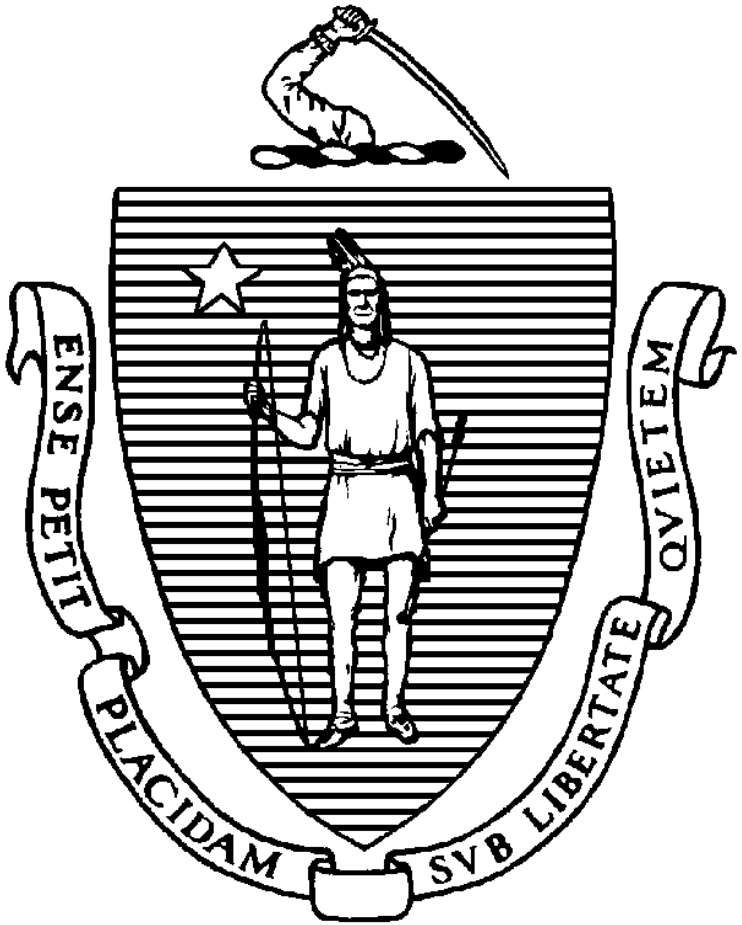


Merged Market Advisory Council

Executive Summary:
Key Findings and Consensus Themes

January 26, 2021

Executive Order

Under Executive Order 589, issued on October 18, 2019, the Governor established a Merged Market Advisory Council and Insurance Commissioner Gary D. Anderson was appointed as the Chair of the Council.

The Council was formed “to advise the Governor and Lieutenant Governor regarding the merged market for insured health coverage that is regulated under M.G.L. c. 176J and to propose recommendations to ensure the long-term stability of coverage for individuals and small employers in the merged market and the affordability of insured health benefit plan products offered therein.”

Merged Market Advisory Council Membership

The following individuals are members of the Council:

• Gary D. Anderson	Chairman, Commissioner Division of Insurance
• Louis Gutierrez	Exec Director, Massachusetts Health Connector
• Marylou Sudders	Secretary of Health and Human Services
• Michael Caljouw	Blue Cross & Blue Shield, Health Insurance Carrier representative
• Lora Pellegrini	Massachusetts Association of Health Plans, Health Insurance Carrier representative
• Mark Gaunya	Health Insurance Broker representative
• Rosemarie Lopes	Insurance Broker representative
• Rina Vertes	Health Insurance Industry Actuary
• Amy Rosenthal	Small Group/Individual Health Insurance Purchaser representative
• Patricia Begrowicz	Small Group/Individual Employer representative
• Jon Hurst	Health Insurance Business Community representative
• Joshua Archambault	Health Insurance Business Community representative
• Wendy Hudson	Small Group/Individual Employer representative

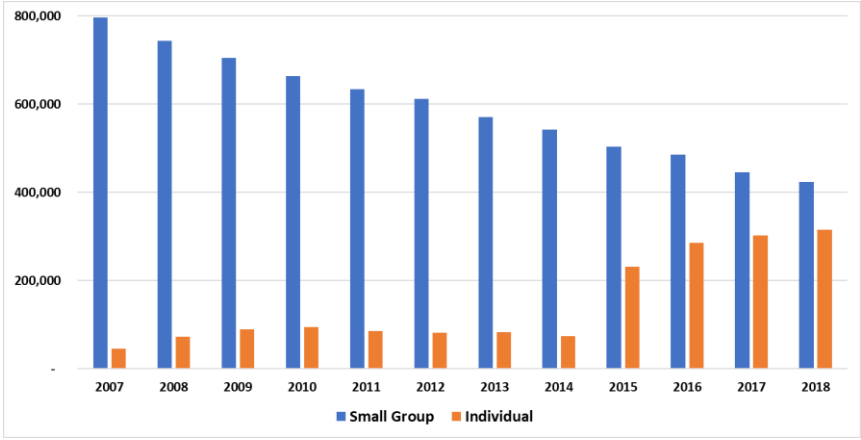
The Council shall oversee an independent actuarial analysis of the merged market to inform its work and its final recommendations.

In formulating the recommendations, the Council shall consider and address:

1. The general stability of the merged market risk pool;
2. Trends and dynamics related to the composition of the merged market risk pool and its impact on premiums and affordability for small businesses and individuals;
3. Drivers of health care costs and premiums and growth of health care costs and premiums in the merged market;
4. The impact to the merged market from:
   - i) the presence or extent of any cross-subsidization between the non-group and small group market segments;
   - ii) the role of federal risk adjustment; and
   - iii) the impact of emerging coverage options for small-employers including, but not limited to, association health plans, multiple employer welfare arrangements, professional employer organizations, individual coverage health reimbursement arrangements and self-insurance;
5. Policy or market dynamics that threaten the stability of the overall market for small group and individual coverage, or are forecasted to do so;
6. Strategies to strengthen and promote affordability for the small group market, including but not limited to, whether federal waivers should be sought to permit flexibility in the application of merged market rules; and
7. Other opportunities to improve the functioning of the merged market including, but not limited to, the establishment of a reinsurance program; provided, however, that the Council must consider the impact of such strategies on both the non-group and small group market segments and potential state and federal costs and funding sources.

Key Take-Aways About the Merged Market and Analysis of Demerging the Markets

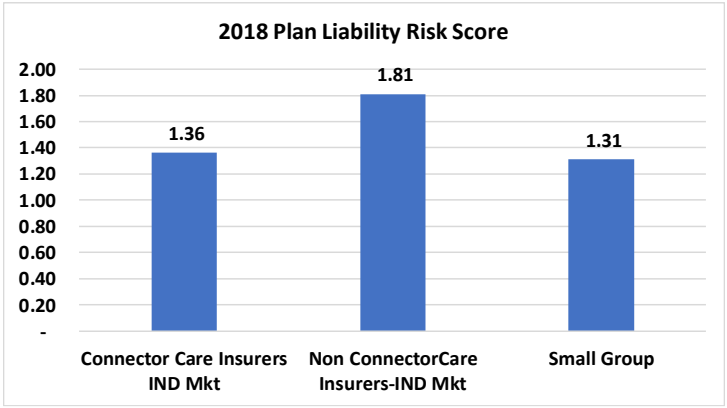
Since the individual and small employer markets were first merged in 2007, the individual market has grown significantly, whereas the small group market has declined for a variety of reasons.



- The composition of the merged market has changed since the individual and small group markets were first merged in 2007 as a part of Chapter 58 of the Acts of 2006. At that time, enrollment in the individual market was considerably smaller than enrollment in the small group market.
- Individual enrollment grew significantly in 2014 (largely as a result of the ACA moving the Commonwealth Care program into the merged market, where it became known as ConnectorCare).
- The number of small employer members has declined for a variety of reasons, including the rise of the 'gig economy', multiple recessions, availability of alternative programs, and other factors.

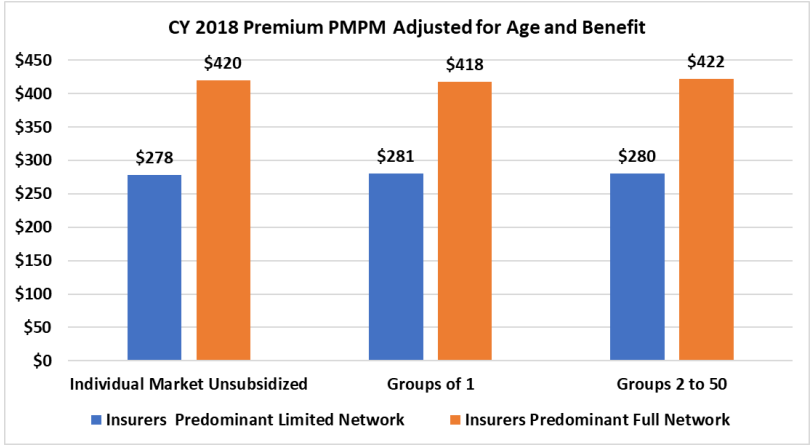
There are three distinct populations in the merged market:
1) Small employers
2) ConnectorCare individuals
3) Non-ConnectorCare individuals

Small employers and ConnectorCare individuals cross-subsidize the costs of non-ConnectorCare individuals' health expenses.



- In a merged market, a carrier's premiums reflect the collective claims cost of all individuals and small employers.
- Actuarially, ConnectorCare individuals and small employer members have similar health risk scores while those of non-ConnectorCare individuals have much higher risk scores. This means that ConnectorCare enrollees and small employers cross-subsidize the cost of non-ConnectorCare individuals' health expenses.
- This is not the only "cross-subsidy" in the merged market – for example, younger people cross-subsidize older people and enrollees in narrower network products cross-subsidize those in broader network products via risk adjustment.

Low-cost health coverage products are readily available in the Massachusetts merged market, but many unsubsidized individuals and small employers have opted for higher-premium, broad network products over lower-premium, narrow network products.



- The majority of small business market enrollment tends to congregate in higher-cost carriers, despite other lower cost options being available to them.
- Premiums for limited network plans are **approximately 50% less** than for broad network plans.
- This highlights an opportunity for improved awareness among small businesses of the diversity of products and price-points available in the market, including flexible purchasing options through Health Connector for Business that are unique in the market and became newly available in 2018 but for which broad market awareness remains low.

De-merging the individual and small group risk pools will achieve a very modest one-time reduction in small group rate growth (apart from trend), but will not materially impact future rate increases.

- De-merging the markets would result in **a one-time average increase of 4 to 6 percent for the individual market** and a **one-time average decrease of 2 to 4 percent for the small group market**, separate and apart from annual rate increase cost trends.
- In a de-merged market, a state-based reinsurance program could mitigate premium increases for individuals with sufficient funding; conversely, MA is unlikely to qualify for a federally-supported reinsurance program through a 1332 waiver that would mitigate individual rate increases in a meaningful way.

Findings About the Impact of Alternative Products and Federal/State Programs

Carriers with predominant coverage in the ConnectorCare program have attracted individuals with lower risk profiles, comparable to those in the small group segment The risk adjustment program results in individuals in the ConnectorCare program generally cross-subsidizing enrollees of the higher-cost, broader-network carriers that tend to have mostly small group enrollees and higher-risk individual enrollees.

	2019 Risk Adjustment Dollars	Individual Market Distribution	Small Group Market Distribution
BMCHP/THPP	-$106,184,051	93%	7%
All Other Insurers	$106,184,051	25%	75%

- Federally-administered Risk Adjustment is designed to transfer funds among carriers to account for high-utilizing persons enrolling with one carrier versus another.
- This effectively means that monies from the ConnectorCare program (a combination of premium contributions from low-to-moderate income residents and state and federal public monies) are cross-subsidizing the carriers that predominantly enroll the small group market and higher-risk individual market enrollees.

Alternative products (*e.g.,* PEOs, health sharing ministries, self-funding/stop-loss products) marketed to individuals and/or small groups do not yet appear to have materially affected the merged market but warrant continued monitoring.

- There is no evidence that off-market products have materially affected merged market stability.
- The low-uptake of these alternative products is likely due to fact that the Massachusetts merged market features many carriers with a robust product shelf.
- New rules may be needed for marketing and disclosures to ensure consumers understand how such products differ from merged market coverage.
- The Division of Insurance and the Health Connector should continue monitoring these products to evaluate their impact on Massachusetts' merged market.

A federally-sponsored state reinsurance program through a 1332 waiver is likely not a viable solution for the MA merged market.

- It is unlikely that Massachusetts will qualify for meaningful federal pass-through funds to lower premiums via waiver-based reinsurance due to unique features of the Massachusetts market , including:
  - ACA 1332 reinsurance waiver funding is derived from reductions in federal premium tax credits.
  - Due to low-cost products in ConnectorCare, Massachusetts draws down low levels of federal premium tax credits.
  - The merged market is large, resulting in the need to spread the federal money over a larger population, minimizing impact.
  - Section 1332 waiver funds for reinsurance available under a demerged scenario are unlikely as such a policy would increase federal premium tax credits.
- The Health Connector and the Division of Insurance should monitor possible changes in reinsurance waiver policy that may affect the availability of federal support.

Creating a state-based reinsurance program could lower merged market premiums, but would require significant funding from state tax revenue or other sources to have a meaningful impact.

- For every 1% reduction in annual premiums, a state-based reinsurance program would need $47M in annual funding.
- Potential funding sources include: state tax revenues/general appropriations, assessments from large group self- and fully insured coverage.
- The Division of Insurance and the Health Connector should monitor federal changes that may encourage or finance reinsurance programs.

Rising healthcare costs have resulted in premium increases across all market segments; unsubsidized individuals and small employers feel particularly burdened because they bear the full effect of such increases.

- Health premiums are increasing across all market segments (e.g., merged market, large group, and government programs.)
- Premium cost pressures are caused by the increasing unit costs of health services and by increasing utilization of higher cost services.
- Under most product designs offered in the merged market, consumers have limited restrictions on providers and many services are delivered in higher-costing provider settings, which increases the overall cost of health care and health premiums.
- Although many individual premiums are subsidized via the state's ConnectorCare program, small employers (and unsubsidized individual purchasers) feel the full effect of rising health care premiums and are looking for ways to reduce these costs.
- Council members expressed the ongoing importance for continued pursuit (outside of the MMAC) of statewide cost containment strategies to address the underlying medical trend and provider prices, which remain the primary driver of premium growth across market segments and for the MMAC to look for strategies to address cost pressures specific to the merged market.

Stabilizing Markets and Addressing Rising Health Care Premiums

Observation	Strategy
De-merging the individual and small group risk pools will achieve a very modest one-time reduction in small group rate growth (apart from trend), but will not materially impact future rate increases.	
A federally-sponsored state reinsurance program through a 1332 waiver is likely not a viable solution for the MA merged market.	
Creating a state-based reinsurance program could lower merged market premiums, but would require significant funding from state tax revenue or other sources to have a meaningful impact.	
Alternative products (e.g., PEOs, health sharing ministries, self-funding/stop-loss products) marketed to individuals and/or small groups do not yet appear to have materially affected the merged market but warrant continued monitoring.	
Rising healthcare costs have resulted in premium increases across all market segments; unsubsidized individuals and small employers feel particularly burdened because they bear the full effect of such increases. There is a need for more understandable and affordable product designs.	
Low-cost health coverage products are readily available in the Massachusetts merged market, but many unsubsidized individuals and small employers have opted for higher-premium, broad network products over lower-premium, narrow network products.	