



## COVERED CALIFORNIA POLICY AND ACTION ITEMS

June 3, 2025 Board Meeting

# COVERED CALIFORNIA'S PROPOSED FISCAL YEAR 2025-2026 BUDGET

Jim Watkins, CPA, Chief Financial Officer  
Financial Management Division

# Covered California's Proposed Budget for Fiscal Year 2025-26



June 3, 2025



# Introduction

# FY 2025-26 BUDGET ENVIRONMENT - UNCERTAIN

The FY 2025-26 proposed budget is characterized by uncertainty

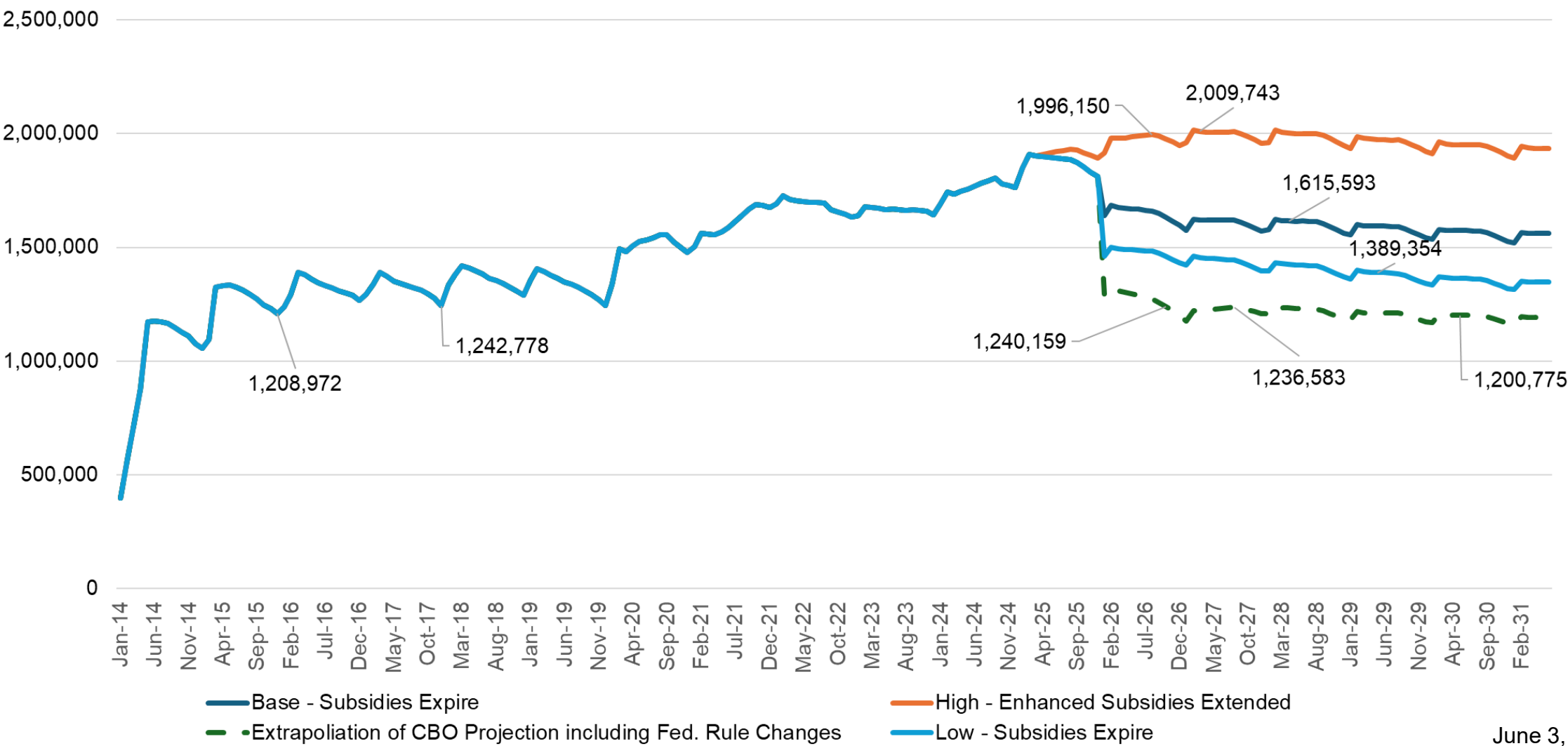
- ❑ yet-to-be-determined federal policy decisions
- ❑ an uncertain economic environment

In response to these challenges:

- ❑ The budget has been designed to provide flexibility in meeting future challenges,
- ❑ The budget ensures fiscal long-term sustainability across various possible scenarios.
- ❑ The budget acknowledges that various federal policy and legislative changes may significantly impact our adopted business plan during FY 2025-26, necessitating adjustments throughout the FY.

# Forecasting Enrollment

# FORECASTED ENROLLMENT



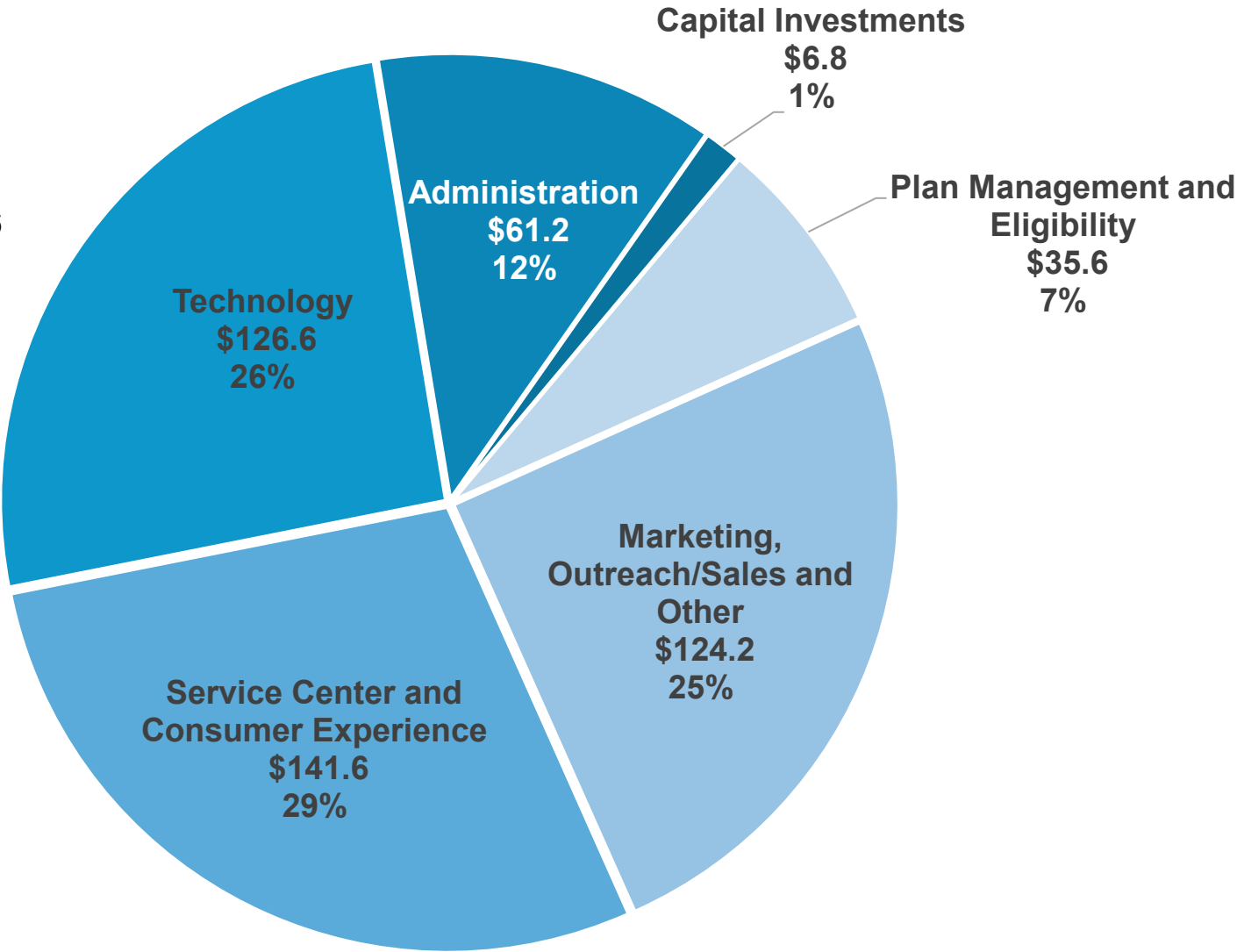
# Proposed FY 2025-26 Operating and Capital Expenditure Budget



# COVERED CALIFORNIA'S FY 2025-26 PROPOSED OPERATING BUDGET; BY MAJOR FUNCTIONAL AREA

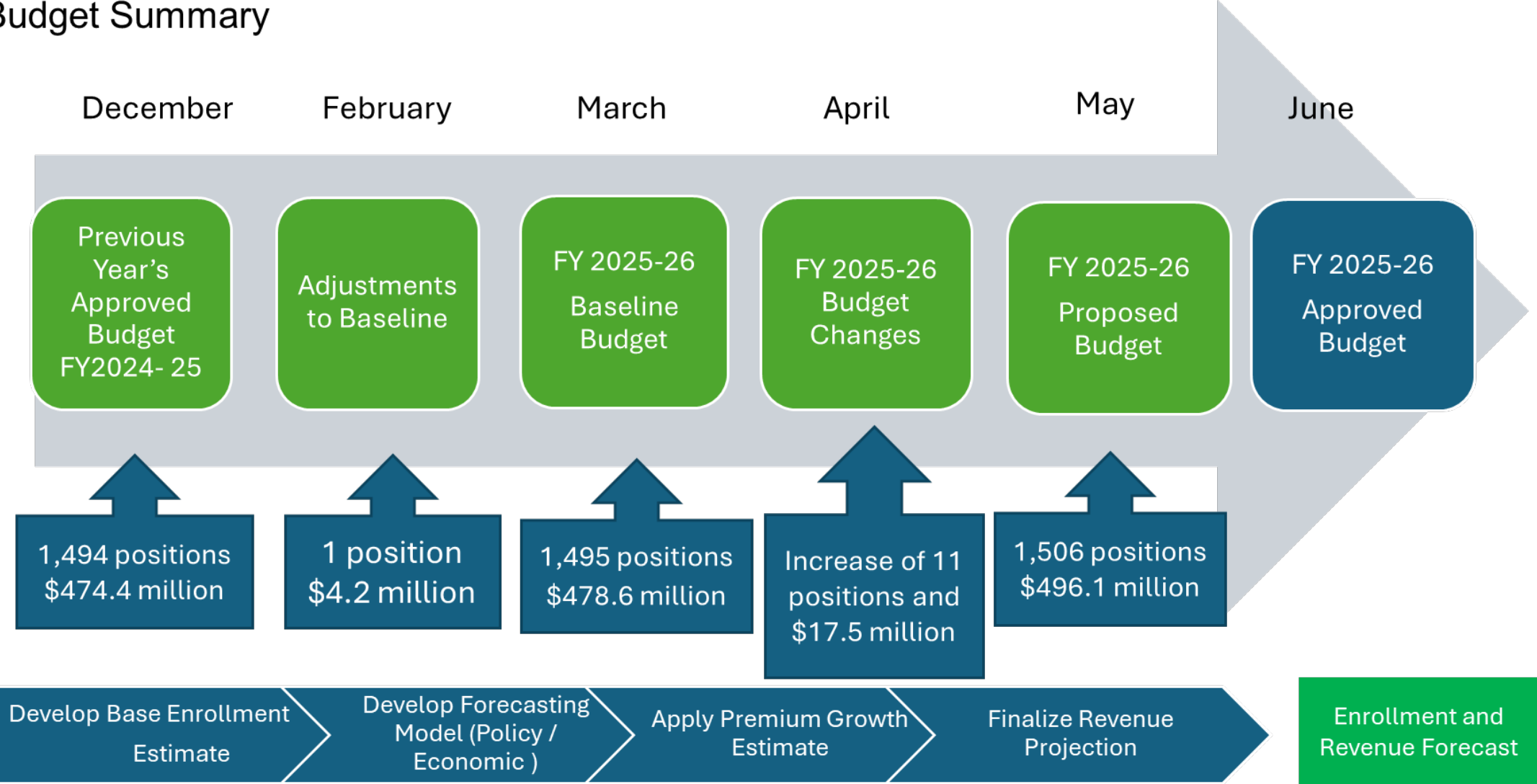
Dollars In Millions  
Total = \$496.1 Million

Total Staff = 1,506



# COVERED CALIFORNIA'S FY 2025-26 PROPOSED BUDGET

## Budget Summary



# Proposed Restriction of Fund Balance For Uncertainties

# CONTINGENCY FUND FOR FEDERAL UNCERTAINTIES- RESTRICTING FUND BALANCE

Covered California is facing several uncertainties regarding federal/state rule changes. These uncertain events may result in additional expenditures in FY 2025-26. It is anticipated that these expenditures may be prompted by federal rule changes and/or state policy changes that require CalHEERs changes and/or additional outreach efforts.

Given Covered California’s current fund balance, Covered California proposes that a portion of Covered California’s fund balance, not to exceed \$20 million for FY 2025-26, be restricted for this purpose. Covered California’s forecasted fund balance on June 30, 2025, is estimated to total \$569.2 million.

Through delegated Board authority, these restricted funds shall be used by the executive director for this purpose up to the maximum amount of \$20 million. Any expenditures incurred for this purpose will be separately accounted for and reported in Covered California’s accounting records.

Unrestricted fund balance	\$20,000,0000	
Restricted Fund Balance-Federal/State Contingencies		\$20,000,0000

# **FY 2025-26 Base Budget Forecasted Long-Term Fiscal Sustainability**

# WHAT IS FISCAL SUSTAINABILITY?

- ❑ The ability to continue public services or existing programs.
- ❑ The ability to meet financial commitments both now and in the future.
- ❑ The ability to maintain the stability and predictability of future tax burdens, or in Covered California's case, the participation fee rate.
- ❑ The ability to support long-term decision-making.

# FORECAST ASSUMPTIONS- PREMIUM GROWTH RATE AND EXPENDITURE GROWTH

## Premium Growth Rate

Scenario	PY 2026	PY 2027	PY 2028	PY 2029	PY 2030	PY
Individual market	7.0%	6.0%	5.2%	5.2%	5.2%	5.2%
Ind. Mkt. CBO (11%, 10%, Trend)	11.0%	10.0%	5.2%	5.2%	5.2%	5.2%
Ind. Mkt. CBO (13%,12%, Trend)	13%	12%	5.2%	5.2%	5.2%	5.2%
CCSB	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

## Expenditure Growth Rates, Same for All Scenarios

Category	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Personnel	3.50%	3.50%	3.50%	3.50%	3.50%
OOE	3.40%	3.40%	3.40%	3.40%	3.40%
State Shared	2.60%	2.60%	2.60%	2.60%	2.60%
Cap. Exp.	3.40%	3.40%	3.40%	3.40%	3.40%

# PARTICIPATION FEE RATES – INDIVIDUAL MARKET

## Forecasted Values Subject to Change

### Lowering working capital

### Achieving Breakeven, Maintaining Working Capital

Forecast	PY 2026	PY 2027	PY 2028	PY 2029	PY 2030	PY 2031
High	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
<b>Base</b>	<b>2.50%</b>	<b>2.75%</b>	<b>3.15%</b>	<b>3.14%</b>	<b>3.14%</b>	<b>3.14%</b>
Low	2.50%	2.75%	3.64%	3.65%	3.66%	3.66%
CBO	2.50%	3.25%	4.10%	4.10%	4.00%	4.00%
CBO (Higher Premium 11%,10%, Trend)	2.50%	3.00%	3.75%	3.75%	3.73%	3.72%
CBO (Higher Premium, 13%,12%, Trend)	2.50%	3.00%	3.62%	3.61%	3.60%	3.57%

In the forecasts analyzed, the Financial Management Division (FMD) assessed revenues and expenditures over a forecast period, considering specific rates for participation fees, premium growth, and expenditure growth.

The projected financial outcomes for each scenario—base, low, and high — were reviewed to establish the **breakeven participation fee rate**.

Keeping operating expenditures and premium growth constant across scenarios, Covered California adjusted the participation fee rate after a two-year phase-in period to achieve breakeven.

For the CBO extrapolation, we assumed premium growth rates consistent with the High, Base, and Low, but also considered a higher premium growth rate. We assumed that premiums would grow by 11% in plan year 2026, and 10% in plan year 2027 before returning to the 5.2% trend.

June 3, 2025



# FISCAL SUSTAINABILITY AND LONG-TERM BUDGET ASSESSMENT- BASE FORECAST

## Managing Working Capital Down

## Achieving Breakeven

		Forecast Range					
	Est. Actual	Budget Year	Forecasted	Forecasted	Forecasted	Forecasted	Forecasted
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Beginning Fund Balance At July 1	\$ 580,407,234	\$ 577,902,447	\$ 490,971,635	\$ 413,205,353	\$ 382,400,685	\$ 382,773,158	\$ 383,780,844
Adjusted Beg. Fund Balance	\$ 580,407,234	\$ 577,902,447	\$ 490,971,635	\$ 413,205,353	\$ 382,400,685	\$ 382,773,158	\$ 383,780,844
Additions	\$ 457,767,531	\$ 409,146,254	\$ 436,639,099	\$ 502,605,465	\$ 553,489,381	\$ 574,559,297	\$ 599,207,549
Deductions	\$ (460,272,318)	\$ (496,077,066)	\$ (514,405,381)	\$ (533,410,134)	\$ (553,116,907)	\$ (573,551,611)	\$ (594,741,111)
Increase / Decrease in Fund From Operations	\$ (2,504,787)	\$ (86,930,812)	\$ (77,766,282)	\$ (30,804,669)	\$ 372,474	\$ 1,007,686	\$ 4,466,438
Ending Fund Balance At June 30 (Working Capital/Fund Balance)	\$ 577,902,447	\$ 490,971,635	\$ 413,205,353	\$ 382,400,685	\$ 382,773,158	\$ 383,780,844	\$ 388,247,282
Unrestricted Working Capital/Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -
	\$ 577,902,447	\$ 490,971,635	\$ 413,205,353	\$ 382,400,685	\$ 382,773,158	\$ 383,780,844	\$ 388,247,282
Months of Budgeted Operations Funded	14.6	11.9	9.6	8.6	8.3	8.0	7.8

# **FY 2025-26**

# **Budget Recommendations**

# COVERED CALIFORNIA RECOMMENDS THAT THE BOARD ADOPT BOARD RESOLUTION 2025-27 TO:

- ❑ Approve the Operating and Capital Budget for FY 2025-26, providing expenditure authority of \$496,077,066
- ❑ Grant the Executive Director authority to adjust the Operating Budget, provided that FY 2025-26 expenditures remain at or below the level of expenditure authority approved by the Board.
- ❑ Restrict \$20,000,000 of Covered California's fund balance and grant the Executive Director the authority to incur expenditures during FY 2025-26 up to \$20,000,000 from the restricted funds set aside to address federal uncertainties.
- ❑ Charge a per-member-per-month participation fee of 2.50 percent for plan year 2026 on Qualified Health Plans, including dental plans, sold through the individual exchange, and 4.75 percent of premiums for such plans sold through Covered California for Small Business.

# PUBLIC COMMENT

**CALL: (877) 336-4440**

**PARTICIPANT CODE: 6981308**

- ❑ 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.
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**EACH CALLER WILL BE LIMITED TO TWO MINUTES PER AGENDA ITEM**

*NOTE: Written comments may be submitted to [BoardComments@covered.ca.gov](mailto:BoardComments@covered.ca.gov).*

# 2026 STATE PREMIUM SUBSIDY PROGRAM DESIGN

Katie Ravel, Director  
Policy, Eligibility & Research Division

# GOVERNOR'S MAY REVISION BUDGET AND COVERED CALIFORNIA AFFORDABILITY PROGRAMS

- ❑ The Governor's May Revision proposed budget appropriations for Covered California include:
  - \$165 million from the Health Care Affordability Reserve Fund (HCARF) to support a program of financial assistance.
  - \$20.35 million General Fund – California Premium Credit (\$1 per member/per month).
  - \$2 million HCARF – Striking worker benefit program, with additional increases up to \$3 million, if needed as specified.
- ❑ A loan of \$109 million will be made from HCARF to the General Fund in FY 2025-26.

# KEY DYNAMICS FOR CONSIDERATION IN DESIGNING A PREMIUM SUBSIDY PROGRAM

- ❑ The program must be designed to fit a fixed appropriation.
- ❑ Under a fixed appropriation, there is a tradeoff between the number of enrollees who can be supported and generosity of the subsidy.
- ❑ When the state premium subsidy is provided in addition to the federal premium tax credit, the subsidy represents a fixed percentage of the enrollee's income. When the state premium subsidy is provided to a group that is not eligible for the federal premium tax credit, the subsidy is a percentage of the total gross premium.
  - This dynamic impacts the cost of the program and year-over-year cost increases.

# APPROACH USED TO DEVELOP PREMIUM SUBSIDY OPTIONS

Two options were modeled based on the proposed \$165 million appropriation:

1. Apply the funding to maintain Inflation Reduction Act (IRA) enhanced premium tax credit levels starting with the lowest income enrollees.
2. Apply the funding to support middle-income enrollees starting at 400 percent of the federal poverty level (FPL) who will lose subsidies entirely if the enhanced premium tax credit expires.



## OPTION 1: APPLY THE FUNDING TO MAINTAIN ENHANCED PREMIUM TAX CREDIT AMOUNT STARTING WITH THE LOWEST INCOME ENROLLEES

- ❑ Using the FY 25-26 May Revision appropriation of \$165 million, IRA subsidy levels could be maintained for enrollees under 150 percent FPL. These enrollees would continue to have the choice of two free Silver 94 plans. We project that this level of subsidy would maintain current enrollment levels for this income group.
- ❑ The program is projected to cost \$136 million. Approximately 223,000 enrollees would receive state subsidies at an average value of \$51 per member per month.
- ❑ Under this option, about \$30 million would remain available; however, this amount would not be enough to expand premium subsidies above 150 percent FPL.
  - Consideration could be given to retaining the enhanced cost-sharing reduction benefit for one or more Silver variants.

## OPTION 2: APPLY THE FUNDING TO SUPPORT MIDDLE-INCOME ENROLLEES

- ❑ Using the FY 25-26 May Revision appropriation of \$165 million, Covered California could reinstate the 2021 California premium subsidy program for enrollees between 400 and 450 percent FPL.
- ❑ The enrollee's required contribution toward the premium of a benchmark plan would range from approximately 9 to 14 percent of income.
- ❑ We project that roughly 34,000 enrollees would receive subsidies. For those receiving the subsidy, the average subsidy would be \$403 per member per month, and the average net premium would be \$438 per member per month. Approximately 20 percent of enrollees in this income range would receive a \$0 subsidy amount.

FPL Group	Count Receiving State Subsidies	FPL Group Total	Cumulative Total
400% to 410% FPL	7,130	\$38 M	\$38 M
410% to 420% FPL	9,640	\$48 M	\$86 M
420% to 430% FPL	5,780	\$27 M	\$113 M
430% to 440% FPL	5,880	\$26 M	\$139 M
440% to 450% FPL	5,990	\$27 M	\$167 M
450% to 460% FPL	3,100	\$14 M	\$180 M
460% to 470% FPL	5,950	\$24 M	\$205 M
470% to 480% FPL	2,920	\$11 M	\$216 M
480% to 490% FPL	6,060	\$24 M	\$240 M
490% to 500% FPL	2,630	\$10 M	\$250 M
Over 500% FPL	14,690	\$51 M	\$301 M
<b>Total</b>	<b>69,760</b>	<b>\$301 M</b>	<b>\$301 M</b>

# OVERVIEW OF THE PLACEHOLDER PROGRAM DESIGN DOCUMENT

The placeholder 2026 premium subsidy program design document is based on the previously adopted 2021 program design document and specifies the following elements for the proposed program:

1. The enrollee required contribution amounts for the program – ***to be defined***.
2. The method for calculating 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.
3. The eligibility requirements for state premium assistance that mirror the requirements for the federal premium tax credit.
4. Definitions of key terms related to the calculation of the state premium assistance.

# OPERATIONAL PLANNING FOR THE 2026 OPEN ENROLLMENT AND RENEWAL PERIOD

Milestone	Customary Date(s)	Flexibilities and Considerations
Plan load and carrier integration testing	July – September	
Anonymous shopping enabled for 2026 plans	October 1	Covered California can select this date.
Active renewal period begins	October 1	Covered California can select this date. Renewals have been delayed until mid-October in prior years.
Passive renewals conducted	October 31 – November 26	Covered California can adjust this date range.
Open enrollment begins	November 1	

## NEXT STEPS AND TIMELINE

- ❑ Revise the program design document as necessary based on the final California FY 25-26 budget and any instructions included within the budget bill language for the income groups to be subsidized through the program.
- ❑ If the budget bill language does not specify the income groups to be subsidized, Covered California will solicit additional stakeholder feedback on the subsidy options. Staff will then present a final recommendation to the Board for action.
- ❑ Covered California staff will provide notification of the program design to the Joint Legislative Budget Committee (JLBC) as required by statute if Congress fails to extend the enhanced premium tax credit by September 30, 2025.

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# APPENDIX

## 2026 STATE PREMIUM SUBSIDY PROGRAM DESIGN

# THE ENHANCED TAX CREDITS PROVIDE AN ADDITIONAL \$2 BILLION IN ANNUAL PREMIUM SAVINGS

- ❑ In 2025, Californians are estimated to receive as much as \$11 billion in total savings for their monthly premiums due.
- ❑ The enhanced tax credits account for more than \$2 billion of the total savings.
- ❑ This translates to an average \$100 per month in additional premium savings for marketplace enrollees.

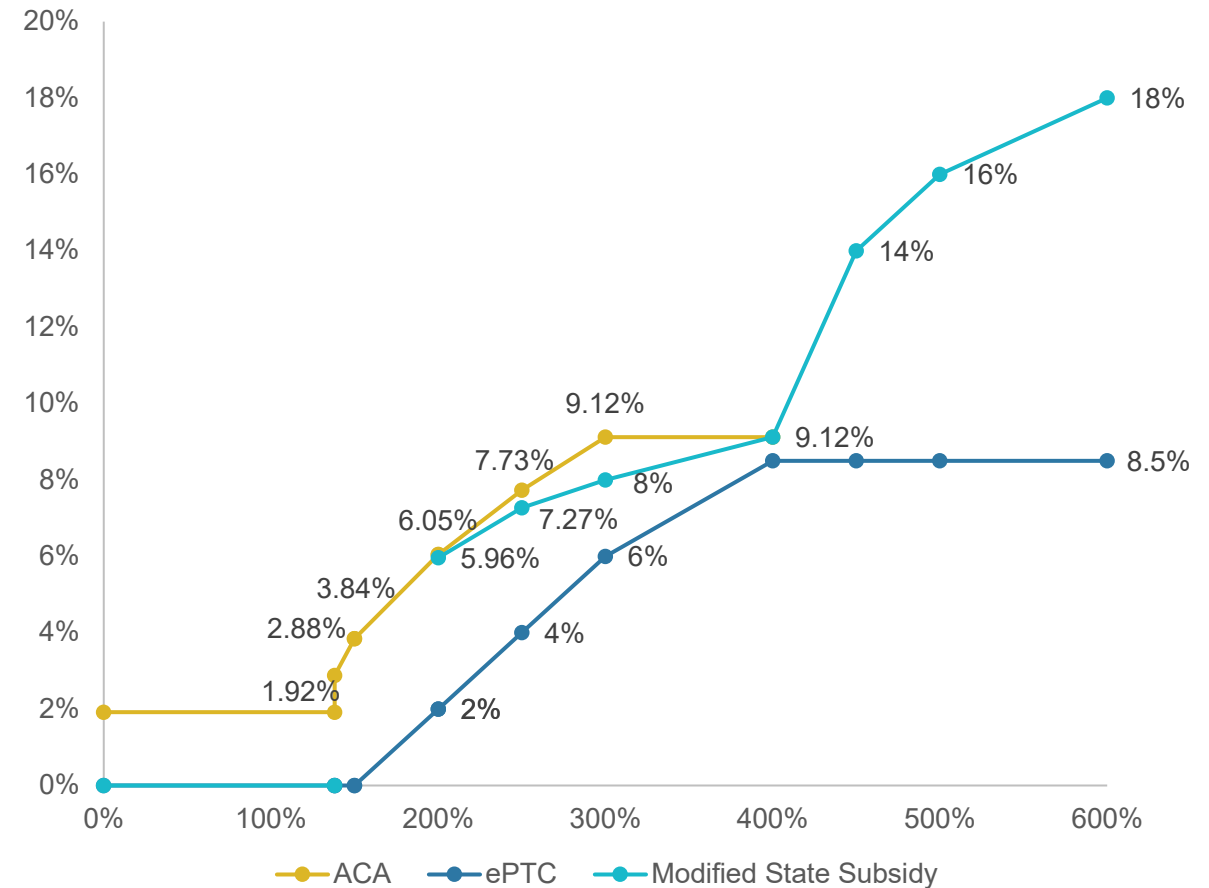
FPL Group	Subsidized Enrollees	Annual Value of Enhanced Tax Credits
0-150% FPL	264,880	\$125 million
150-200% FPL	531,460	\$424 million
200-250% FPL	278,590	\$308 million
250-400% FPL	500,780	\$440 million
>400% FPL	173,460	\$795 million
<b>Total</b>	<b>1,749,550</b>	<b>\$2.1 billion</b>



# COVERED CALIFORNIA ENROLLMENT HAS GROWN SIGNIFICANTLY SINCE 2021

- ❑ In 2020, Covered California spent about \$284 million on the premium subsidy program.
- ❑ Given Covered California's recent enrollment growth – particularly among individuals above 400% FPL – we estimate that reimplementing the 2021 program would cost approximately \$454 million, with 790,000 enrollees projected to receive state subsidies.

	State Subsidy Amount*	Average Net Premium	Total Cost
Under 138% FPL	\$37	\$50	\$19 M
200-250% FPL	\$8	\$178	\$22 M
250-300% FPL	\$22	\$216	\$56 M
300-400% FPL	\$20	\$282	\$57 M
400-600% FPL	\$359	\$575	\$301 M
<b>Total</b>	<b>\$49</b>	<b>\$258</b>	<b>\$454 M</b>



Required contribution is used to calculate the share of the monthly premium a Marketplace enrollee must pay. Federal and/or state subsidies pay the difference between the enrollee's share and the total monthly premium. IRS applicable percentage: <https://www.irs.gov/pub/irs-drop/rp-22-34.pdf>