



Affordable Care Act – Hot Topics

June 25, 2015

Agenda

- Experience Update
- Filing Issues
- Reinsurance
- Risk Adjustment & Risk Corridors
- Merger Mania
- COOPs

Experience Update

- 2014
 - First year for individual products
 - Transitional plans vary by state
 - Enrollment problems
 - Wide range of rates

Experience Update

- 2015
 - Enrollment through April 15
 - Fewer problems
 - Many members stayed with current plan
 - More insurers in exchanges
 - Narrower range of rates

Filing Issues

- Timing - 2015
 - November enrollment
 - August rates to exchanges
 - April or May rate filing
 - Too early for credible experience

Filing Issues

- Experience data
 - 2015 data minimal in April or May
 - 2014 data not final
 - Reinsurance adjustment data in July 2015
 - Risk adjustment data in July 2015
 - Risk Corridor data in December 2015
 - Rates filed before adjustments
 - Some states may allow revised rate filings

Reinsurance – Moving target

- Last week CMS announced that the coinsurance parameters for 2014 will be 100% instead of 80% between \$45K and \$250K.
- Why? Reinsurance collections exceed reinsurance payments
 - Lower than expected enrollment in the Individual market
 - Narrow Networks lead to lower provider cost
- It was expected that HHS would use reinsurance funds as a means to alleviate risk corridor deficit.
- HHS had the option to roll over the excess funds to 2015 plan year

Reinsurance – 2015

- What about 2015?
 - Individual market growth
 - Higher drug claims due to Hepatitis C
 - Possibly not as much excess in 2015

Risk Adjustment & Risk Corridors

- The reinsurance and risk adjustment reports, including payment amounts, will be released on Tuesday (June 30).
- Risk adjustment transfer are based on statewide premiums, not claims, therefore premiums (administrative fees) are the basis for transfers
- Rate filings may be adjusted, if allowed by regulators
- Risk corridor payments
 - Data not available until December 2015
 - Based on loss ratios
 - Full funding is questioned
 - Zero sum game

Merger Mania

- Anthem made offer to CIGNA
- United is interested in Aetna
- CIGNA & Aetna are interested in Humana
- Projected that only three will survive
- Reasons
 - Provider consolidation threats
 - Better negotiating position
 - Cost reduction due to size

Consumer Operated & Oriented Plans (COOPs)

- Background
 - Compete with for profit plans
 - 23 set up; all with federal loans
 - 1 Million members enrolled
- Experience
 - Many are underpriced
 - Net underwriting loss in 2014 of \$377 Million
 - Iowa COOP taken over by state
 - Congress cut funding
- Future
 - 3 R's provide short term protection
 - Long term – rates must be adequate for experience plus to repay loans



Thank you



Appendix

Sample Risk Adjustment Calculation

California Rating Regions	Exhibit2a : Carrier ABC						
	Rating Area	Avg. Mbrshp	Premium dollars	Premium PMPM	Transfer Payment ^[1]	Transfer PMPM	Transfer % of Premium
Alpine, Del Norte, Sutter, Colusa etc.	Area 1	59,279	\$210,454,228	\$295.85	\$1,105,867	\$1.55	0.5%
Napa, Sonoma, Solano, Marin	Area 2	13,704	\$64,215,686	\$390.49	\$5,699,012	\$34.66	8.9%
Sacramento, Placer, El Dorado, Yolo	Area 3	39,705	\$161,820,923	\$339.63	\$7,307,415	\$15.34	4.5%
San Francisco	Area 4	402	\$2,255,351	\$467.70	\$41,047	\$8.51	1.8%
Contra Costa	Area 5	481	\$2,252,889	\$390.58	\$294,273	\$51.02	13.1%
Alameda	Area 6	6,329	\$28,819,089	\$379.48	(\$294,966)	(\$3.88)	-1.0%
Santa Clara	Area 7	95,579	\$399,039,593	\$347.91	(\$28,711,021)	(\$25.03)	-7.2%
San Mateo	Area 8	106	\$638,478	\$503.94	\$100,056	\$78.97	15.7%
Santa Cruz, Monterey, San Benito	Area 9	6,172	\$28,097,943	\$379.37	(\$441,580)	(\$5.96)	-1.6%
San Joaquin, Stanislaus, Merced, etc.	Area 10	82,383	\$278,094,801	\$281.30	(\$6,155,506)	(\$6.23)	-2.2%
Fresno, Kings, Madera	Area 11	28,550	\$92,168,935	\$269.02	(\$5,263,443)	(\$15.36)	-5.7%
SL Obispo, Santa Barbara, Ventura	Area 12	16,917	\$66,438,100	\$327.28	\$3,622,427	\$17.84	5.5%
Mono, Inyo, Imperial	Area 13	26	\$103,587	\$326.99	(\$18,005)	(\$56.84)	-17.4%
Kern	Area 14	21,588	\$68,378,446	\$263.96	(\$2,580,733)	(\$9.96)	-3.8%
Los Angeles(North)	Area 15	11,053	\$34,160,557	\$257.56	(\$2,246,237)	(\$16.94)	-6.6%
Los Angeles(South)	Area 16	35,199	\$116,746,543	\$276.39	(\$3,694,176)	(\$8.75)	-3.2%
San Bernardino, Riverside	Area 17	13,384	\$42,546,532	\$264.90	(\$125,793)	(\$0.78)	-0.3%
Ornage	Area 18	80,172	\$259,286,407	\$269.51	(\$13,995,720)	(\$14.55)	-5.4%
San Diego	Area 19	3,895	\$12,844,367	\$274.79	(\$793,058)	(\$16.97)	-6.2%
ABC Metal Risk Pool		514,924	\$1,868,362,454	\$302.37	(\$46,150,140)	(\$7.47)	-2.5%

Use a statewide premium and market information to provide:

- An estimate of the risk transfer payment
- Analysis of relative market position by type
- Analyze individual and Small Group markets

Sample Reinsurance Calculation

		Claims		Member Months		Member OOP (for those in corridor)			
		PMPY	PMPM	YTD	Annual				
	Base	4,467	372.27	434,360	5,212,325			\$	6,350.00
	Adj. Annual Claims	2,436	202.97					Pct Recoverable	85%
						Deductible	Max	Coinsurance	
						\$60,000	\$250,000	80%	
Adjusted Annual Frequency	Unadj. Avg Annual Claims	Adj. Total Annual Claims	Annual Cost of Claim	Probability of Claims >= Annual Cost	Annual Cost of Claims >= Annual Cost	Distribution of Claims			
						<\$60,000	>=\$60,000 <\$250,000	>\$250,000	Total
0.186430	\$0.00	\$0.00	\$0.00	1.000000	\$ 2,435.66	-	-	-	-
0.028118	\$19.21	\$10.47	\$0.29	0.813570	2,435.66	10	-	-	10
0.020282	\$79.65	\$43.43	\$0.88	0.785452	2,435.36	43	-	-	43
0.033307	\$128.14	\$69.87	\$2.33	0.765170	2,434.48	70	-	-	70
0.029059	\$174.41	\$95.09	\$2.76	0.731864	2,432.16	95	-	-	95
0.024690	\$224.71	\$122.52	\$3.02	0.702805	2,429.39	123	-	-	123
0.024701	\$274.43	\$149.63	\$3.70	0.678115	2,426.37	150	-	-	150
0.022021	\$324.81	\$177.10	\$3.90	0.653414	2,422.67	177	-	-	177
0.020686	\$374.74	\$204.32	\$4.23	0.631393	2,418.77	204	-	-	204
0.019121	\$424.58	\$231.49	\$4.43	0.610707	2,414.55	231	-	-	231
0.000026	\$1,114,930.30	\$607,882.83	\$15.66	0.000066	66.34	60,000	190,000	357,883	607,883
0.000014	\$1,365,812.47	\$744,668.93	\$10.35	0.000040	50.69	60,000	190,000	494,669	744,669
0.000009	\$1,609,914.31	\$877,758.25	\$7.56	0.000026	40.34	60,000	190,000	627,758	877,758
0.000005	\$1,855,991.65	\$1,011,924.65	\$4.78	0.000018	32.78	60,000	190,000	761,925	1,011,925
0.000013	\$4,016,396.91	\$2,189,821.84	\$28.00	0.000013	28.00	60,000	190,000	1,939,822	2,189,822
1.000000	\$4,467.29	\$2,435.66	2,435.66			\$ 2,140.79	\$ 218.39	\$ 76.48	\$ 2,435.66
Check		Check							
					Coinsurance:				
					Member Plan				
					Net Reinsurance Recoveries PMPY		174.71		7.17%
					Net Reinsurance Recoveries PMPM	\$	14.56		
					Reduction for Reins. Exceeding Fed Allowed:		2.18		
					Federal Reins. Recoveries Valuation PMPM	\$	12.38		
					Member Months:		5,212,325		
					Expected total Fed. Reins. Recoveries		\$64,505,172		

Estimate the reinsurance recoveries on both an aggregate and metallic plan level

Sample Risk Corridor Calculation

Risk Corridor - All QHP			Medical Loss Ratio (Regulatory)		
	Individual	Small Group		Individual	Small Group
Financial Entry Items (\$ amounts in thousands)	All QHPs (Metals & Catastrophic)	All QHPs	Financial Entry Items (\$ amounts in thousands)	All Ind. Commercial Major Med ^[8]	All Commercial Small Group Major Med ^[8]
Premiums ^[1]	<u>1,159,255,624</u>	<u>600,000</u>	Premiums ^[1]	<u>1,159,255,624</u>	<u>600,000</u>
a. Earned	1,159,205,624	600,000	a. Earned	1,159,205,624	600,000
b. Premium Tax Credit	50,000	N/A	b. Premium Tax Credit	50,000	N/A
Allowable Cost ^[2]	<u>1,197,505,782</u>	<u>535,000</u>	Adjusted Claims ^[2]	<u>1,132,313,679</u>	<u>497,252</u>
a. Incurred Medical	953,996,783	450,000	a. Incurred Medical	953,996,783	450,000
b. Incurred Rx	113,207,790	100,000	b. Incurred Rx	113,207,790	100,000
c. DIR	(5,000)	(10,000)	c. DIR	(5,000)	(10,000)
d. Health Care quality	1,000	2,000	d. Health Care quality	1,000	2,000
e. Health Care IT	500	1,000	e. Health Care IT	500	1,000
f. Risk Adj. (HHS)	65,801,537	(8,000)	f. Risk Adj. (HHS)	65,801,537	(8,000)
g. Reins. (HHS)	64,505,172	N/A	g. Reins. (HHS)	64,505,172	N/A
h. CSR Payments	(2,000)	N/A	h. CSR Payments	(2,000)	N/A
			i. Risk Corridor Pmts	(65,192,103)	(37,748)
Non Claim Cost ^[3]	<u>62,203,374</u>	<u>118,000</u>	Non Claim Cost ^[3]	<u>62,203,374</u>	<u>118,000</u>
a. SG & A	60,000	80,000	a. SG & A	60,000	80,000
b. Reins. Contrbns.	27,364,705	15,000	b. Reins. Contrbns.	27,364,705	15,000
c. CB/Taxes ^[4]	34,777,669	18,000	c. CB/Taxes ^[4]	34,777,669	18,000
d. Reg/Licensing Fee	1,000	5,000	d. Reg/Licensing Fee	1,000	5,000
After Tax Premium	<u>1,097,112,250</u>	<u>562,000</u>	After Tax Premium	<u>1,097,112,250</u>	<u>562,000</u>
Profit (Threshold) ^[5]	<u>32,913,367</u>	<u>16,860</u>	MLR (Regulatory Min) ^[9]	<u>80.0%</u>	<u>80.0%</u>
Operating Profit (Loss)	<u>(100,453,532)</u>	<u>(53,000)</u>	MLR	<u>103.2%</u>	<u>88.5%</u>
Profit (for Risk Corridor) ^[6]	<u>32,913,367</u>	<u>16,860</u>	MLR Requirement Met	<u>Y</u>	<u>Y</u>
Allowable Admin Max ^[7]	<u>281,565,824</u>	<u>150,400</u>	Rebates	<u>0</u>	<u>0</u>
Allowable Admin Cost	<u>95,116,742</u>	<u>134,860</u>	Operating Profit (post Risk Corridor Settlement)	<u>(35,261,429)</u>	<u>(15,252)</u>
Target Amount	<u>1,064,138,882</u>	<u>465,140</u>	Operating Margin (post Risk Corridor)	<u>-3.0%</u>	<u>-2.5%</u>
Risk Corridor Ratio	<u>112.5%</u>	<u>115.0%</u>	Operating Profit (post Risk Corridor and Rebates)	<u>(35,261,429)</u>	<u>(15,252)</u>
Risk Corridor Payment	<u>65,192,103</u>	<u>37,748</u>	Operating Margin (post Risk Corridor and Rebates)	<u>-3.0%</u>	<u>-2.5%</u>

The Federal risk corridor calculation is complex

Need a model that estimates the annual risk corridor

This is an example used to estimate the payable/ receivable that must be posted