Final Results

*Presented to:*
The Fifth Annual Health Insurance Exchange Conference

*Presented by:*
James T. O’Connor, FSA, MAAA
Principal and Consulting Actuary

Stacey Muller, FSA, MAAA
Principal and Consulting Actuary

September 15, 2017
Today’s Agenda

- Overview of the Actuarial Challenge process
- Summary of proposals
  - Common themes
  - Identification of some unique features
- Results of the modeled Round Two proposals
- Discuss where we go from here
Robert Wood Johnson Foundation

- Sponsored the Actuarial Challenge
- Provided guidance and feedback on the structure
Actuarial Challenge Goal and Process

- Goal to elicit innovative ideas and proposals from informed actuaries to move the individual insurance market further forward
- About 70 applicants, 20 teams, resulting in 14 proposals
- Two rounds:
  - First round each team prepared and submitted a paper presenting its ideas for changes to the individual health insurance market
  - On a blinded basis, judges chose five proposals to move on to Round Two, which involved market level modeling to help evaluate the relative impact of the proposals on various aspects of the individual market
  - Judges, all actuaries, with mixed backgrounds: the two major actuarial bodies (SOA and AAA), a health plan association rep (BCBSA), a regulator (VA BOI), and academia (Univ. of Nebraska actuarial science professor)
Judging Criteria

- **Access to health insurance**: incentives for insurers to participate, offer multiple plans, and impact on the uninsured population

- **Affordability to consumers**: including premium levels, cost sharing, subsidies, and penalties

- **Overall taxpayer investment**: through subsidies and other support contributions

- **Impact on health care delivery**: provider supply, quality of care

- **Overall feasibility**: based on actuarial soundness and operational feasibility

- **Variability**: cover a broad range of suggested changes

- **Modeling considerations**: proposed reforms were able to be reasonably modeled
Actuarial Challenge – Common Themes Driving the Proposals

- Risk Mitigation
- Enrollment
- Benefits
- Aggregate Costs
- Individual Rating
- Subsidies

Driving the Proposals
Actuarial Challenge Papers
Addressing Enrollment

Proposals in the modeled papers all suggest some consumer responsibility

- Some form of automatic enrollment in a basic or catastrophic plan suggested by two of the proposals
- Ability to opt-out with a penalty set at the premium level of a benchmark or lowest cost plan suggested by two of the proposals
- Maintain continuous coverage with premium loads allowed for those with breaks in coverage suggested in one proposal
Actuarial Challenge – Modeled Results

Consumer Impacts

**Uninsured counts plummet:**
- by 24 million for BE HIP, IIM, Panoptic, and Simplifiers;
- by 2 million for Carrot Flowers

**Individual market members increase:**
- by 16 million for Simplifiers;
- by 14 million for BE HIP, IIM, and Panoptic;
- by 2 million for Carrot Flowers
Many papers discuss various aspects of addressing cost through the healthcare delivery system

- Use of pricing transparency
- Provide health information to consumers before / as needed to make healthcare decisions
- Increase use of clinical standards of practice and electronic health records
- Encourage shared risk provider contracting for both savings and costs
- Require use of Medicare or Medicaid fee schedules, at least for facilities
## Actuarial Challenge – Modeled Results

### Consumer Impacts – Changes in Costs per Person

<table>
<thead>
<tr>
<th></th>
<th>BE HIP</th>
<th>Carrot Flowers</th>
<th>IIM</th>
<th>Panoptic</th>
<th>Simplifiers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium After Subsidies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Out-of-Pocket</td>
<td>-$288</td>
<td>-$1,250</td>
<td>-$1,465</td>
<td>-$1,660</td>
<td>-$2,488</td>
</tr>
<tr>
<td><strong>Cost-Share Out-of-Pocket</strong></td>
<td>-$33</td>
<td>-$13</td>
<td>-$526</td>
<td>-$358</td>
<td>-$63</td>
</tr>
<tr>
<td><strong>Total After-Tax Obligations</strong></td>
<td>-$321</td>
<td>-$1,264</td>
<td>-$1,991</td>
<td>-$2,018</td>
<td>-$2,551</td>
</tr>
<tr>
<td><strong>% Change</strong></td>
<td>-6%</td>
<td>-22%</td>
<td>-35%</td>
<td>-35%</td>
<td>-45%</td>
</tr>
</tbody>
</table>
Actuarial Challenge Papers
Addressing Aggregate Premiums

Modeled papers discuss various aspects of addressing how costs reflected in the premiums

- Modify the risk pools
  - Separate risk pools for high cost diagnoses and by income
  - Combine the individual and small group market

- Lower premiums directly
  - Change the provider reimbursement through reference pricing or use of Medicare / Medicaid reimbursement levels
  - Use risk mitigation to subsidize premiums across all consumers
  - Have the government pay for preventive care

- Use of standard plans and less regulation to reduce administrative costs
# Actuarial Challenge – Modeled Results
## Health Plan Issuer Impacts

<table>
<thead>
<tr>
<th>Table 6B</th>
<th>Increase in Health Plan Gross Premiums and Actuarial Values from Baseline Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Gross Premium PMPY</td>
<td>BE HIP</td>
</tr>
<tr>
<td>$325</td>
<td>$228</td>
</tr>
<tr>
<td>% Change in Avg. Premium</td>
<td>5%</td>
</tr>
<tr>
<td>Avg. Plan Actuarial Values (AV)</td>
<td>5%</td>
</tr>
<tr>
<td>Effective Premium Change adj. for AV</td>
<td>(2%)</td>
</tr>
</tbody>
</table>
Actuarial Challenge Papers
Addressing Risk Mitigation

Risk mitigation was a key element in all the modeled papers

- Risk adjustment continued in four of the papers
  - Adjusted to apply to separate / combined pools in some cases
  - Continue to enhance methodology such as with prescription drug data
  - Still zero sum to the market

- Reinsurance reinstated in three proposals similar to transitional or set to amounts needed to control premium increases

- Replacement of all current risk adjustment with new approach to use reinsurance to cover 50% of targeted premiums across the board
### Increase in Funding Needs over Baseline Scenario ($ billions)

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<tr>
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<th>Panoptic</th>
<th>Simplifiers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Subsidies</strong></td>
<td>$61</td>
<td>$34</td>
<td>$6</td>
<td>$25</td>
<td>($23)</td>
</tr>
<tr>
<td><strong>Benefit Subsidies</strong></td>
<td>($7)</td>
<td>($7)</td>
<td>($4)</td>
<td>$20</td>
<td>($7)</td>
</tr>
<tr>
<td><strong>Preventive Plan</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$7</td>
</tr>
<tr>
<td><strong>Risk Mitigation</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$22</td>
<td>$49</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>$54</td>
<td>$27</td>
<td>$2</td>
<td>$67</td>
<td>$26</td>
</tr>
</tbody>
</table>

* Funds needed could be generated from a combination of federal and state governments current revenue or new taxes, group insurance markets, health care providers, and / or other sources. Offsets to other existing government expenditures outside the direct insurance parameters have not been included in the modeling.
Actuarial Challenge Papers – Common Themes

- **Use of a broader age curve**: Most of the papers included this reform and many proposed a 5-to-1 maximum differential.

- **Premium Subsidies**: Many of the papers included a proposal to assist lower income individuals / households with payment of the insurance premium in some way; however, approaches differ.

- **Guarantee Issue**: Most of the papers included the requirement that at least a basic policy be available regardless of health status.

- **Individual Coverage Requirement**: Most papers include some mechanism to address market enrollment, for example through auto-enrollment, continuous enrollment, or late enrollment.
Proposals addressing enrollment / participation:
- Concurrent payment of enrollment penalties
- Use of a medical ID card to facilitate enrollment, access electronic medical records, provide credit for premium or cost sharing

Proposals addressing financing / insurance:
- Use of health savings accounts in place of cost sharing reduction subsidies
- Vary subsidies to recognize cost-of-living differences by area
- Use prospective risk scoring to set limited health rating bands
- Convert policies from annual term to longer term policies with investment component
Actuarial Challenge Papers
Unique Proposals *(continued)*

- **Social Insurance model to replace all health insurance (all markets):**
  - Focused on preventive and catastrophic costs funded by government
  - Routine care financed via individual policies with price transparency

- **Proposals addressing consumer incentives:**
  - Provide wellness / healthy living premium subsidy or health improvement premium discounts
  - Enhance benefits to include gym memberships / fitness classes to attract younger / healthier members
  - Encourage healthy eating as preventive / treatment to reduce costs by incentives in provider reimbursement or recognition in premiums
RWJF Actuarial Challenge
Detailed Papers, Results, Analyses, Limitations, and Reliances

- For detailed papers, results, analyses, limitations, and reliances, see

- For other information on the Actuarial Challenge, see

- Or contact Stacey Muller at stacey.muller@milliman.com or Jim O’Connor at jim.oconnor@milliman.com
Additional Information Slides
Actuarial Challenge - Round Two Proposals

- Why Not BE HIP? (BE HIP)
  - Establishes a nationwide Basic Essential Health Insurance Plan (BE HIP) covering a core set of services / benefits set by federal regulation
  - Allows purchase of state regulated standardized supplemental plans (benefit riders) to offset cost sharing (i.e., upgrade to richer benefits)
  - Automatic enrollment and / or penalty of full cost of basic plan if not enrolled
  - Uses a risk adjustment program and reinsurance to protect insurers
  - Premium equalization process to account for socioeconomic variations between insurers in a given market
  - Premium subsidies use similar methodology as the ACA, although percentages differ

- Team Lead: Rebecca Kander

- Team Members: Jay M. Jaffe, Bryan F. Miller, Linda Peach, Brenna Scheideman, Mark Weinblatt
Actuarial Challenge - Round Two Proposals

- **Carrot Flowers**
  - Creates three pools in the individual market:
    1) Over 250% FPL (federal poverty level) with state regulated underwritten market
    2) Under 250% FPL with federally funded underwritten and subsidized market, and
    3) Special Needs (High Risk) Pool with a federally-funded, highly-subsidized market for individuals with persistent high costs or uninsurable conditions.
  - Guaranteed issue, but requires continuous enrollment
  - Incentivizes providers to manage care
  - Encourages tax parity between individual and group market by capping group tax deductions
  - Allows more tax-favored health savings account contributions
  - **Team Lead:** Brian Tajlili
Actuarial Challenge - Round Two Proposals

Improving the Individual Market (IIM)

- Allows a wider premium range by age (5-to-1)
- Limited consideration of an enrollee’s health status in setting premium rates via an automated process (up to an additional 50% of premium)
- Uses contributions to individual health savings accounts for mid / low income consumers to replace premium and cost sharing subsidies
- Revises risk adjustment methodology and restores a reinsurance mitigation program
- Uses Medicaid reimbursement levels
- Increases penalties for not obtaining health insurance
- Allows more benefit plan design flexibility

Team Lead: Jim Kohan
Actuarial Challenge - Round Two Proposals

Panoptic

- Combines the individual and small group markets (with no self-funding)
- Uses auto enrollment into new catastrophic plans to enforce participation
- Consumer can add benefits through purchase of supplemental benefit riders
- Block funds for subsidies provided from federal to state for the state to administer. Elimination of dual regulation to reduce expenses
- Allows wider rating for age (5-to-1) and lowers or eliminates minimum medical loss ratios
- Continues risk adjustment and restores reinsurance for up to five years
- The equivalent of cost-sharing reduction (CSR) funds would be deposited by government into an eligible consumer’s health savings account (HSA)
- Uses reference-based benefit pricing for provider fees

Team Leads: Emily Bartel and Rod Turner

Team Members: Dave Dombrowski, Brian Ritchie, Devin R. Streur
Actuarial Challenge – Round Two Proposals

- **The Simplifiers**
  - All residents receive a fully publicly-funded preventive plan and must purchase an insurance plan for non-preventive services.
  - Insurers must offer a standard plan, but may offer additional plans subject to state regulations such as actuarial soundness, minimum coverage levels and loss ratios.
  - A simplified, permanent publicly-funded risk mitigation program based on reinsurance formulas results in reduced premiums.
  - Hospital costs reimbursed at Medicare levels (our modeling assumption); drug costs will be lowered by allowing purchase from qualified international locations.
  - Simplified low-income premium discounts available.
  - Penalties equal to the lowest cost insurance plan apply for non-coverage.
  - Exchanges act simply as informational websites.

- **Team Leads:** Sharon Leach and Liz Leif
- **Team Members:** Nic Ramey, Dave Sigley
Actuarial Challenge – Modeled Results

Consumer Impacts

- Premiums after Subsidies
- Benefit Cost Sharing

Total Out-of-Pocket Costs
### Table 2
Summary of Increases from Baseline Scenario ($ billions)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Member Out-of-Pocket</strong>*</td>
<td>$39</td>
<td>-$19</td>
<td>-$13</td>
<td>-$15</td>
<td>-$27</td>
</tr>
<tr>
<td><strong>Employer Funding</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$22</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Gov't / Other Funding</strong></td>
<td>$54</td>
<td>$27</td>
<td>$2</td>
<td>$45</td>
<td>$26</td>
</tr>
<tr>
<td><strong>Total Funds</strong></td>
<td>$93</td>
<td>$8</td>
<td>-$11</td>
<td>$52</td>
<td>-$2</td>
</tr>
<tr>
<td><strong>Provider Revenue</strong></td>
<td>$71</td>
<td>$4</td>
<td>-$28</td>
<td>$39</td>
<td>-$5</td>
</tr>
<tr>
<td><strong>Issuer Retention</strong></td>
<td>$21</td>
<td>$4</td>
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* Includes premiums after subsidies, deductibles, coinsurance, and copayments
# Consumer Impacts

## Table 3

### Increase in Member Out-of-Pocket Obligations from Baseline Scenario

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<thead>
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</tr>
<tr>
<td>Increase in Members (millions)</td>
<td>14</td>
<td>2</td>
<td>14</td>
<td>14</td>
<td>16</td>
</tr>
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### Summary of Income and Outgo Changes

**Table 2**

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## Actuarial Challenge – Modeled Results

### Government / Other Funding Needs*

<table>
<thead>
<tr>
<th>Table 4A</th>
<th>Increase in Funding Needs over Baseline Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BE HIP</td>
</tr>
<tr>
<td>Grand Total (billions)</td>
<td>$54</td>
</tr>
<tr>
<td>Total Change as a % of Baseline</td>
<td>93%</td>
</tr>
<tr>
<td>Total per Individual Market Member</td>
<td>$223</td>
</tr>
<tr>
<td>Change per Member as % of Baseline</td>
<td>7%</td>
</tr>
</tbody>
</table>

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### Actuarial Challenge – Modeled Results

#### Summary of Income and Outgo Changes

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## Actuarial Challenge – Modeled Results

### Health Care Provider Impacts

<table>
<thead>
<tr>
<th>Table 5</th>
<th>Increase in Health Care Provider Revenues from Baseline Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BE HIP</td>
</tr>
<tr>
<td><strong>Total Fees Reimbursed (billions)</strong></td>
<td>$71</td>
</tr>
<tr>
<td><strong>Change in Revenue as % of Baseline</strong></td>
<td>42%</td>
</tr>
<tr>
<td><strong>Total Fees Reimbursed PMPY</strong></td>
<td>$2,261</td>
</tr>
<tr>
<td><strong>% Change in PMPY Revenue</strong></td>
<td>44%</td>
</tr>
</tbody>
</table>
## Actuarial Challenge – Modeled Results

### Summary of Income and Outgo Changes

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## Actuarial Challenge – Modeled Results

### Health Plan Issuer Impacts

| Table 6A Increase in Health Plan Average Retention from Baseline Scenario |
|-------------------------------------------------|-----------------|-----------------|----------------|----------------|----------------|
| | BE HIP | Carrot Flowers | IIM | Panoptic | Simplifiers |
| Retention Change - Total Dollars (billions) | $21 | $4 | $17 | $12 | $3 |
| Retention Change - Per Member | $60 | $70 | ($80) | ($216) | ($557) |
| Retention Per Member % Change from Base | 4% | 5% | (6%) | (16%) | (41%) |
| Retention as a % of Premium | 20% | 20% | 30% | 25% | 36% |
| Medical Loss Ratio | 80% | 80% | 70% | 75% | 64% |