



Covered California's Annual Report and FY 2020-21 Budget

Public Review of May 29, 2020 Draft
June 02, 2020

ANNUAL REPORT AND BUDGET REVIEW AGENDA

- Review of Covered California's Performance
- Covered California's Planning and Budget Process
- Overview of Covered California's Proposed Budget for Fiscal Year 2020-21
- Program Detail – Covered California's Proposed Fiscal Year 2020-21 Budget and Current Fiscal Year Changes
- Review Covered California's Enrollment/Revenue Forecasts and Multi-Year Financial Projections

BUDGET AND ANNUAL REPORT – PUBLIC & BOARD REVIEW AND REVISION PROCESS

The presentation of the budget for the May 21st board meeting reflects the roll-up of all budget and rests upon detailed forecasting, every division developing revised deliverable and plans for a coming fiscal year in the context of great uncertainty. Due the challenges with having all staff teleworking, as well as divisions needing to focus on core consumer-facing initiatives, while the budget has been totally developed, reviewed and completed – the detailed draft of the **Covered California Annual Report and Fiscal Year 2020-21 Budget** is not complete in time to provide full review and consideration by the board or public at the May board meeting. To allow for full review and transparency, Covered California is presenting an overview of the budget at the May board meeting. The timeline allowing for detailed review, revision and adoption follows:

- May 21: Present Proposed Budget Overview to Board and Public
- May 29: Release Draft Proposed **Covered California Annual Report and Fiscal Year 2020-21 Budget**
- Week of June 1st:
 - Public Covered California Finance Committee – Review Draft Annual Report and Budget
 - Public comments/questions Requested to be submitted by June 5
- June 22: Release Revised Draft Proposed Annual Report and FY 2020-21 Budget
- June 25: Board Review/Revision and Adoption of Annual Report and FY 2020-21 Budget

MAJOR POLICIES IN THE PROPOSED FY 2020-21 BUDGET

- The proposed budget reflects enhanced spending on priority areas to continue meeting the needs of Californians, reflecting an increase of about \$61 million over last year to get the word out and serve consumers. The budget projects that expenses will exceed projected revenue by \$22.5 million. But, most of those increases can be and are planned to be “dialed back” with the rebound of the economy. Covered California proposes to use its ample cash reserves to fund the one-year differential and will remain on fiscally sound footing for any economic eventuality.
- Covered California proposes to lower its plan assessment fee from 3.5 percent to 3.25 percent of on-exchange premium for the 2021 plan year (moving from an average of 2.7 to 2.5 percent on the combined on- and off-exchange Qualified Health Plan premium for Covered California products).
- This budget does not reflect either revenue or expenditures related to the proposal that health plans be required to spend 0.4% of the premium on direct response marketing or Covered California would assess the carrier for the difference and do additional marketing.
- This budget does not incorporate any budget reductions or other impacts that may be imposed on Covered California by Statewide recessionary budget actions.

Review of Covered California's Performance

Peter V. Lee, Executive Director

COVERED CALIFORNIA PLANNING IN UNCERTAIN TIMES

- We enter the FY 2020-21 fiscal year with our nation and state are striving to contain the spread of the COVID-19 virus and dramatically changed economic environment.
- The nation has shed roughly 33 million jobs, while California has lost 3.8 million jobs. The national unemployment rate rose from 3.5% to 14.7%. Many displaced workers are facing loss of income and employee sponsored insurance.
- The state of California projects enrollment in Medi-Cal will increase by 2 million Californians, while it faces a \$54 billion budget deficit.
- The recession marks the first time for both the Affordable Care Act and Covered California will be tested in meeting consumers' needs in a down economy.
- Entering an election year – potential of changes in federal policy depending on Presidential and Congressional elections.

2019-20 PUTS COVERED CALIFORNIA IN A STRONG POSITION FOR THE COMING YEAR

- During plan year 2020, Covered California effectively implemented policies that launched a new state premium assistance and – and a state-level individual health insurance mandate
- These policies and Covered California’s effective implementation of them – with extensive marketing and close collaboration with California’s Franchise Tax Board – resulted in a 40% increase in new enrollment over 2019.
- Covered California launched a special enrollment period extending through April for Californians who may have not heard about the new state subsidies, and mandate/penalty
- Covered California announced a new blanket special enrollment period for any and all eligible consumers prompted by COVID-19 virus, running through at least June 30, 2020, with large increases in enrollment compared to prior years.

COVERED CALIFORNIA

FISCAL YEAR 2019-20 BUDGET COMPARED TO ACTUAL/FORECASTED

| | FY 2019-20 Approved <u>Budget</u> | FY 2019-20 <u>Actual/Forecasted</u> | <u>Variance</u> |
|--|---|--|------------------------|
| Average Monthly Enrollment | 1,458,936 | 1,372,134 | \$ (86,803) |
| Per-Member-Per-Month FFS- Medical | \$ 21.16 | \$ 20.92 | \$ (0.24) |
| Plan Individual - Medical - Total Member Mo. | 17,507,232 | 16,482,133 | \$ (1,025,099) |
| Plan Individual - Dental - Total Member Mo. | 2,422,177 | 2,279,292 | \$ (142,885) |
| Plan CCSB - Medical & Dental - Total Member Mo. | 691,639 | 698,896 | \$ 7,257 |
| Operating Revenues | | | |
| Plan Assessments Individual - Medical | \$370.4 | \$344.7 | (\$25.7) |
| Plan Assessments Individual - Dental | \$2.1 | \$1.9 | (\$0.2) |
| Plan Assessments CCSB - Medical & Dental | <u>\$17.4</u> | <u>\$17.7</u> | <u>\$0.3</u> |
| Total Operating Revenues | \$389.9 | \$364.4 | (\$25.5) |
| Non-Operating Income | | | |
| SMIF Interest | <u>\$0.0</u> | <u>\$6.9</u> | <u>\$6.9</u> |
| Total Revenues/Income-All Sources | \$389.9 | \$371.3 | (\$18.6) |
| Operating Expenses | | | |
| Personnel Services | \$121.2 | \$129.6 | (\$8.4) |
| Contracts >\$1M | \$183.1 | \$177.0 | \$6.1 |
| Other OE&E | <u>\$74.8</u> | <u>\$72.5</u> | <u>\$2.3</u> |
| Total Operating Expenses | <u>\$379.1</u> | <u>\$379.1</u> | <u>\$0.1</u> |
| Overall Increase/(Decrease) In Net Position | <u>\$10.7</u> | <u>(\$7.8)</u> | <u>(\$18.6)</u> |

- Total operating expenses were \$68K less than budgeted.
- Enrollment was 94% of the base budget forecast, resulting in revenues/income \$25.5 million less than budgeted.
- Personnel expenses exceeded budget by \$8.4 million, primarily related to reduced vacancy rates and funding of retiree health care
- Other expenses reflect major shifts with over \$14 millions moved to increase marketing during open and special enrollment periods and \$10 million in service center costs.

Covered California's Planning and Budget Process

Jim Watkins, Chief Financial Officer

COVERED CALIFORNIA: FINANCIAL GUIDING PRINCIPLES

- ❑ Develop a budget that directly supports growth and retention of membership
- ❑ Establish organizational priorities that enables Covered California to serve as an effective example of how marketplaces can improve the cost and quality of health care
- ❑ Ensure the assessment fee places the lowest possible burden on consumers' premiums, has a path for decreasing over time and reflects savings to health plans compared to prior acquisition costs
- ❑ Continue to build infrastructure that can reduce future costs, support talent, succession plans, business continuity and legal compliance
- ❑ Continue to review programs to identify opportunities for efficiencies
- ❑ Maintain a reserve that is sufficient to cover financial obligations and allow for time to adjust revenue and expenditures in the event of an unanticipated fiscal event.
- ❑ Remain financially nimble to assure the ability to transition should significant changes occur.

Overview of Covered California's Proposed Budget for Fiscal Year 2020-21

Jim Watkins, Chief Financial Officer

FY 2020-21 PROPOSED BUDGET : MORE SPENDING TO MEET THE NEEDS OF CALIFORNIANS

- The proposed FY 2020-21 budget totals \$440.2 million and provides 1,419 authorized positions. This represents a \$61.1 million (16%) increase above FY 2019-20's actual/forecasted operating expenses of \$379.1 million.
- The FY 2020-21 Covered California proposed budget reflects anticipated growth in enrollment due to many Californians losing employer-based coverage, resulting in increased revenue.
- During this time of economic insecurity, Covered California proposes to step up and spend beyond the new revenues generated, by using some of the cash reserves it has built up over the past seven years to enhance its spending in a number of key areas that are central to its mission.

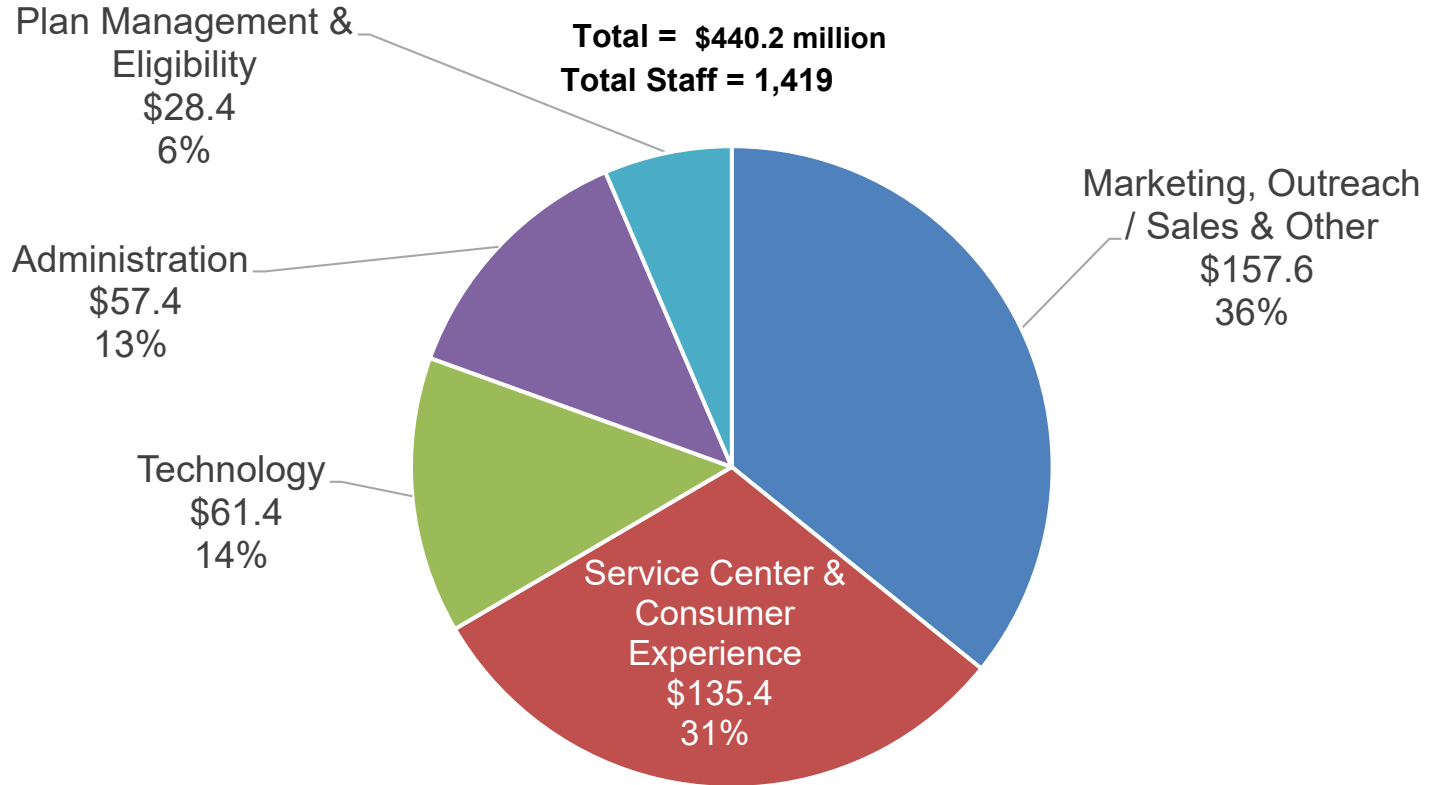
FY 2020-21 PROPOSED BUDGET ENHANCES SPENDING IN PRIORITY AREAS TO MEET COVERED CALIFORNIA'S MISSION.

Areas of priority focus include:

- **Responding to the recession by ramping up outreach, marketing, and helping consumers needing assistance** to meet Californian's needs (with about \$30 million of the increased spending targeted to marketing and \$13 million directed at expanding and upgrading service center and customer support operations),
- **Reprioritizing workplans and deliverables** impacted by the COVID-19 pandemic;
- **Informing national and state policy** through prudent investments (with about \$2 million targeted to building the capacity of the policy, evaluation and plan management functions that help drive performance and frame Covered California's lessons for state and federal policy-makers), and
- **Managing to meet Covered California's mission** with prudence and excellence (with about \$6 million focused on information technology capacity that supports the entire organization to be more effective).

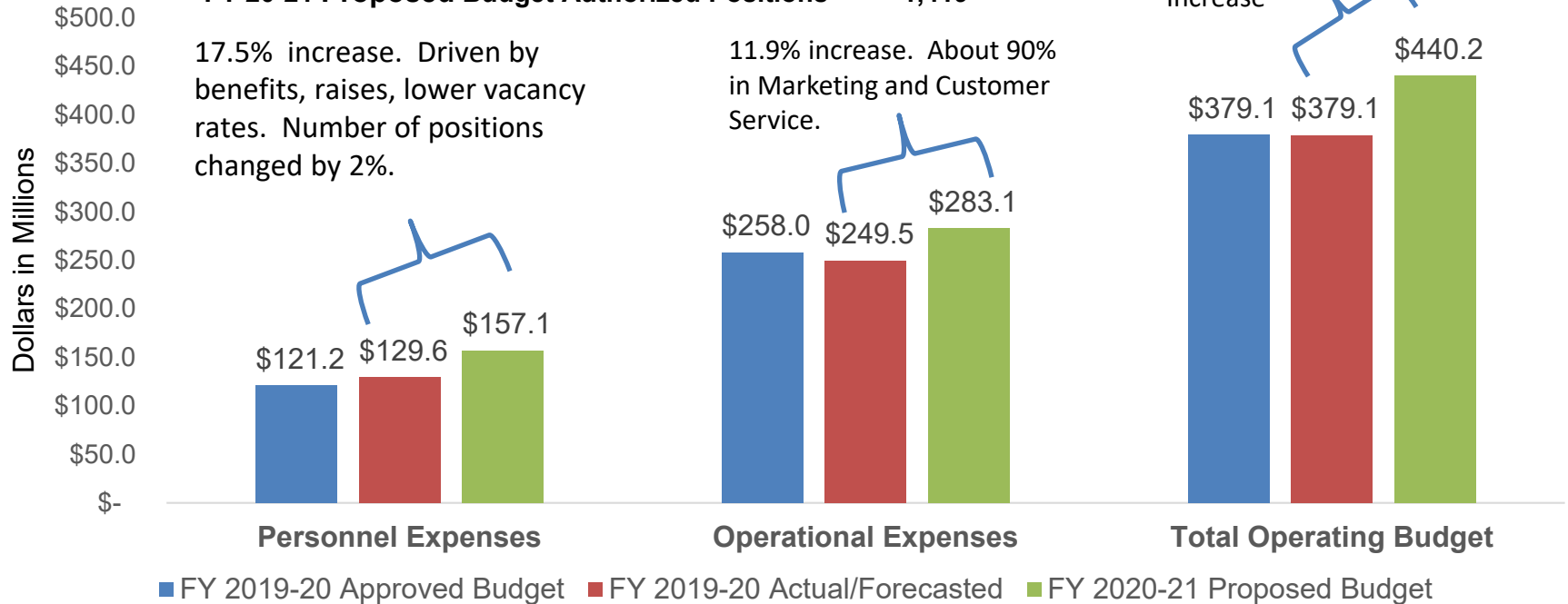
COVERED CALIFORNIA FY 2020-21 PROPOSED BUDGET BY PROGRAM AREA

Operating Expenses by Major Program Area



COMPARING COVERED CALIFORNIA'S FY 2019-20 TO FY 2020-21 PROPOSED BUDGET

FY 2019-20 Approved Budget Authorized Positions = 1,386
 FY 2019-20 Actual/Forecasted Authorized Positions = 1,391
FY 20-21 Proposed Budget Authorized Positions = 1,419



COVERED CALIFORNIA'S CAPITAL PROJECTS BUDGET

| | FY 2019-20 <u>Actual/Forecasted</u> | FY 2020-21 <u>Proposed Budget</u> | FY 2021-22 <u>Projected</u> | FY 2022-23 <u>Projected</u> |
|---|--|--|--------------------------------|--------------------------------|
| Opening Capital Projects Budget Resources | \$ 40.0 | \$ 46.7 | \$ 46.7 | \$ 53.7 |
| Transfer to Capital Projects Fund | <u>\$ 20.0</u> | <u>\$ 20.0</u> | <u>\$ 20.0</u> | <u>\$ 20.0</u> |
| Capital Projects Resources Available | \$ 60.0 | \$ 66.7 | \$ 66.7 | \$ 73.7 |
| Less: Capital Projects Expenditures for the Period | <u>\$ (13.3)</u> | <u>\$ (20.0)</u> | <u>\$ (13.0)</u> | <u>\$ (13.0)</u> |
| Year End Capital Projects Resources | <u><u>\$ 46.7</u></u> | <u><u>\$ 46.7</u></u> | <u><u>\$ 53.7</u></u> | <u><u>\$ 60.7</u></u> |

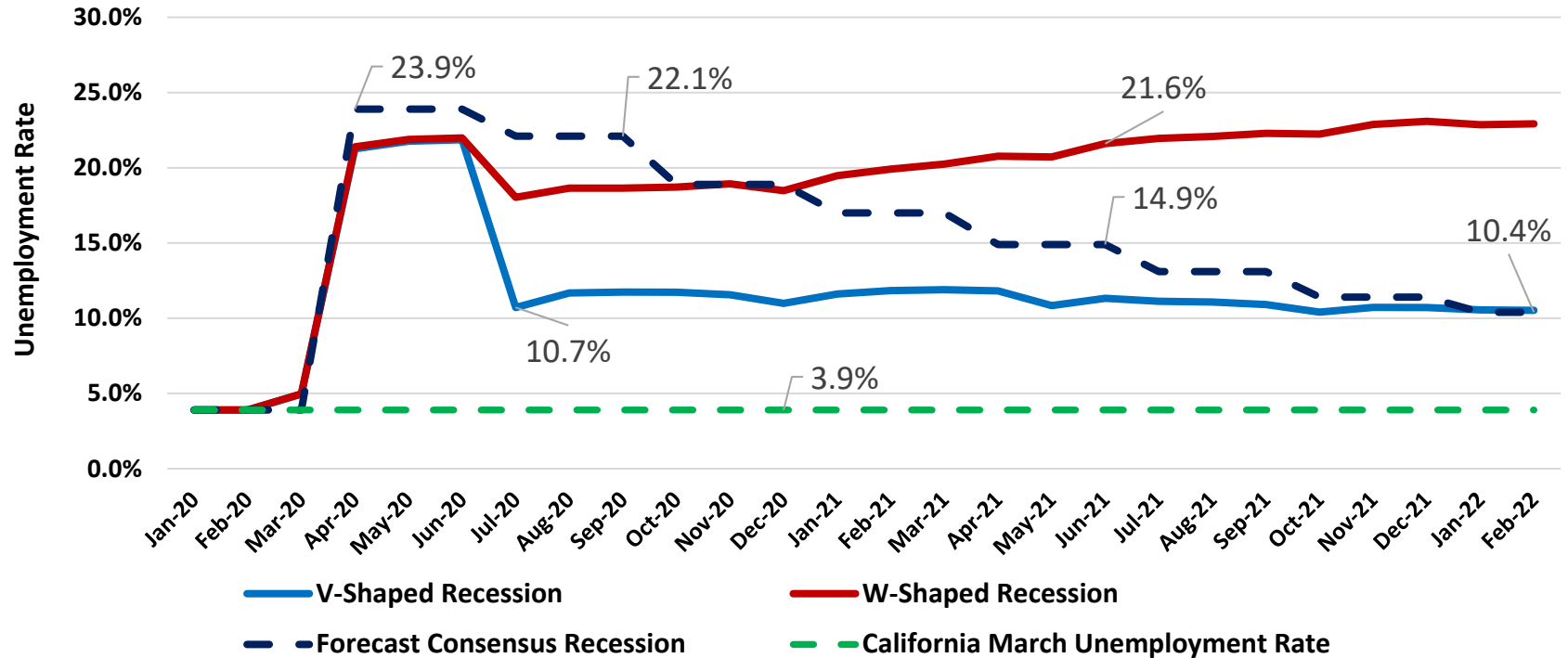
Covered California seeks \$20 million in capital projects expenditures authority for FY 2020-21.

Review Covered California's Enrollment/Revenue Forecasts and Multi-Year Financial Projections

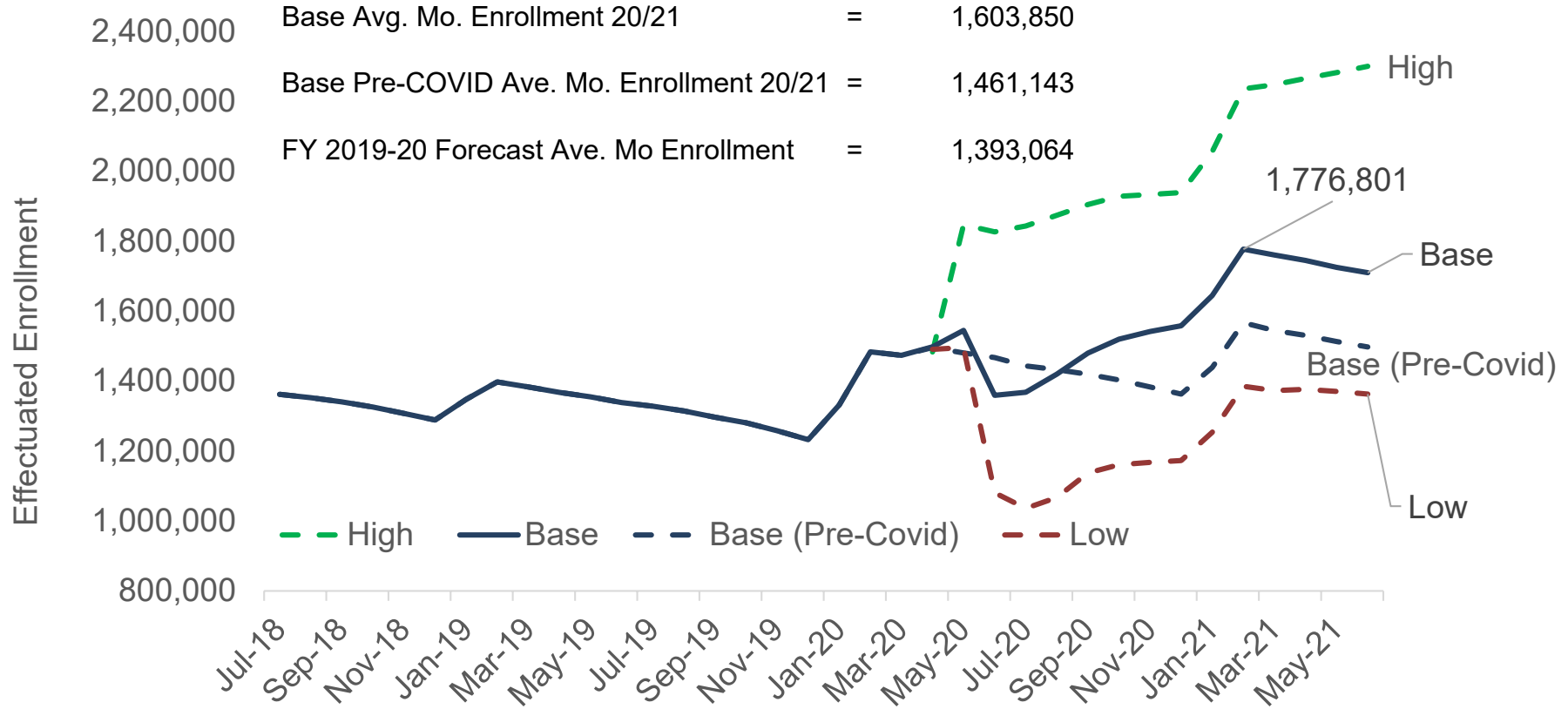
Jim Watkins, Chief Financial Officer

LABOR MARKET ANALYSIS - UNEMPLOYMENT

Unemployment Rate
January 2020 - February 2022



RECESSION IMPACTS TO ENROLLMENT FORECASTS



COVERED CALIFORNIA

MULTI-YEAR STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BASE-MULTI-YEAR PROJECTION – BASE FORECAST

| | FY 2019-20 <u>Actual/Forecasted</u> | FY 2020-21 <u>Proposed Budget</u> | FY 2021-22 <u>Projected</u> | FY 2022-23 <u>Projected</u> |
|--|--|--------------------------------------|--------------------------------|--------------------------------|
| Authorized Positions | 1,391 | 1,419 | 1,419 | 1,419 |
| Average Monthly Enrollment-Individual | 1,372,134 | 1,603,850 | 1,677,342 | 1,663,587 |
| Per-Member-Per-Month Individual Medical | \$ 20.92 | \$ 20.64 | \$ 20.90 | \$ 21.31 |
| Plan Individual - Medical | 16,482,133 | 19,246,198 | 20,128,104 | 19,963,046 |
| Plan Individual - Dental | 2,279,292 | 2,251,221 | 2,363,782 | 2,600,160 |
| Plan CCSB - Medical & Dental | 698,896 | 651,776 | 605,423 | 629,339 |
| Operating Revenues | \$ 364.4 | \$ 416.8 | \$ 440.0 | \$ 446.6 |
| Non-Operating Income - SMIF Interest | \$ 6.9 | \$ 0.9 | \$ 0.8 | \$ 2.1 |
| Total Revenues/Income - All Sources | \$ 371.3 | \$ 417.7 | \$ 440.9 | \$ 448.7 |
| Less: Operating Expenses | \$ (379.1) | \$ (440.2) | \$ (428.9) | \$ (430.5) |
| Overall Increase/(Decrease) In Net Position | \$ (7.8) | \$ (22.5) | \$ 11.9 | \$ 18.2 |
| Cash Reserve | \$ 399.3 | \$ 356.8 | \$ 348.7 | \$ 346.9 |
| Months of Budgeted Operations Funded | <u>11</u> | <u>10</u> | <u>10</u> | <u>9</u> |

ENROLLMENT, PREMIUM, AND REVENUE SCENARIOS

**Projected
Premium
Growth
Rates**

| Scenario | Plan Yr. 2020 | Plan Yr. 2021 | Plan Yr. 2022 | Plan Yr. 2023 |
|----------|---------------|---------------|---------------|---------------|
| | Actual | Projected | Projected | Projected |
| High | 0.80% | 8.0% | 7.0% | 6.0% |
| Base | 0.80% | 8.0% | 7.0% | 6.0% |
| Low | 0.80% | 8.0% | 7.0% | 6.0% |

**Individual
Market
Average Mo.
Effectuated
Enrollment**

| Scenario | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|----------|------------|------------|------------|------------|
| High | 1,372,134 | 2,066,992 | 1,958,545 | 1,882,868 |
| Base | 1,372,134 | 1,603,850 | 1,677,342 | 1,663,587 |
| Low | 1,372,134 | 1,238,530 | 1,394,127 | 1,450,247 |

**Plan
Assessments
- Individual
Medical**

| Scenario | FY 2019-20 | FY 2020-21 | FY 2021-2022 | FY 2022-23 |
|----------|---------------|---------------|---------------|---------------|
| High | \$344,733,011 | \$480,957,856 | \$482,943,275 | \$475,366,113 |
| Base | \$344,733,011 | \$397,295,839 | \$420,613,952 | \$425,474,831 |
| Low | \$344,733,011 | \$297,458,989 | \$329,982,650 | \$350,098,121 |

COVERED CALIFORNIA
CONDENSED STATE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FY 2019-20 ACTUAL/FORECASTED VS. FY 2020-21 PROPOSED BUDGET
HIGH FORECAST (DOLLARS IN MILLIONS)

| | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
|--|---------------------------------|-------------------------------|-------------------------|-------------------------|
| | <u>Actual/Forecasted</u> | <u>Proposed Budget</u> | <u>Projected</u> | <u>Projected</u> |
| Authorized Positions | 1,391 | 1,419 | 1,419 | 1,419 |
| Average Monthly Enrollment-Individual | 1,372,134 | 2,066,992 | 1,958,545 | 1,882,868 |
| Per-Member-Per-Month Individual Medical | \$ 20.92 | \$ 19.39 | \$ 20.55 | \$ 21.04 |
| Plan Individual - Medical | 16,482,133 | 24,803,904 | 23,502,540 | 22,594,416 |
| Plan Individual - Dental | 2,279,292 | 2,251,221 | 2,363,782 | 2,600,160 |
| Plan CCSB - Medical & Dental | 698,896 | 701,333 | 734,676 | 794,785 |
| Operating Revenues | \$ 364.4 | \$ 501.7 | \$ 505.7 | \$ 500.9 |
| Non-Operating Income - SMIF Interest | \$ 6.9 | \$ 0.9 | \$ 1.1 | \$ 2.9 |
| Total Revenues/Income - All Sources | \$ 371.3 | \$ 502.6 | \$ 506.8 | \$ 503.9 |
| Less: Operating Expenses | \$ (379.1) | \$ (440.2) | \$ (428.9) | \$ (430.5) |
| Overall Increase/(Decrease) In Net Position | \$ (7.8) | \$ 62.5 | \$ 77.8 | \$ 73.4 |
| Cash Reserve | \$ 399.3 | \$ 441.9 | \$ 499.8 | \$ 553.1 |
| Months of Budgeted Operations Funded | 11 | 12 | 14 | 15 |

COVERED CALIFORNIA
CONDENSED STATE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FY 2019-20 ACTUAL/FORECASTED VS. FY 2020-21 PROPOSED BUDGET
LOW FORECAST (DOLLARS IN MILLIONS)

| | <u>FY 2019-20</u> | <u>FY 2020-21</u> | <u>FY 2021-22</u> | <u>FY 2022-23</u> |
|--|---------------------------------|-------------------------------|--------------------------|--------------------------|
| | <u>Actual/Forecasted</u> | <u>Proposed Budget</u> | <u>Projected</u> | <u>Projected</u> |
| Authorized Positions | 1,391 | 1,419 | 1,419 | 1,419 |
| Average Monthly Enrollment-Individual | 1,372,134 | 1,238,530 | 1,394,128 | 1,450,247 |
| Per-Member-Per-Month Individual Medical | \$ 20.92 | \$ 20.01 | \$ 19.72 | \$ 20.12 |
| Plan Individual - Medical | 16,482,133 | 14,862,359 | 16,729,530 | 17,402,959 |
| Plan Individual - Dental | 2,279,292 | 2,251,221 | 2,363,782 | 2,600,160 |
| Plan CCSB - Medical & Dental | 698,896 | 597,900 | 519,129 | 530,234 |
| Operating Revenues | \$ 364.4 | \$ 315.7 | \$ 347.4 | \$ 368.9 |
| Non-Operating Income - SMIF Interest | \$ 6.9 | \$ 0.8 | \$ 0.5 | \$ 0.9 |
| Total Revenues/Income - All Sources | \$ 371.3 | \$ 316.5 | \$ 347.9 | \$ 369.8 |
| Less: Operating Expenses | \$ (379.1) | \$ (440.2) | \$ (428.9) | \$ (430.5) |
| Overall Increase/(Decrease) In Net Position | \$ (7.8) | \$ (123.7) | \$ (81.0) | \$ (60.7) |
| Cash Reserve | \$ 399.3 | \$ 255.8 | \$ 154.8 | \$ 74.0 |
| Months of Budgeted Operations Funded | <u>11</u> | <u>7</u> | <u>4</u> | <u>2</u> |

PUBLIC COMMENT

CALL: 844-291-6360

PARTICIPANT CODE: 5015217

- To request to make a comment, press 10; you will hear a tone indicating you are in the queue for comment. Please wait until the operator has introduced you before you make your comments.
- If watching via the live webcast, please mute your computer to eliminate audio feedback while calling in. Note, there is a delay in the webcast.
- The call-in instructions can also be found on page two of the Agenda.

EACH CALLER WILL BE LIMITED TO TWO MINUTES PER AGENDA ITEM

Program Detail – Covered California's Proposed Fiscal Year 2020-21 Budget and Current Fiscal Year Changes

Peter V. Lee, Executive Director

PUBLIC COMMENT

CALL: 844-291-6360

PARTICIPANT CODE: 5015217

- To request to make a comment, press 10; you will hear a tone indicating you are in the queue for comment. Please wait until the operator has introduced you before you make your comments.
- If watching via the live webcast, please mute your computer to eliminate audio feedback while calling in. Note, there is a delay in the webcast.
- The call-in instructions can also be found on page two of the Agenda.

EACH CALLER WILL BE LIMITED TO TWO MINUTES PER AGENDA ITEM

WRITTEN PUBLIC COMMENT

NOTE: In addition to commenting live, the public is invited to submit comments that staff will consider in revising this discussion item in advance of making final recommendations at the June board meeting. If you want to submit written comments, please submit them by June 5th to BoardComments@covered.ca.gov.

We will be soliciting comments that may come during that forum or could be sent to Covered California by Friday June 5th on several key issues, including:

1. Is the staff proposal that Covered California expand investments in areas of marketing and consumer service appropriate in the face of the COVID-19 pandemic?
2. Has Covered California appropriately balanced its focus on meeting the needs of Californians with its responsibilities for being fiscally prudent? Staff have sought to address this balance including the proposal to lower the on-exchange assessment on health plan premiums from 3.5 percent to 3.25 percent with the projections that for future years the organization would maintain an operating surplus of 9 months or more into the foreseeable future under the base forecast.
3. The budget does not reflect any spending for marketing that may be incurred by Covered California on behalf of health plans that do not spend the proposed 0.4 percent of premium on direct response marketing. This proposal is subject to board action as part of the qualified health plan contractual matters before the board at the June meeting.