered California and for those consumers.

Alicia Kauk on behalf of the National Health Law Program thanked Covered California for engaging in this work. She said she understood that Covered California's role at this juncture is providing technical assistance. She said they are deeply concerned that the population under 200% of the Federal Poverty Level is left out of the draft State Premium Assistance Program Design. She said she would echo the comments of her colleague, Jen Flory. Without this additional assistance, low income individuals and families will opt out of coverage and be left behind. She said we all have to remember that these are individuals and families that every day are choosing between putting a roof over their heads and/or feeding their children and having health care. Ms. Kauk noted that as Co-Chair of Covered California's Marketing Outreach and Enrollment Assistance Advisory Group, should new state subsidies be put into place, there's a lot of work that needs to be done in terms of coming up with effective marketing outreach enrollment and she hoped that they would be able to work with Covered California before the August meeting to get that started.

Mark Herbert, Small Business Majority, said they really appreciate the Governor's proposal and the thoughtful work that Covered California staff has put into analyzing that proposal. Seventy percent of California small businesses support both ensuring that folks have to purchase insurance as individual mandate, and seventy percent of California small businesses support ensuring that affordability is significantly increased. He said they are thankful for this innovative and exciting approach to ensure that more small business owners in Covered California can access insurance. He said they are concerned about the robustness of those subsidies to make a meaningful impact to employers and their employees. He said they appreciate the analysis. They appreciate the engagement. They will be encouraging the legislature to increase the affordability that is available. They look forward to continuing to work with Covered California as the analyses are done on what might be possible.

Peter V. Lee thanked everyone for their comments. He said that Covered California will stand ready and will be assisting the legislature and the Governor as things move forward. The AB 1810 Committee will reconvene to discuss. The group brings actuarial and other expertise to bear and looks at issues through a value lens, which is incredibly important. Mr. Lee said action would be taken on this item at the June Board Meeting. He said that Ms. Ravel provided an excellent framework. Some details are not yet known because they will be the product of the legislature and the Governor.

Art Torres thanked Katie Ravel for the work she and the team did on this. He then gave a "shout-out" to the people representing poverty organizations. He said he started his career as a lobbyist for California Rural Legal Assistance when Ronald Regan was Governor and he was the lobbyist for the United Farm Workers. He said it is not an easy task. He thanked them for continuing their perseverance. He asked them to

continue their efforts and continue their commitment to the dignity of human beings in this state.

Peter V. Lee noted that in regard to the Market Advisory Committee Meeting, Covered California has been doing planning with regard to the system. Over the last three months, Covered California has conducted focus groups and message testing. Covered California has been testing communication strategies to determine what works best.

Covered California's Proposed Fiscal Year 2019-2020 Budget (Discussion)

Peter V. Lee introduced Dora Mejia, Chief Financial Officer at Covered California. Ms. Mejia welcomed Secretary Ghaly. She said the, this year, Covered California merged the Budget Report and the Annual Report into one, large report. The new report is titled the Covered California Annual Report: Fiscal Year 2019-20. It incorporates the Annual Report to the Governor and legislature with the Budget report.

Ms. Mejia showed slides on the fiscal year 2018-2019 financial update and expenditure savings. The slides detailed expenditure amounts compared to the budget amounts, savings, revenue, the 2018-19 opening balance, and expenditure savings. She talked about preparing for expiring leases. The reserve is almost 350 million and equates to 11.6 months of reserve. There is a bit more trouble filling vacant positions than anticipated. Positions are staying vacant longer than preferable. There is a technology savings due to the new Customer Relationship Manager (CRM) system as well as some small savings in other areas.

Ms. Mejia said that Covered California is ending the year much better than anticipated. Enrollment was down but renewals were up. In relationship to what was budgeted, Covered California is much better. A twelve percent decline was budgeted for enrollment but there is actually an increase of 157,000 more than what was projected in the last year's budget on base enrollment. Covered California is in a very prudent position.

There were assumptions that were used to inform the forecast. For the first base estimate, they assumed that they would continue with 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.

Ms. Mejia said Covered California did two different models. One with the elimination of federal mandate penalty and one incorporating the State subsidy and mandate penalty. She presented a slide that showed what enrollment projections are if Covered California keeps their steady-state, and one that includes the Governor's proposal of penalty and

subsidies. There would be a big increase in enrollment if that law is passed. Covered California anticipates for fiscal year 19/20 they would have 257,000 more members, almost 300,000 the following year, and over 300,000 in 21/22 if that law should go into effect.

Ms. Mejia showed a slide titled Covered California Multi-Year Financial Forecast: Base Enrollment Estimate. The base forecast assumes continued impact from elimination of federal mandate penalty; but it does still incorporate a reduction in the fee assessment. The current percentage is 3.75. It is anticipated to be 3.5 next year, followed by 3.25 and 3 percent in the years that follow. This is good because it helps keep premiums lower. On on-and-off-exchange, what that means for per member per month, it's pretty steady throughout the years.

The overall increase in the budget from the current year is about 6%. Regarding the increase, there's about \$5 million related to the work on implementing the subsidy program. There is also an anticipated year-over-year increase in expenditures of approximately 3%. Not everything goes up, and not everything comes down so they did a kind of moderated increase of 3%. Even anticipating a loss in enrollment because of the elimination of the federal mandate penalty, Covered California is still ending 21/22 with a healthy 8.5% month's reserve. That gives Covered California three years to make adjustments. Covered California is planning for next year, but always looking out to future years. In addition to the base enrollment, Covered California also did a high and a low enrollment forecast that can be found in the Appendix of the slide deck.

The Governor's FY 2019-20 May Revised 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.

Ms. Mejia presented a slide on a base scenario which incorporated a state penalty and subsidies. The next slide showed a breakout of what Covered California increased the budget by in order to implement the state subsidy work. She said they anticipate \$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. She said Covered California anticipates \$150,000 for the creation of a new process to grant exemptions from the state individual mandate in accordance with legislation. Covered California anticipates \$100,000 in data integrity

initiatives to ensure consistent and accurate data within the core systems of CalHEERS for the proposed enhancements.

Last year Covered California started the Capital Projects Reserve so that they could set aside money for expiring leases and the increased cost that they know they will incur.

The 19/20 proposed budget is for a total 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 Covered California's mission and strategic objectives, with appropriate revenues, expenditures and reserve levels over a multi-year period. The budget aligns with and promotes Covered California's continued focus on their strategic pillars by providing funding that will position Covered California to succeed in the face of federal uncertainty. At the June meeting, Covered California 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.

Ms. Mejia showed a slide with a pie chart breaking down the \$361.4 million budget.

Peter V. Lee then called attention to the programmatic highlights for FY 2019-20. Covered California will effectively implement any penalties and subsidy programs adopted by the legislature and Governor. Covered California will 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 Covered California's Service Center and Consumer Experience Divisions. Covered California will hold health plans accountable for delivering quality care and promoting health care delivery systems. Covered California will build upon patient-centered benefit designs by promoting coverage for consumers with chronic conditions through "value-based insurance designs." Covered California will 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. Covered California will 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. Covered California will conduct a review of their lease and space planning to ensure appropriate long-term decisions are made.

Dora Mejia said that Covered California is going into fiscal year 2019/2020 with 350 million, which is a healthy reserve. Revenue is still at a very good pace of 373 million. That is with the federal mandate not being in place. Covered California continues 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 Covered California for Small Business policies remains at 5.2% of premiums.

Ms. Mejia then presented a comparison of the proposed budget to the last year's budget. Sales and marketing is not increasing a whole lot. Service center will increase a bit. Information Technology appears to decrease but really that is because Covered California is spreading some of the direct costs to the areas they are associated with. Funding for positions was reduced to be more in alignment. The variance is 21 million, but 5.2 million of that is related to subsidy increases. Overall, from like budgets from last year to this year, it's about a 5% overall increase.

One big change that will be seen in June, assuming the subsidy mandate proposal is enacted into law, is Covered California will bring back one base enrollment and revenue assumption. If the law passes, depending on what that proposal looks like, Covered California will model it and incorporate into revenue enrollment assessment and bring that back to the Board for approval. Covered California will also bring back the proposal to lower the assessment rate from 3.75 to 3.50% and ask the Board to approve 20 million for capital projects. They will also ask the Board to approve the transfer from the current year of savings of 20 million to the capital project reserve so Covered California can keep that at the appropriate level.

Covered California will close the year in a very solid position, with solid reserves. Ms. Mejia said Covered California has done well to adapt to all the uncertainties that are out there. She thanked her team for their hard work.

Peter V. Lee thanked the Finance Team and the support work provided by the entire Covered California organization. Covered California is dealing with so much uncertainty and dealing with it phenomenally well. Mr. Lee said this is a tribute to both the staff and finance brokering that process.

Mr. Lee said he understands the budget book is lengthy. Covered California will accept comments through June. Mr. Lee said Covered California expects tweaks and revisions. Those changes will be highlighted. Many of the changes will be due to what happens with the legislature.

Board Comment:

Dr. Sandra Hernandez thanked Ms. Mejia for the work and the analysis. Dr. Hernandez asked if the budget reflects Covered California's intent to be able to do outreach and education to eligible or newly subsidized members given any changes that may happen in the legislature.

Peter V. Lee said that Covered California constantly goes back to the Marketing area to ensure Covered California is spending "well." Covered California will work with every one of Covered California's eleven health plans to assess what they spend and how

Covered California and the plans are collectively spending money. The Marketing team has said they do not need more money. It is more of a shift of focus rather than needing more money because of the penalty going away. This is something that Covered California takes to heart. Mr. Lee said he will continue to go back to the marketing team to ask if there are additional marginal good investments that could make more difference. Mr. Lee praised the Marketing team's intent to spend money "well" instead of accepting more money.

Public Comment:

Jen Flory, Western Center on Law and Poverty, commended the work done on the budget. She said they are happy to see that the per-member-per month is still projected to go down because that does effect people...even those that aren't getting the subsidies. If we're getting into a new place of state-based subsidies, that's going to be even more important. Ms. Flory said that Western Center and Health Access are proud to co-sponsor legislation that will give Covered California additional tools on marketing. It will both enable them to land people coming from Medi-Cal directly into a plan in Covered California, as well as enable them to do more targeted outreach to people who are losing other forms of insurance. She said they are hopeful that it moves through the process and that can inform this budget as well.

Jack Dailey, Health Consumer Alliance and the Legal Aid Society of San Diego said they have been a long-time partner with Covered California. Mr. Dailey said they appreciate Dr. Hernandez' comments about the need to step up outreach and education in this environment of changes. Mr. Dailey said he wanted to highlight the role that they play in their communities on behalf of Covered California helping educate consumers about the changes that are coming from the State and the federal government. In addition to helping consumers navigate through the application, enrollment, and appeal process as necessary, they also look to resolve things in the most efficient way. Mr. Dailey said they appreciate the ongoing support and partnership with Covered California's Office of Legal Affairs and thanked Covered California for their ongoing support.

M.J. Diaz said she was subbing for Beth Capell on behalf of Health Access California. Ms. Diaz said that at first glance, they are in support of the proposed budget, especially as it relates to the budget expenditures to help implement whatever state subsidy program and mandate program ends up happening. They think that those resources are critical for the successful rollout of this state-specific program. There will be many more Californians who will need to learn the differences between a state subsidy program versus the federal subsidy program that combined together would help them make their coverage more affordable. She said they support the Marketing Outreach and Sales Education Investment. This is in stark contrast of what is seen at the federal level. They appreciate the robustness of this budget and it speaks to the work that Covered California is doing in all aspects of getting a consumer connected to coverage. Ms. Diaz said they do support the Policy Evaluation and Research Division Investment as well. Health Access uses all of Covered California's studies and they cite Covered

California studies on their fact sheets to help advocate for great proposals that are in the legislature alongside their partners with Western Center, the California Pan-Ethnic Health Network, and other consumer advocacy organizations.

Cary Sanders, California Pan-Ethnic Health Network agreed with Ms. Diaz's statement regarding Covered California's publications. She thanked Covered California's finance staff for their work on the budget and said they look forward to reviewing it more carefully. Ms. Sanders said they appreciate Covered California's continued investment in the quality work, the delivery system reform, and the focus on disparage reduction. She said they appreciate Covered California holding the marketing budget somewhat steady. She said they appreciate Covered California thinking about what marketing will look like with potential new subsidies; and at the same time considering the potential impact of changes at the federal level such as public charge and other types of rules that might change the way people view insurance.

Leslie Toy, Asian Americans Advancing Justice-Los Angeles, said they have been a Navigator partner since the beginning. With twenty Navigator partners across the state, they have worked very closely with Covered California and Covered California staff since the beginning. She said they are grateful for the partnerships with Asian-American, Native Hawaiian and Pacific Islander communities. She said that with each passing Open Enrollment period, they have seen first-hand how difficult outreach, education, and enrollment has been to their communities. She said they definitely support Dr. Hernandez' keen insights and comments reflecting on the need for sufficient funding for outreach, education, and enrollment as they have already begun to see the chilling effects of the public charge roll-out. She said this funding will be extremely critical moving forward.

Peter V. Lee noted that three years ago, the last time Covered California had a data point, the federal penalty was collected at almost double the rate for which the Franchise Tax Board is projecting. There are reasons. California will have fewer lower income people paying the penalty because of where they have tax filing. Historically, the IRS has done no contact with people that paid a federal penalty. Covered California doesn't want anyone to pay a penalty. Penalty payers will be contacted and encouraged to get coverage. No one in the Administration, in the legislature and Covered California see the penalties of revenue stream that's a good thing. Regarding marketing, this will do nothing for marketing this year. Covered California will work this year to design, with the Franchise Tax Board, how to do targeted follow-ups. The by the next fiscal year budget, in the even there is a penalty, there would be new initiatives that will need to be in place by 2021. some of these interactions are quite complex. Everyone that is working on these issues is trying to say, fewer penalty payers is better. The goal is to ensure people have insurance.

Revision to Group Charters (Discussion)

Peter V. Lee reminded the Board that Covered California has three standing advisory committees established by the Board. A Plan Management Advisory Committee, a Marketing Outreach Committee, and a Small Employer Health Options Program Committee. Mr. Lee said that the Small Employer Health Options Program Advisory Committee has not been meeting regularly and Covered California think the issues that it deals with would be far better served merging it into the Plan Advisory Committee. Once merged, there may be a subcommittee of the Small Employer Health Options Program of the Plan Management.

Mr. Lee said another change was proposed to the number of meetings in a year. The number is currently established in the charter. Mr. Lee said the proposal is the meet more often or less often, as needed.

Board Comment: None

Public Comment:

M.J. Diaz, Health Access California said they support the transfer of the Small Employer Health Options Program Advisory Group to the Plan Management Group. She said that many of the stakeholders are already part of the Plan Management Advisory Group. They have really good, close working relationship. In the larger, long-term, goal of figuring out what to do with Covered California's Small Employer Health Options Program and its role in the small group market, they are happy to include that in the conversation through Plan Management.

Alicia Kauk, National Health Law Program, said they support the efforts to make the meetings more flexible and that then the advisory groups can be more responsive to both state and federal legislative and administrative action. She said that their preference would be that decisions related to reconfigurations of the advisory groups remain items that come before the Board.

Cary Sanders, California Pan-Ethnic Health Network, said they agree with the comments of her colleagues. They support having the California's Small Employer Health Options Program discussions in Plan Management. They appreciate still having the Marketing, Outreach, Enrollment Advisory Group. It's been particularly important in the discussion about upcoming changes in terms of who may be eligible and subsidies. It's been helpful to have those conversations and be able to provide input into Covered California's thinking about marketing. She said they support decisions about reconfiguration actually going through the Board.

Jen Flory, Western Center on Law and Poverty, said they are supportive of the flexibility. She said they think the configuration should be before the Board.

Peter V. Lee said this would be brought back to the Board in June. They will bring back clarity on the proposal about the balance between flexibility on processes from reconfiguration.

Phone Comment:

George Balteria, Quote Selection Insurance Services said he tried to comment earlier regarding the budget. He said he appreciates the get great support from Covered California, from the Sales, Outreach and Marketing Division. None of the budget is tied to agent compensation and he appreciates in the previous board meetings that Covered California has taken up the issue of agent compensation as it relates with the insurance carriers. He said that he would bring a reminder to the Board that with the 48% of new enrollments that come in with Covered California, on average per year, that agent compensation will continue to be an important discussion point for the future success of potential new legislation.

Peter V. Lee thanked Mr. Balteria for his comment and noted Mr. Balteria chairs, the Marketing Outreach Advisory Committee and is a great example of someone truly on the front lines of working with Navigators, but also being an agent that has a number of storefronts, enrolling thousands of individuals.

Covered California for Small Business Changes to Eligibility and Enrollment Regulations (Discussion)

Linda Anderson, Covered California for Small Business, said she was there to discuss authorization to submit emergency rule-making to the Office of Administrative Law. Covered California was granted emergency rule-making authority by the legislature through January 1st, 2022, for eligibility enrollment regulations for both the individual and small business exchanges. She said they wanted to take the opportunity to reassess the current process and fees that are currently in the regulations. Right now, CCSB regulations limit the fee charged for processing a check returned to Covered California for non-sufficient funds to \$25. That fee only represents a fraction of the cost for actually processing those non-sufficient fund payments. They also identified two provisions within the Government Code that authorizes the Board to adopt regulations to operate CCSB, including assessing these fees.

Ms. Anderson proposed regulation changes to recover the actual cost to process those fees while staying competitive. These fees would be set by Covered California annually. The amendment also requires employers to submit different forms of payment methods after two non-sufficient payments within a 12-month period. They will continue to communicate any additional proposed changes with our stakeholders for review and commenting period prior to actions for the next Board June meeting.

Board Comment: None

Acting Chairman (Vice Chairman) Paul Fearer adjourned the meeting at 3:17.