OPTUM™

ACA – General Regulatory Update
Southeastern Actuaries Conference

Kecia Rockoff, FSA, MAAA

November 18, 2015

Topics

- Healthcare Market Overview
- Current Regulatory Issues
- 2017 Rate Review Considerations
- Strategic Considerations

OPTUM™

Health Care Market Overview

ACA Market Enrollment

American Community Survey (Census Bureau) Total Individual Enrollment (in millions)		
2013	16.9	
2014	20.0	18.3%
CMS - Effectuated Enrollment Snapshot On-Exchange Individual Enrollment (in millions)		
Dec-14	6.3	
Mar-15	10.2	
Jun-15	9.9	
Small Group - RA/RI Report (in millions)		
2014	3.7	

- Enrollment appears to be running well below prior projections
  - On track to achieve prior full-implementation projections of 25.4 M?
  - If not, premiums will likely stabilize at a higher level than expected

ACA Premiums

	2nd Lowest Cost Silver Plan Before Tax Credits (27 yr. old)			# of Carriers Offering Plans	
State	2016	2015	% Change from 2015 to 2016	2016	2015
Alabama	$244	$216	13%	3	3
Arkansas	$244	$235	4%	4	3
Florida	$237	$235	1%	8	9
Georgia	$236	$228	4%	9	8
Kentucky		State Exchange			
Louisana	$290	$267	9%	4	4
Maryland [(1)]	$246	$235	5%		
Mississippi	$230	$255	-10%	3	3
North Carolina	$318	$259	23%	3	3
South Carolina	$247	$223	11%	3	3
Tennessee	$236	$191	24%	4	3
Virginia	$240	$230	4%	7	6
US Average			7%		

[(1)] Source: Kaiser Family Foundation analysis of 2016 insurer rate filings to state regulators. Not Final

Source: Milliman 2016 ACA marketplace rate change overview – November 3,2015

Current Regulatory Issues

PACE Act - Summary

- Protecting Affordable Coverage for Employees Act
  - Amend the PPCCA to provide states the flexibility in determining the size of employers in the small group market
  - Passed 10/7/2015
- Federal definition of Small Group remains defined as 1-50 employees rather than changing to 1-100 on January 1, 2016
- States can opt for the 1-100 definition of small employer if they choose as along as it applies to all employers

PACE Act – Why Repeal?

Original Intent: Stabilize the Small Group market and make insurance more affordable for the smallest employers

- Most States currently define Small Group as 1-50
- Employer Group 51-100 market is relatively small, offering fully insured even smaller
- Mid-size (51-100) would become subject to the employer mandate
- Small vs Large Group regulation
  - Cover Essential Health Benefits
  - Offer Metal Plans only
  - Participate in Risk Adjustment program
  - Use single risk pool for setting premiums
  - Only consider age, geography, location, family composition and tobacco use in setting rates

Excise Tax (aka Cadillac Tax) : Definition

- Tax on High Cost Health Plans
- Takes effect in 2018
- 40% tax on health insurance coverage that exceed a certain threshold
- 2018 thresholds: $10,200/individual and $27,500 for family
- Impacts Large Employers
- Outstanding questions regarding Impact to Small Employers

Excise Tax - Rational

- Lower Health Care costs
  - Employer health care costs are tax deductible
- Higher Worker Wages
  - Expectation is that employers will lower medical benefits and replace with higher wages
- Lower Future Deficits
  - CBO/JCT estimate $91 billion deficit reduction by 2025 mainly due to increased payroll tax

Excise Tax - Specifics

- In 2018 the threshold for an individual is $10,200 and $27,500 for a family
  - Indexed by CPI + 1% for 2019
  - Indexed by CPI for 2020 and beyond
- Includes, in addition to health insurance premiums,
  - On-site medical clinics,
  - Pre-tax contributions to HSAs and FSA
- Excludes
  - Accident and disability income insurance
  - Worker's comp
  - Long Term Care
  - Hospital Indemnity/Specific Disease
- In 2015, 19% of employers already have a plan that would exceed the threshold

Excise Tax – Comments to IRS (Notice 2015-52)

- Allow a Safe Harbor for plans that meet the minimum value test 60% AV
- Encourage employee participation in own healthcare by excluding on-site clinics, FSAs, HRAs and HSAs, and wellness programs
- Tie threshold amount to the actuarial value already calculated for the minimum value test
- Index threshold amount to medical CPI, not general CPI
- Create a phase-in approach, especially for collective bargaining
- Remove Employer Aggregation (2 or more businesses under common control) requirement
- Cost of Applicable Coverage – Timing issues
- Age/Gender Adjustment – FEHBP not the best measure of the general workforce

Source: Business Roundtable letter to IRS re: Notice 2015-52; American Academy of Actuaries letter to IRS re: Notice 2015-52

Excise Tax – Strategic Approaches

- Some employers already making changes now to avoid larger more disruptive changes in 2017.
- Changes include:
  - Increasing deductibles and other cost sharing
  - Reducing/eliminating covered services
  - Capping/eliminating FSAs, HSAs and HRAs
  - Using narrow (less expensive) provider networks
  - Offering benefits through a private exchange

Consumer Operated and Oriented Plans (Co-ops) - Overview

- A compromise to a “uniform public option” offering
- Nonprofit insurers owned by the policy holders (individual and small groups)
- Alternative to the traditional insurers - competition
- Funding for co-ops was cut in budget negotiations
- Many were the lowest cost plan on the Exchange
- Attracted unfavorable risk

Consumer Operated and Oriented Plans (Co-ops) - Failures

- About 500,000 people in the co-ops that have folded to date (12 out of 23)
- $1.24 billion in federal loans
- 21 of the 23 are writing checks to large insurers for RA transfer payments
- CMS evaluating all co-ops “enhanced over-site plans”
- Energy and Commerce committee hearing- Examining the Costly Failures of Obamacare’s CO-OP Insurance Loans (Nov 5th)

2017 Rate Review Considerations

Rate Review - ASOP No. 50 – September 2015

Determining Minimum Value and Actuarial Value under ACA

- Purpose: Guidance w.r.t. determining the actuarial value (AV) of a health insurance plan and testing the minimum value (MV) requirement is met.
- ACA specific
  - Categorizing Individual and Small Group health insurance plans into metal levels
  - Testing if employer sponsored health plans meet the federal minimum value requirements
  - Making required certifications
- Applies to work performed on or after January 1, 2016

Rate Review - ASOP No. 50 - Highlights

- AVC and MVC are developed by HHS and IRS
- Exceptions to the AVC/MVC
  - Adjust inputs so results are consistent with the value of the plan
  - Use the AVC/MVC to determine the AV for plan provisions and make adjustments
- Evaluating Non-Standard Plan Designs
  - Data, methods and assumptions are consistent with the with those underlying the AVC/MVC

Rate Review Considerations 2017

- Maximum increase of 10% will be applied by plan (not product)
- Movement of co-op membership (membership projections)
- Essential Health Benefits (updated)
- Phase out of Reinsurance and Risk Corridor programs
- Risk Adjustment projections
- Underlying experience data – credibility
- New market players
- New Unified Rate Review Template

Strategic Considerations

Strategic Considerations for Individual (as of 2015)

- With lower than expected enrollment, is individual market still attractive?
  - Is growth potential worth the risk?
- 2016 may be pivotal year in understanding long-term outlook for market
  - Large rate increases approved for many plans for 2016
  - Will market continue to grow with large increases?
  - Re-evaluation of market positioning and competitiveness by many carriers

Strategic Considerations for Individual (as of 2015) (cont)

- Market may not stabilize in 2016
  - New entrants in 2015 may not know true risk
  - 2014 results including 3Rs not known until after 2016 rates have been filed
  - Early indications that 2014 market leaders had unsustainable rates, supported by rate increases
  - Some insolvencies already – may be more to come

Strategic Considerations for Small Group (as of 2015)

- Actual ACA enrollment has not been reported
  - Based on RI/RA report can estimate about 3.7 million
- SHOP exchange enrollment limited
  - Full-featured enrollment environment generally not available yet
  - Option to pick carrier, plan level, or both when fully implemented
  - Not clear yet if those features are desirable for employers
- Some evidence of loss of small group enrollment to individual
  - Expected some losses for smallest group sizes (< 5 or <10)
  - May lose some small group to ASO arrangements
- Is Exchange participation still attractive for small group issuers?
- Some state-run exchanges may not be viable without increased enrollment (both individual and small group)

OPTUM™

Thank you

Kecia Rockoff, FSA, MAAA
Director, Actuarial Consulting
(678) 417-4932
kecia.rockoff@optum.com