

Merged Market Advisory Council March 5, 2020



Gorman Actuarial, Inc.

AGENDA

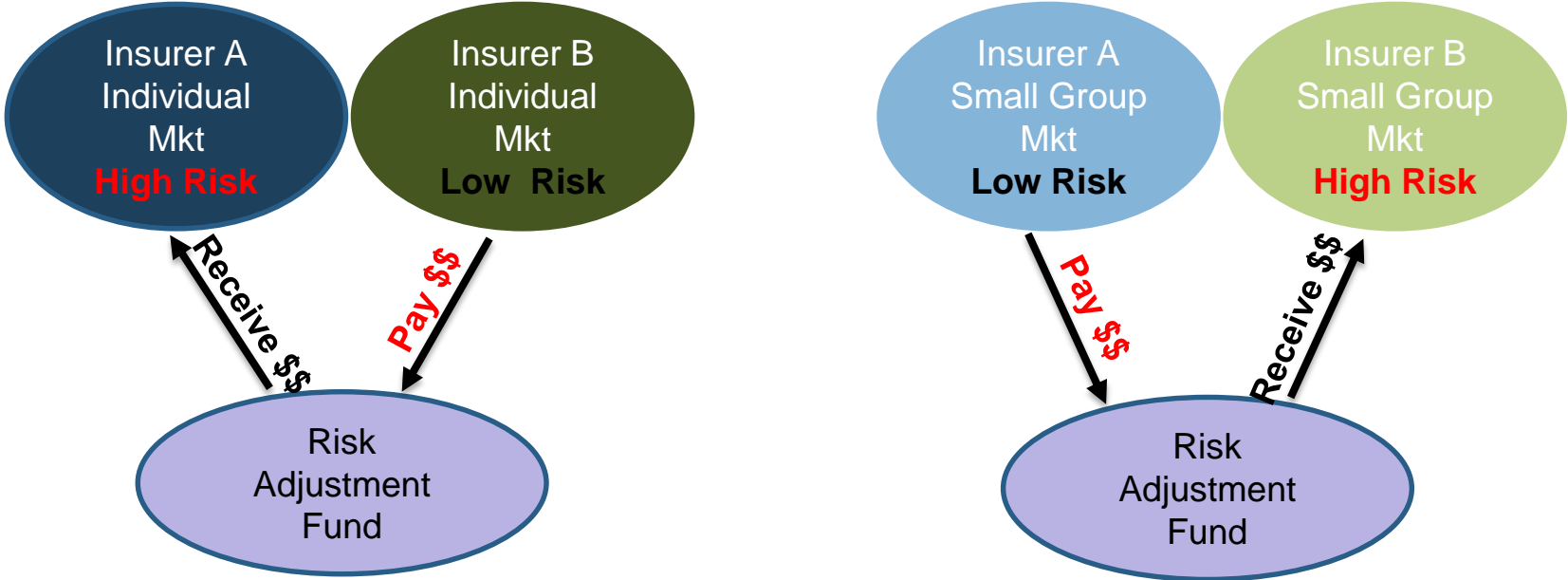
- Risk Adjustment Recap
- Group Size Adjustment
- Baseline Analytics

Risk Adjustment in the Merged Market: Spreading Risk Among Insurance Carriers

Risk adjustment tries to create equity in the market by shifting funds from insurers with lower risk members to insurers with higher risk members

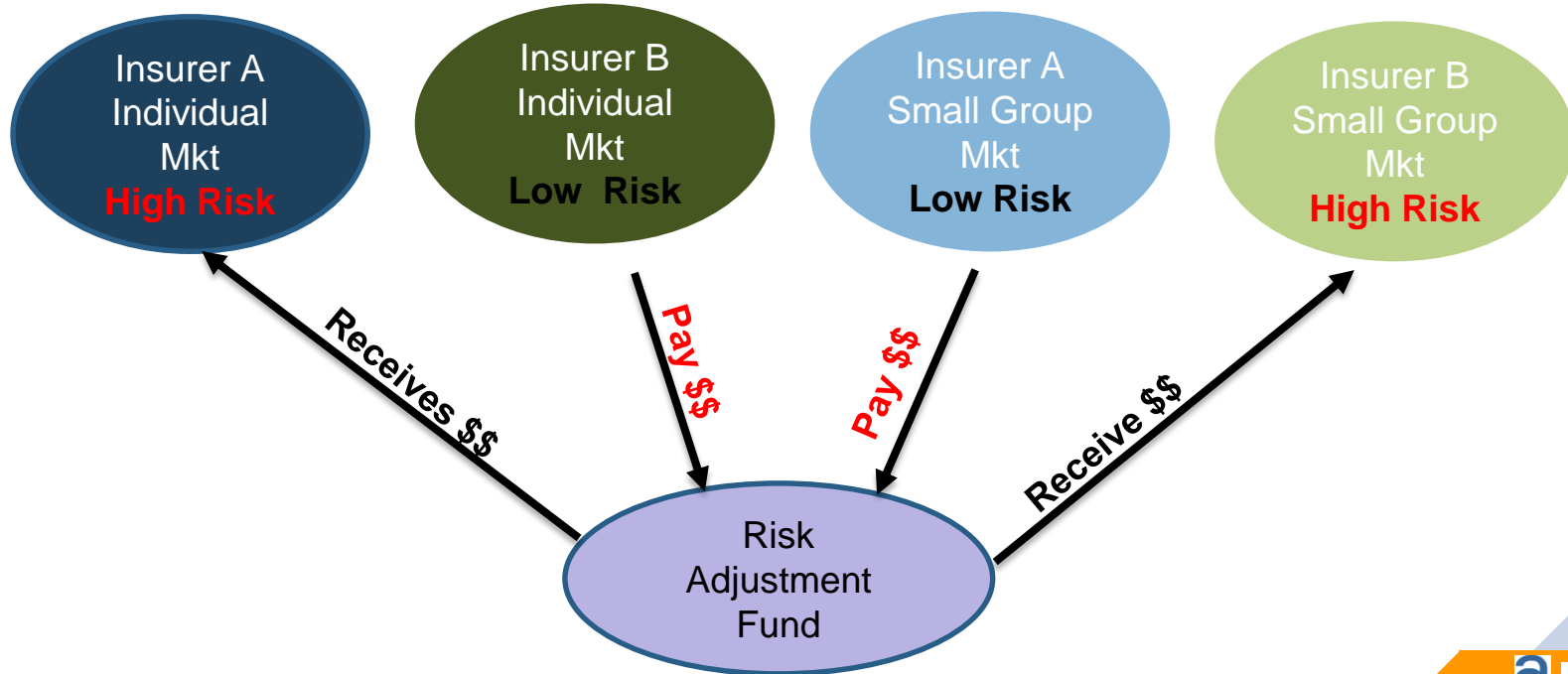
- The ACA introduced the risk adjustment program to the Individual and Small Group Markets. Massachusetts applies this program to the Merged Market
- Risk adjustment shifts funds from insurers that enroll healthier members to insurers that enroll less healthy members
- Examples of insurance practices that may result in attracting better risk:
 - Insurers that offer only narrow network plans
 - Insurers that only offer high deductible/high cost-sharing plans
 - Insurers that only market to larger employer groups

Risk adjustment is applied to each risk pool, in states where the individual and small group risk pools are separate



Risk adjustment is applied across the MA merged market

One Scenario



2018 risk adjustment resulted in large transfers for some insurers in the Merged Market

Insurer	PY 2018
AllWays	\$55,007,378
BCBSMA	\$12,500,608
BMC	(\$37,948,809)
Celticare	\$0
Connecticare	\$527,550
Fallon	\$1,236,839
Health NE	(\$3,348,914)
Harvard Pilgrim	\$33,116,998
Minuteman	\$0
Tufts	\$5,187,094
Tufts Public	(\$62,005,322)
United	(\$4,273,421)
Total	\$0

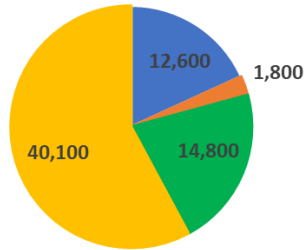
- 2018 Risk Adjustment results released summer of 2019
- Insurers must predict risk adjustment transfers in spring of 2017 when developing 2018 rates.
- An expected payment would increase the insurer's proposed rates and an expected receivable would decrease the proposed rates
- In 2018, the risk adjustment impact ranged from -4% to +15%.

Negative red indicates payment, positive black indicates receivable

In 2018, the largest payers of risk adjustment funds were health plans with large ConnectorCare enrollment

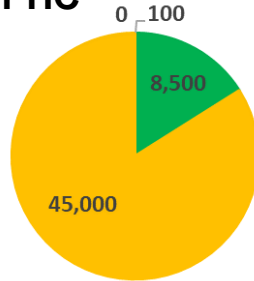
2018 Merged Market Membership

AllWays



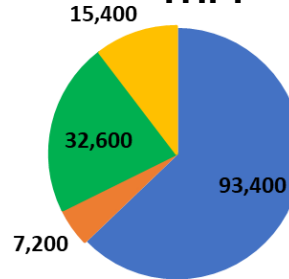
Received \$55M

HPHC



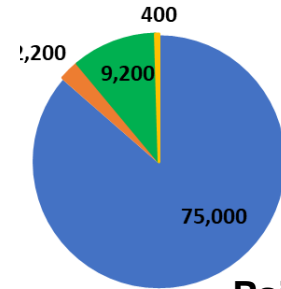
Received \$33M

THPP



Paid \$62M

BMCHP



Paid \$38M

■ ConnectorCare
 ■ Other Subsidized
 ■ Unsubsidized
 ■ Small Group

Risk adjustment payments and receivables have been volatile making it difficult for insurers to price for it

Risk Adjustment Transfer Amounts MA Merged Market

	PY 2018 ⁽¹⁾	PY 2017 ⁽¹⁾	PY 2016 ⁽²⁾	PY 2015 ⁽²⁾	PY 2014 ⁽⁴⁾	5-Year Total
AllWays	\$55,007,378	\$56,321,259	\$54,771,043	\$5,353,042	(\$27,858,047)	\$143,594,674
BCBSMA	\$12,500,608	\$4,057,603	\$33,826,090	\$81,741,193	\$50,714,401	\$182,839,895
BMC	(\$37,948,809)	(\$35,993,129)	(\$18,139,498)	(\$18,620,484)	(\$5,152,402)	(\$115,854,322)
Celticare	\$0	\$199,701	(\$1,880,633)	(\$2,366,108)	(\$481,601)	(\$4,528,641)
Connecticare	\$527,550	\$664,697	(\$306,568)	(\$249,965)	(\$1,246,444)	(\$610,731)
Fallon	\$1,236,839	\$4,440,346	\$369,941	(\$3,890,227)	(\$11,107,357)	(\$8,950,458)
Health NE	(\$3,348,914)	(\$423,603)	(\$6,552,130)	(\$3,206,399)	(\$2,692,451)	(\$16,223,496)
Harvard Pilgrim	\$33,116,998	\$28,012,262	(\$16,497,354)	(\$10,852,737)	(\$2,182,465)	\$31,596,704
Minuteman	\$0	(\$10,888,138)	(\$9,619,224)	(\$5,976,150)	(\$2,857,045)	(\$29,340,557)
Tufts	\$5,187,094	\$16,623,471	\$21,203,852	(\$1,277,729)	\$8,201,309	\$49,937,997
Tufts Public	(\$62,005,322)	(\$61,974,969)	(\$55,423,070)	(\$39,440,273)	(\$3,696,957)	(\$222,540,590)
United	(\$4,273,421)	(\$1,115,078)	(\$1,752,449)	(\$1,214,162)	(\$1,640,940)	(\$9,996,052)

Negative red indicates payment, positive black indicates receivable

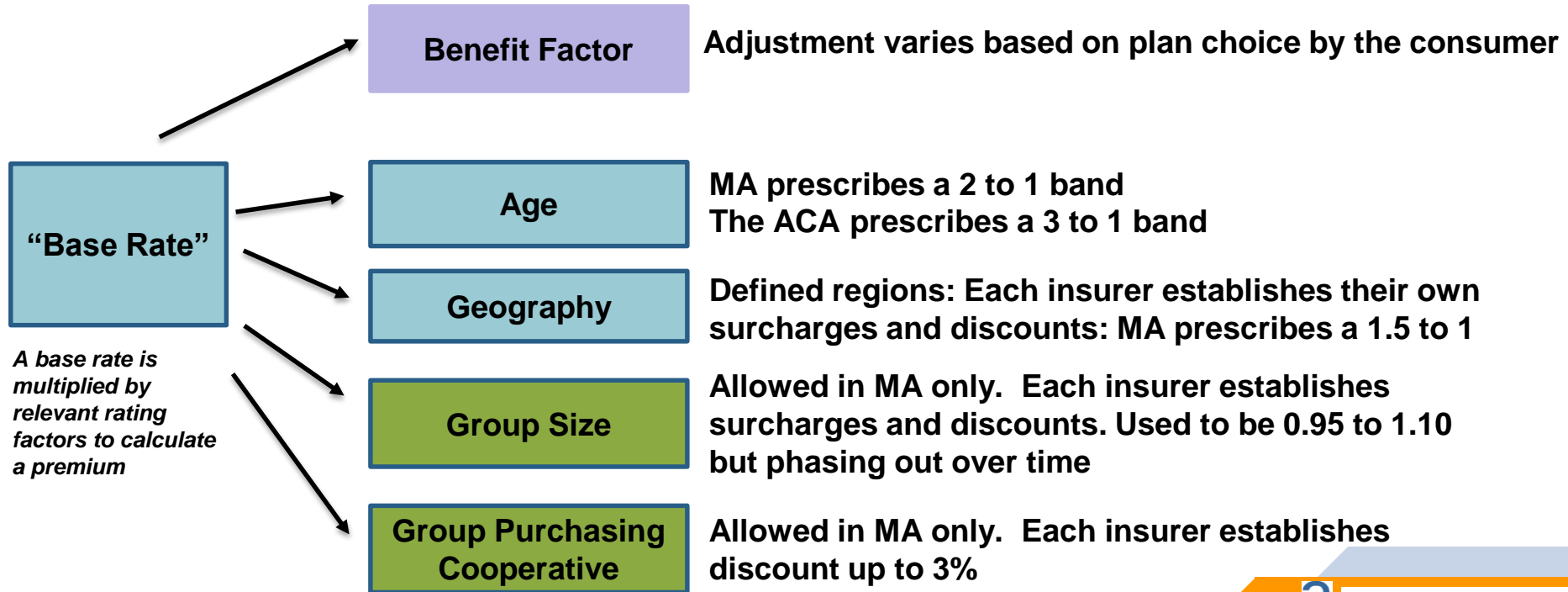
Notes:

- 1 - From Carriers' TPIR Reports for PY 2017 and PY 2018 (Celticare and Minuteman info pulled from CMS RA report for PY 2017)
- 2 - From Funds Transfer Summary Reports for Non-Catastrophic Plans
- 3 - From Funds Transfer Summary Reports for Catastrophic Plans
- 4 - Funds Transfer Summary - Reissued October 2015



Group Size Adjustment

Insurers are allowed to adjust each customer's rate for allowable rating factors

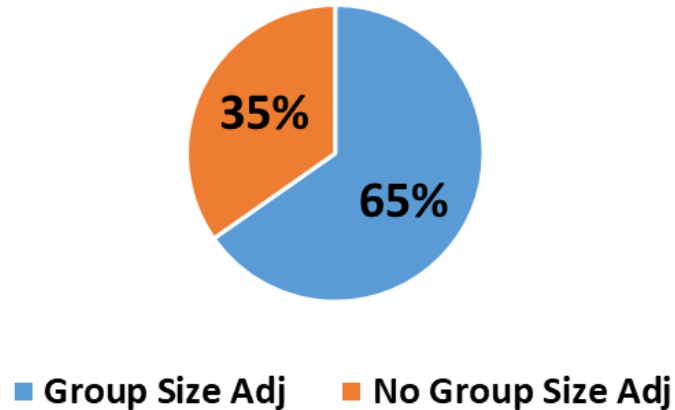


Insurers Use of Group Size Adjustment

- Since 2014, Group Size Adjustments are slowly being phased out of merged market rating
 - Not an allowable rating factor by the Affordable Care Act
 - Massachusetts received a waiver to begin phasing out the rating adjustments “a third of the way” each year
 - Massachusetts needs to apply for a 1321(e) waiver again to maintain existing group size adjustments
- Of the ten insurers that participate in the Merged Market, 5 insurers still utilize this rating adjustment in their rating formula

Approximately 65% of Merged Market members have a group size adjustment applied to their rates

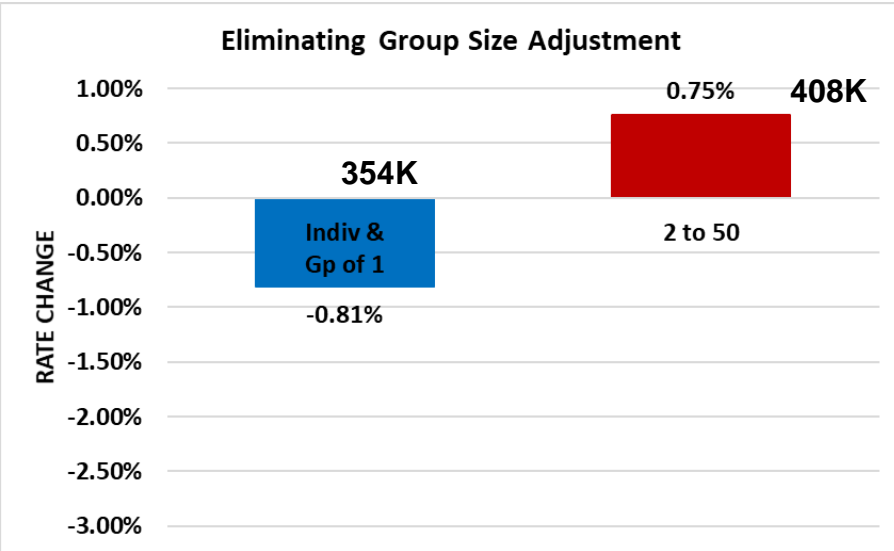
Group Size Adjustment Merged Market Member Month Distribution



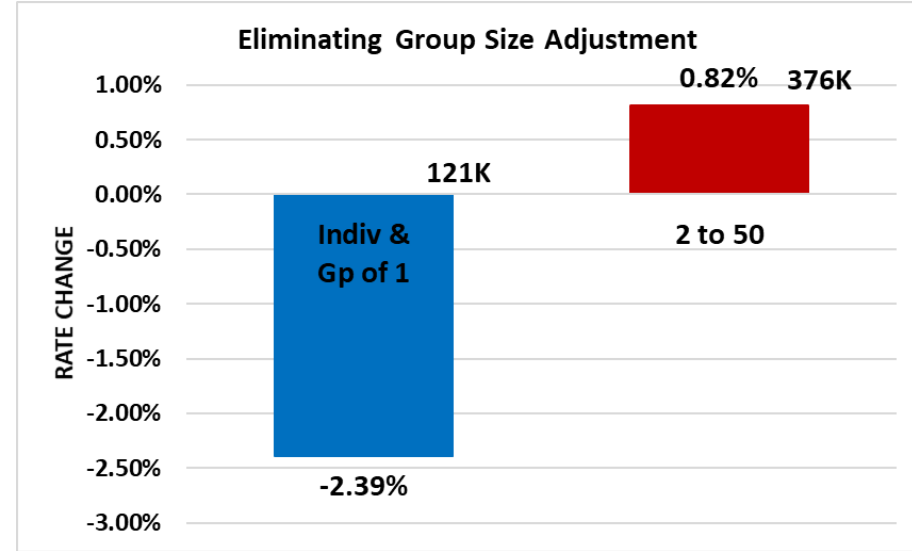
2018 member months summarized across the 5 insurers that utilize group size adjustment in their rating formula and compared to the total merged market.

The average rate impact due to the elimination of group size adjustment is a 0.75% increase to groups of 2 to 50

Across all insurers



Across insurers that use group size adjustment



- Outside of normal rate increases and trends
- Analysis uses 2018 member months and 2020 group size rating factors
- Membership shown is average 2018 membership



Approximately 285K merged market members will experience a 0.5% to 2.3% increase if group size adjustment is eliminated

Group Size	Rate Change					
	Insurer A	Insurer B	Insurer C	Insurer D	Insurer E	
Individuals & Gp of 1	-1.3%	-3.4%	-1.4%	-2.7%	-2.7%	121K
2 to 5	1.6%	-2.1%	-1.4%	-0.8%	-1.1%	91K*
6 to 9	1.6%	0.9%	1.5%	0.6%	0.5%	285K*
10	1.6%	1.4%	1.5%	2.3%	0.5%	
11 to 25	1.6%	1.4%	1.5%	2.3%	2.1%	
26 to 50	2.0%	1.4%	1.5%	2.3%	2.1%	

- Outside of normal rate increases and trends
- Represents on average 2018 497K merged market members
- *Estimated by Gorman Actuarial

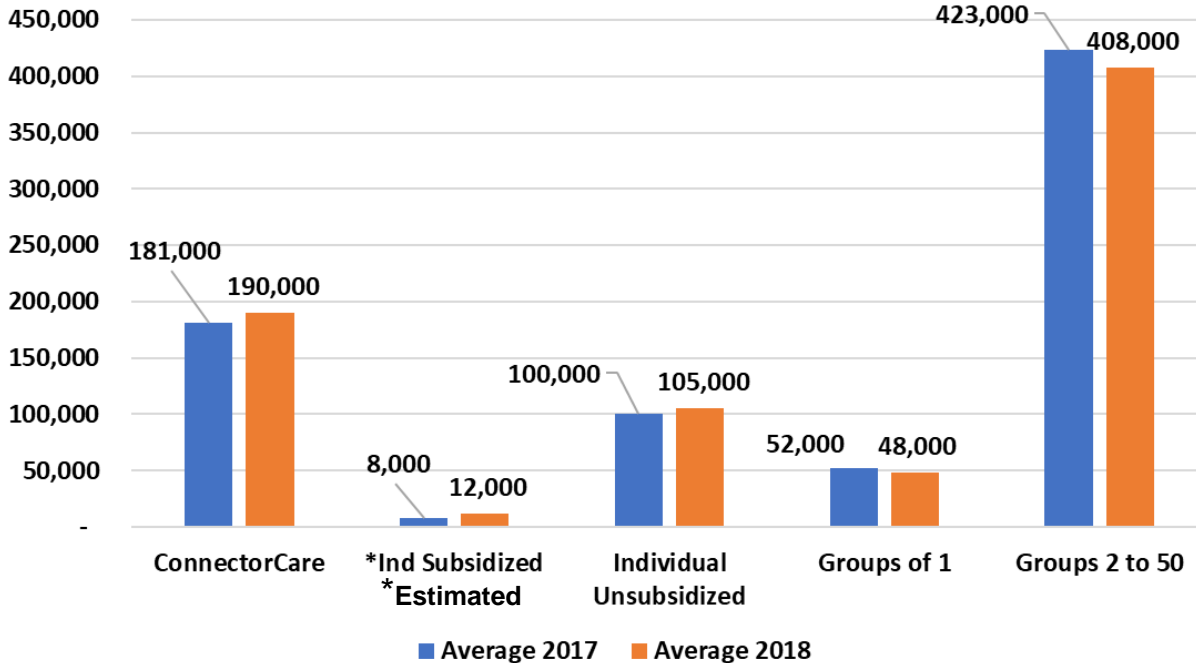
Group Size Adjustment Summary

- Not all insurers use this adjustment
- Outside of normal rate increases and trends, the larger small groups will experience 1.4% to 2.3% increase if group size adjustment is not allowed
- Outside of normal rate increases and trends, the smaller groups, individuals, and sole proprietors will experience decreases if group size adjustment is not allowed

Baseline Analytics

The Small Group market has experienced the biggest decline in membership

Merged Market Average Membership



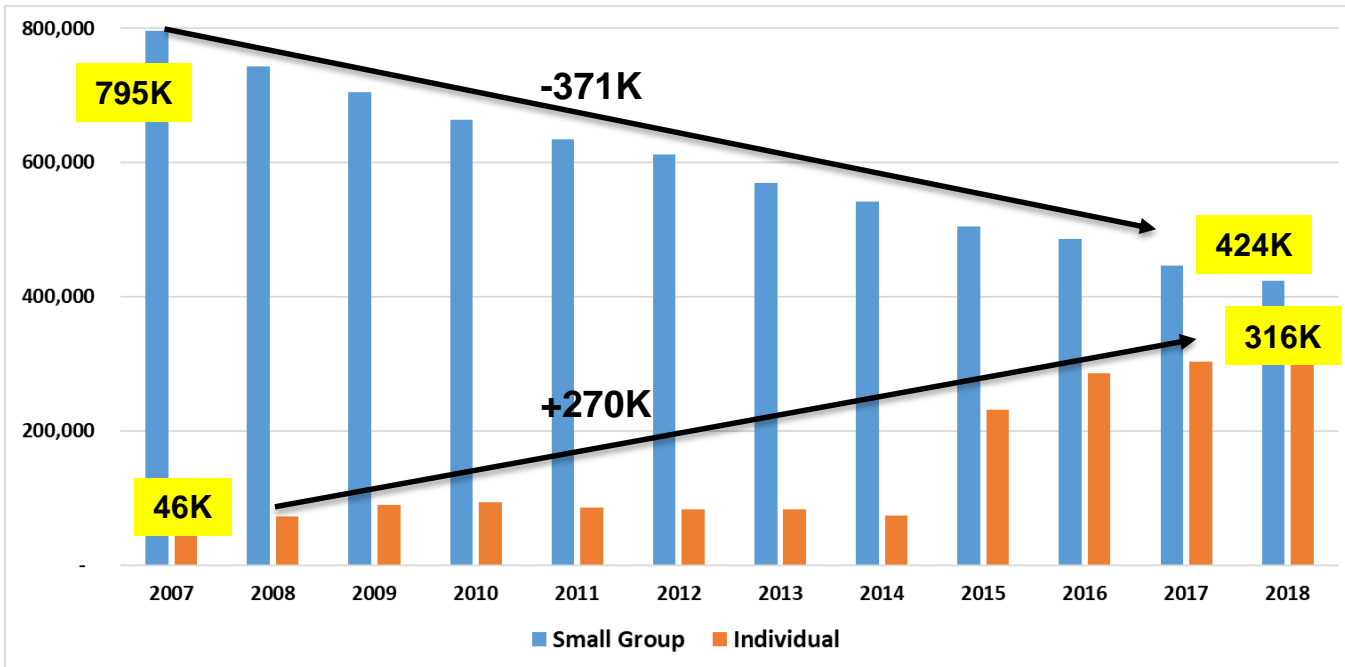
- Groups of 1 experienced an 8% decrease in membership. (could be shifts to Individual)
- Groups 2 to 50 experienced a 3.5% decrease

Source: MA DOI/Connector Special Examination: Numbers are slightly different from CHIA 2019 Annual Report

Note: For some insurers, reporting of groups of 1 was estimated by the insurer.

Since 2007, small group membership has declined and individual membership has increased

MA Merged Market Membership

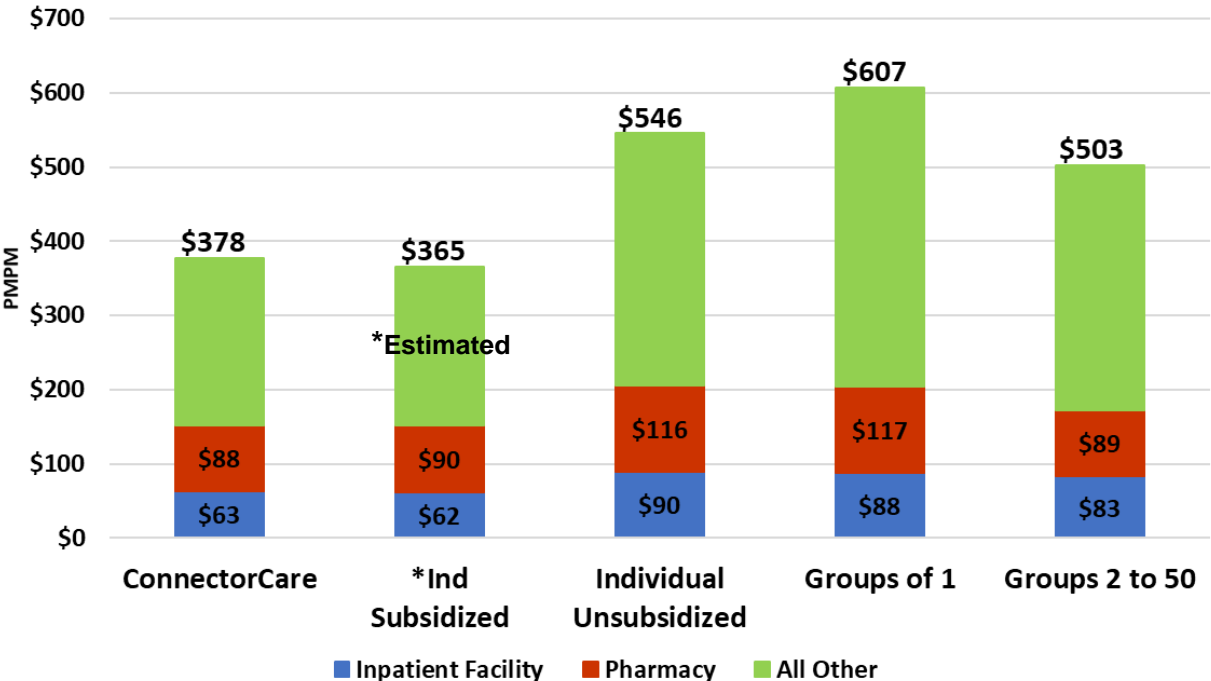


- Many policy changes over the years
- ConnectorCare joined the Individual Market in 2015
- Sole Prop reporting has been shifting to from Individual to SG
- Total Merged Market Dropped 103K



The Groups of 1 have the highest costs followed by the unsubsidized individual market.

CY 18 Allowed Claims PMPM by Merged Market Segment

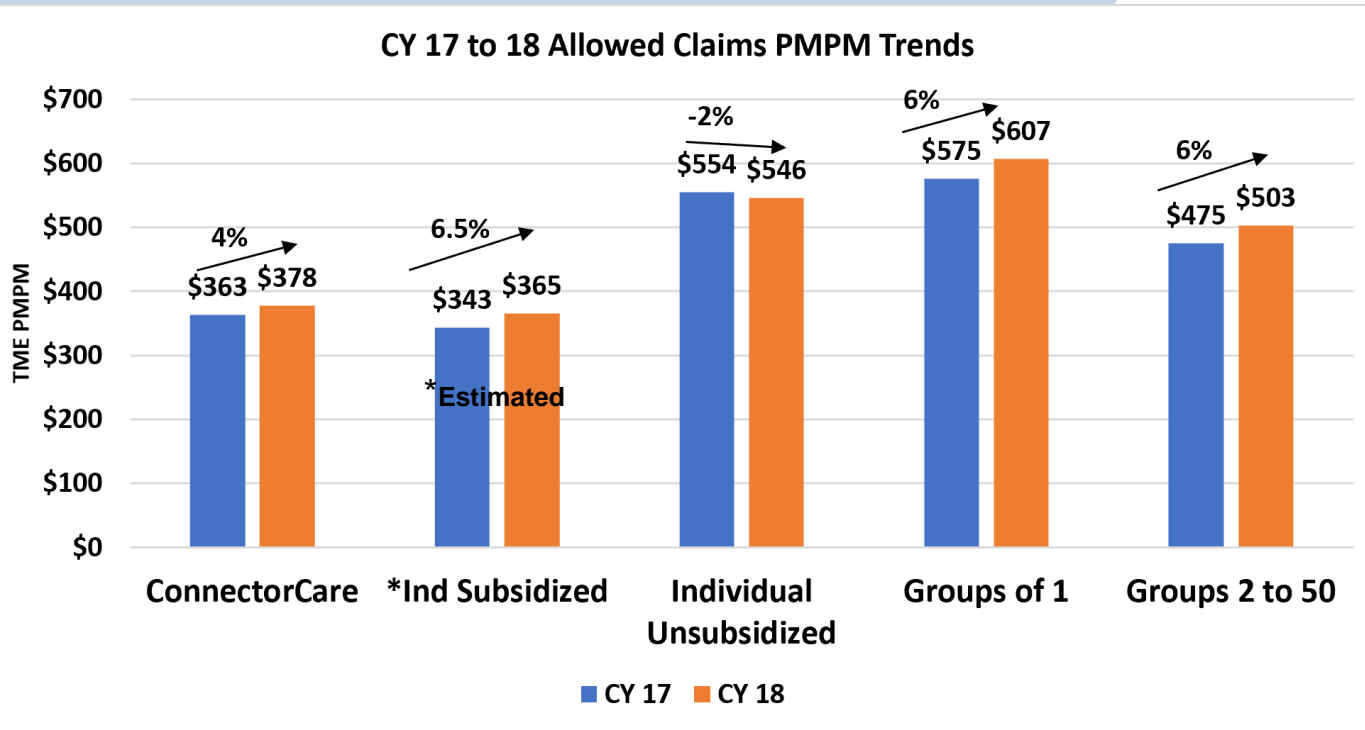


- Pharmacy costs for Groups of 1 and Unsubsidized Individual market are higher than other segments.
- Inpatient hospital is the highest in the Unsubsidized market.

Source: MA DOI/Connector Special Examination

Note: For some insurers, reporting of groups of 1 was estimated by the insurer.

The Groups of 1 and Groups 2 to 50 have experienced 6% claims trends



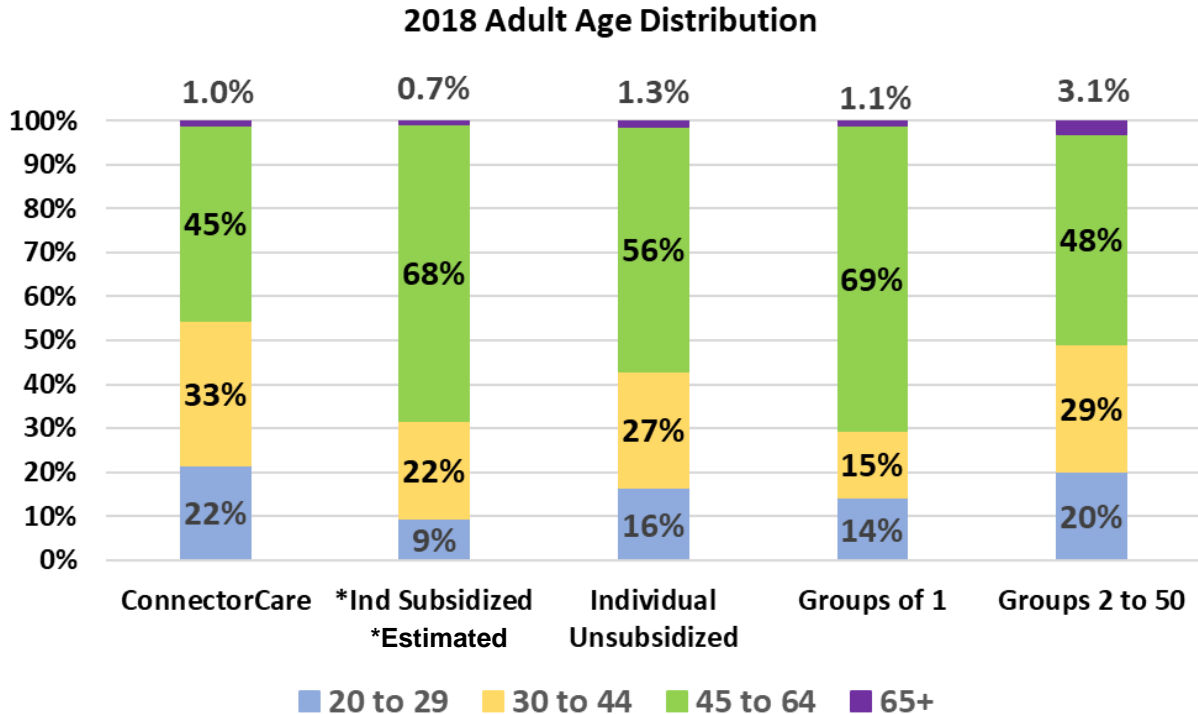
- Individual Unsubsidized have decreasing trends
- Ind Subsidized is estimated at 6.5% and ConnectorCare at 4%

Source: MA DOI/Connector Special Examination

Note: For some insurers, reporting of groups of 1 was estimated by the insurer.



ConnectorCare and Groups 2 to 50 have similar adult age distributions



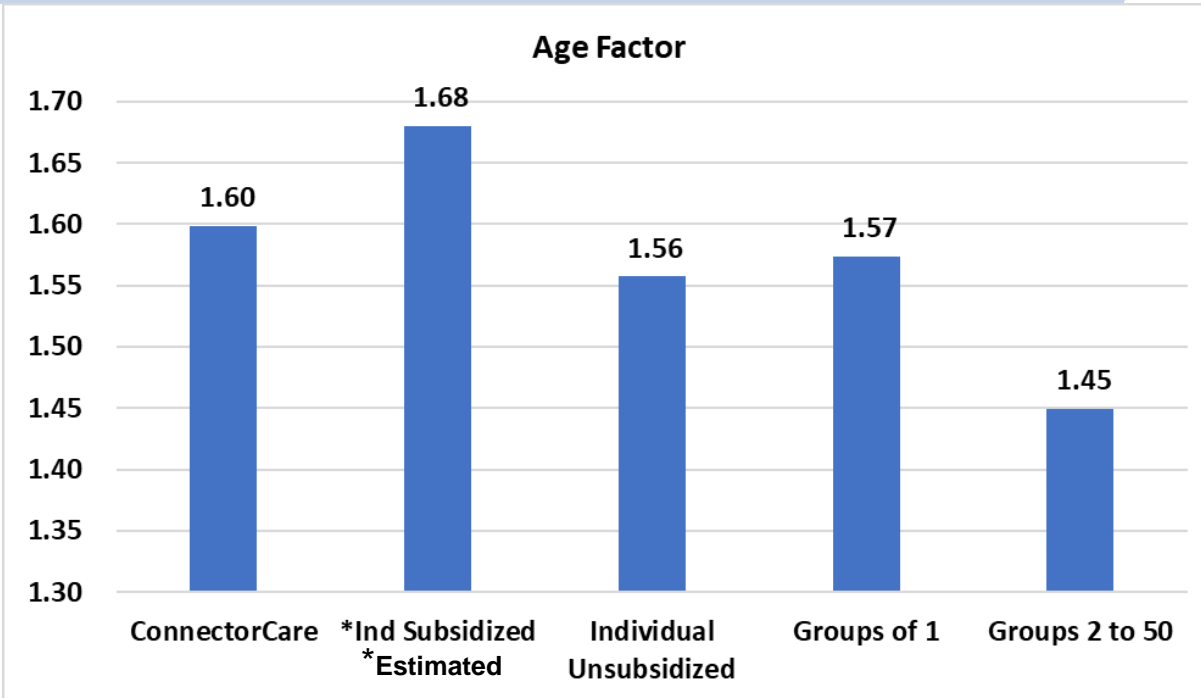
- Individual Subsidized appears to enroll the oldest adults followed by Groups of 1.
- Groups 2 to 50 have the largest 65+ enrollment

Source: MA DOI/Connector Special Examination & CHIA 2019 Annual Report

Note: For some insurers, reporting of groups of 1 was estimated by the insurer.



Individual market appears to be the oldest. There are few children in ConnectorCare



- Age factors calculated using all members, children and adults
- Very few children enrolled in ConnectorCare.
- Insurers can surcharge rates for age.

Source: MA DOI/Connector
Special Examination & CHIA
2019 Annual Report

Groups of 1 have the highest concentration of Boston enrollment which is a higher costing area.

Regional Distribution

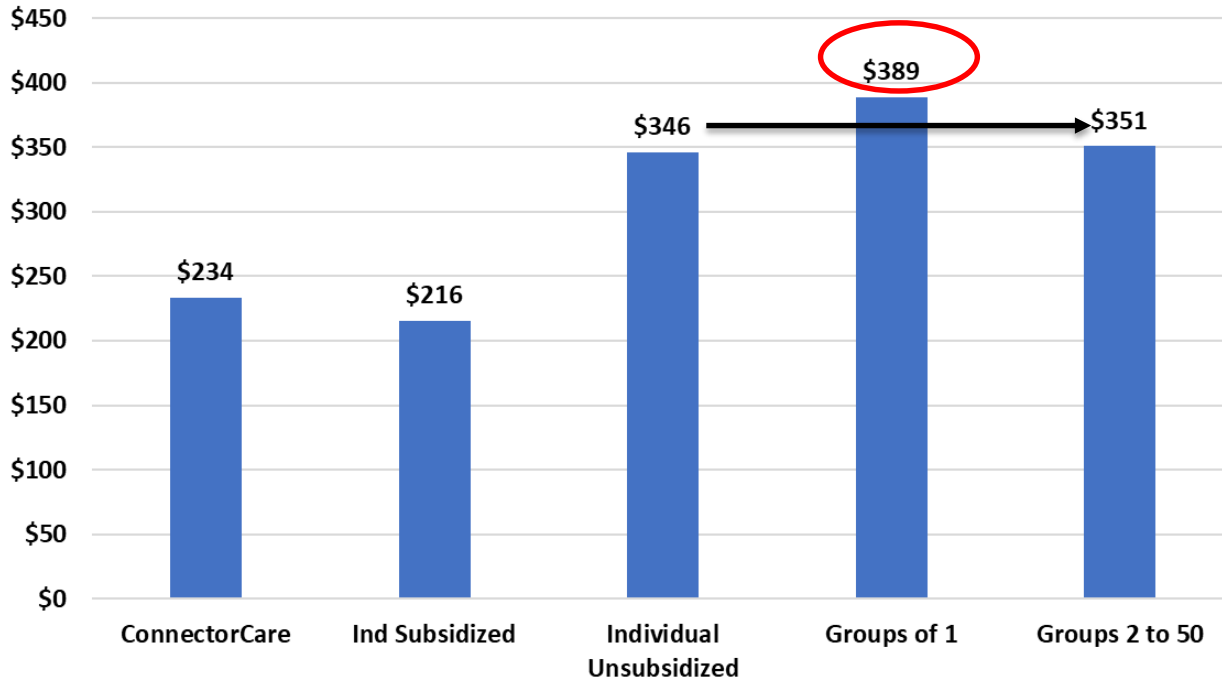
Region #	Region	3-Digit Zip Code	ConnectorCare	*Ind Subsidized	Individual Unsubsidized	Groups of 1	Groups 2 to 50
1	West	010-013	12%	12%	8%	10%	10%
2	Worcester/Central	014-016	12%	14%	8%	9%	11%
3	Metrowest	017, 020	8%	12%	16%	17%	15%
4	Northeast	018-019	19%	17%	19%	13%	19%
5	Metro/Boston	021-022, 024	28%	20%	29%	37%	28%
6	Southeast	023, 027	16%	16%	11%	8%	12%
7	Cape Cod & the Islands	025, 026	6%	10%	7%	5%	5%

- Insurers can surcharge and discount rates for geography
- Group geography distribution based on group location.
- *Ind Subsidized Estimated

Source: MA DOI/Connector Special Examination & CHIA 2019 Annual Report

After adjusting for certain rating factors, subsidized individuals have the lowest claims costs and Groups of 1 have the highest.

Normalized 2018 Allowed Claims PMPM

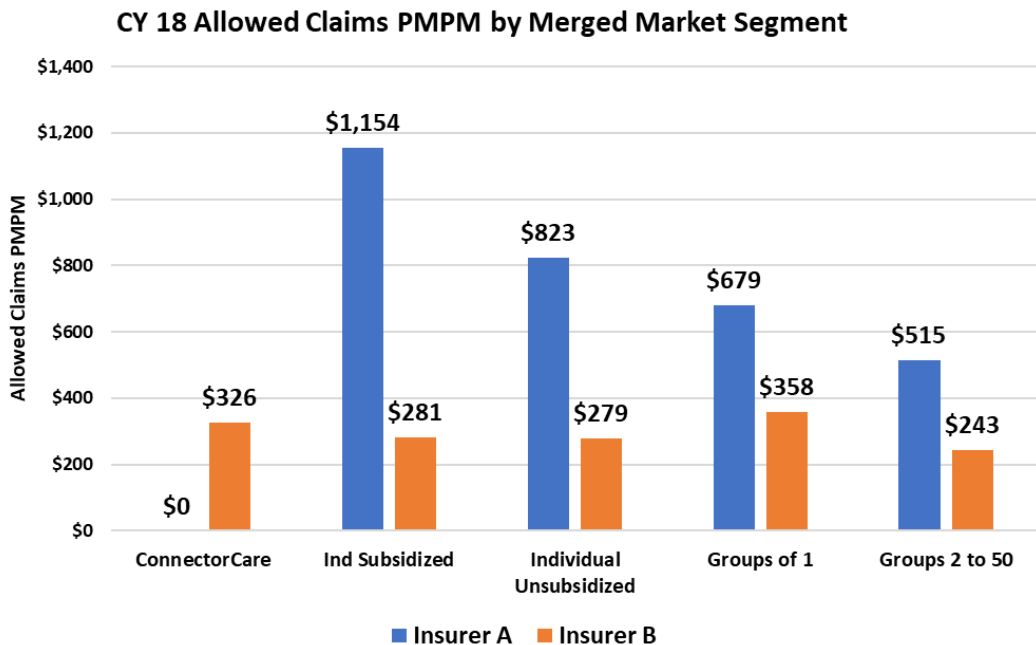


- Adjusted for age, geography, and group size
- In total, Groups 2 to 50 and the Individual Unsubsidized market look similar
- However, results vary by insurer

Not adjusted for induced demand due to plan design or network differences



The results for each insurer will be very different and analyzing data in aggregate can lead to misleading results



- The relationship between Individual Unsubsidized and Groups of 1 can look very different depending on the insurer.
- Insurers participate in different segments of the market and also have very different networks.
- Merged Market impact should be performed at the insurer level.

Source: MA DOI/Connector Special Examination & CHIA 2019 Annual Report

Note: For some insurers, reporting of groups of 1 was estimated by the insurer.

The impact of merging or demerging the markets will impact each insurer in a different way

- The lowest costing segment is the ConnectorCare population. This is driven by risk differences and network differences. They also enroll younger adults as compared to other segments.
- The highest costing segment are Groups of 1 followed by the Individual Non Subsidized Population.
- While Groups of 1 appear to have the highest cost across the market, for some insurers Unsubsidized Individual Market appear to have the highest costs.
- Small Group market and Groups of 1 claims costs are trending the highest and Small Group market losing enrollment.
- Demerging the market analysis needs to be performed for each insurer separately and not in aggregate due to the wide variation in claims costs and variation in market participation.

Disclosures and Limitations

Limitations & Data Reliance & Qualifications

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Analysis in this report was based on data provided by the insurers in the Massachusetts merged market and other public sources. Gorman Actuarial has not audited this information for accuracy. We have performed a limited review of the data for reasonableness and consistency. If the underlying data are inaccurate or incomplete, the results of this analysis may likewise be inaccurate or incomplete.

This analysis includes results based on actuarial analyses conducted by Jennifer Smagula and Bela Gorman, both of whom are members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They both meet the qualification standards for performing the actuarial analyses presented in this report.