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Pamela J. Weiner Director, Managed Care Contracting and Rates State of Minnesota, Department of Human Services 540 Cedar Street Elmer L. Anderson Human Services Building St. Paul, MN 55155-3854 Sent via email: pamela.weiner@state.mn.gov

Re: Public Option Analysis

Dear Pamela:

The Minnesota Department of Human Services (DHS) requested an analysis of a public option (PO) model that would be effective for the State of Minnesota (the State) through a potential amendment to the State's 1332 waiver. Except as otherwise noted, the results presented in this letter reflect the same data, assumptions, methodology, and general considerations that apply to the Model 1 framework in our Public Option Study report delivered to DHS dated January 30, 2024.¹

The PO program modeled in this letter is based on the assumptions for Scenario 1C in the Public Option Study, except as follows:

- Enrollee premiums: Enrollee premiums are based on an enrollee premium scale that increases with income to a maximum of 10.0% of income for enrollees at or above 550% of the federal poverty level (FPL). The enrollee premium scale assumption is shown in columns 3 and 4 of Table 2.
- Enrollee deductibles: Enrollees with incomes above 400% FPL will be subject to an annual deductible that varies by income. The modeled deductibles are shown in Table 3
- Enrollment cap: Enrollment in the PO will be limited on a first-come, first-served basis in the first two years of the PO for individuals or families above certain income levels. PO enrollment will be unlimited for enrollees below the income thresholds in each year. The enrollment cap detail is shown in Table 4.

The January 30 report presented four scenarios under the Model 1 framework, 1A through 1D. We refer to the scenario described above and presented in this letter as Scenario 1E.

SUMMARY OF RESULTS

Table 1 shows the projected PO enrollees, cost of PO coverage, PO enrollee premiums, federal funding, and required state funding in calendar years (CY) 2027 through 2029 for Scenario 1E on a per member per month (PMPM) basis and in total on an annual basis. The cost of PO coverage is based on the gross premium for all coverage. Under Scenario 1E, the cost of PO coverage is borne by the State, and enrollee premiums and PTF reduce the State's cost.

We apply a 10% margin to projected required state funding to account for unknown contingencies including, but not limited to, changes in federal or state law, significant healthcare innovations, new prescription drugs, variances in PO take-up patterns, and consumer selection.

¹ <u>https://mn.gov/commerce-stat/insurance/industry/policy-data-reports/2024</u> public option report.pdf



As shown in Table 1, we estimate the portion of PO coverage that would need to be funded by state-based sources, such as a premium tax or general tax, will be approximately \$208 million in CY 2027, \$246 million in CY 2028, and \$273 million in CY 2029. Please note, PMPM values shown throughout this letter represent averages. Actual PMPM values for individual enrollees will vary significantly by rating area, enrollee age, income, and metal level prior to the PO.

Table 1 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Projected Public Option Cost and Funding for 2027 through 2029								
CY 2027 CY 2028 CY 2029								
Enro	llment							
(a)	Projected population* – Baseline	471,000	472,000	473,000				
(b)	% selecting PO	18%	21%	24%				
(c)	Projected PO enrollees = (a) * (b)	85,000	101,000	113,000				
PMP	M Cost by Funding Source							
(d)	Cost of PO coverage PMPM	\$802	\$818	\$838				
(e)	PO enrollee premium PMPM	\$298	\$350	\$390				
(f)	Federal subsidies for PO enrollees PMPM	\$0	\$0	\$0				
(g)	Federal PTF from PO enrollees PMPM	\$318	\$282	\$263				
(h)	Required state funding PMPM = (d) - (e) - (f) - (g)	\$186	\$186	\$185				
Annu	al Cost by Funding Source (in thousands)							
(i)	Cost of PO coverage	\$816,000	\$984,000	\$1,128,000				
(j)	PO enrollee premium	\$303,000	\$421,000	\$526,000				
(k)	Federal subsidies for PO enrollees	\$0	\$0	\$0				
(I)	Federal PTF from PO enrollees	\$324,000	\$339,000	\$355,000				
(m)	Required state funding = (i) - (j) - (k) - (l)	\$189,000	\$224,000	\$248,000				
(n)	Required state funding with margin = (m) * 1.1	\$208,000	\$246,000	\$273,000				

DESCRIPTION OF SCENARIO ASSUMPTIONS

As noted above, Scenario 1E is based on similar assumptions as those applied in Scenario 1C in the Public Option Study, except as described below.

Enrollee Premium Scale

For simplicity, we model a single maximum enrollee premium PMPM by FPL band. Table 2 shows the maximum enrollee premium amount we modeled for the second lowest cost silver plan as a percentage of income and a PMPM in the Baseline (federal premium scale) and Scenario 1E (10.0% premium scale over 550% FPL). The annual incomes used to model these enrollee premiums within each FPL band are based on an estimate of the distribution of incomes from enrollees through MNsure in 2022. The enrollee premium scale is based on maximum enrollee premiums as a percentage of income provided by DHS.



Table 2 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Maximum Modeled Enrollee Premium						
	Federal Premium Scale After Expiration of Enhanced Premium Subsidies 550% FPL with No Subsidy Limit					
Scenarios:	B	aseline	Sce	enario 1E		
	(1)	(2)	(3)	(4)		
Maximum Enrollee			Maximum Enrollee			
FPL Bucket	% of Income	Premium PMPM	% of Income	Premium PMPM		
Under 100%	N/A	N/A	0.75%	\$10.00		
100 to 133%	2.07%	\$36.65	0.90%	\$15.88		
133 to 150%	4.02%	\$79.75	1.21%	\$23.94		
150 to 200%	6.42%	\$170.61	2.95%	\$78.28		
200 to 250%	8.26%	\$273.44	4.88%	\$161.59		
250 to 300%	9.71%	\$386.71	6.38%	\$254.09		
300 to 400%	9.83%	\$475.11	7.88%	\$380.86		
400 to 500%	N/A	No Max	8.50%	\$554.66		
500 to 600%*	N/A	No Max	9.50%	\$722.34		
Over 600%	N/A	No Max	10.00%	\$932.65		

*We assume half of the enrollees in this FPL bucket are below 550% FPL with a modeled maximum enrollee premium PMPM of 9.01% of income and half are above 550% FPL with a modeled maximum enrollee premium PMPM of 10.00% of income.

Enrollee Deductible

As requested by DHS, Scenario 1E assumes enrollees with incomes above 400% FPL will be subject to a deductible. Based on DHS guidance and the State's objective to reduce state funding requirements, we assume the gross premiums will be based on the cost of coverage assuming no deductible. The enrollee deductibles modeled in Scenario 1E are shown in Table 3.

Table 3 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Annual Enrollee Deductible				
FPL Bucket Annual Enrollee Deductible				
Under 400%	\$0			
400 to 500%	\$500			
500 to 600%	\$1,000			
Over 600%	\$1,500			

Enrollment Cap

As requested by DHS, Scenario 1E assumes enrollment in the PO will be limited on a first-come, first-served basis in the first two years of the PO for enrollees above certain income levels. The annual enrollment caps are shown in Table 4.



Table 4 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Annual Enrollment Caps					
FPL Bucket 2027 2028 2029 and Later					
Under 400%	No limit	No limit			
400 to 550% 40.000 errollage No limit No limit					
Over 550% 15,000 enrollees 15,000 enrollees					

Enrollment caps are based solely on income level and do not take into account whether an enrollee in the PO was enrolled in MNsure, enrolled off-exchange, or uninsured in the prior year.

DETAILED RESULTS BY YEAR

Tables 5 through 7 show the projected annual impact of the PO under Scenario 1E in CY 2027 through CY 2029, respectively, for enrollees who migrate to the PO from MNsure, from off-exchange, and from uninsured status. The enrollment status shown in these tables is based on the enrollee's enrollment status prior to the implementation of the PO. For example, an individual who is uninsured in 2026 who enrolls in the PO in 2027 and remains enrolled in the PO through 2029 will be reflected in Table 7 as coming from an uninsured status.

	Table 5					
	State of Minnesota Department of Human Services					
	Public Option Analysis, Scenario TE Projected Public Ontion Enrollment, Revenue, and Cost by Enrollment Source					
	Calendar	Year 2027				
			PO Enrollm	nent Source		
			Off-			
Enro	llment	MNsure	Exchange	Uninsured	Total	
(a)	Projected 2027 population - Baseline	110,000	51,000	310,000	471,000	
(b)	% selecting PO	55%	6%	7%	18%	
(c)	Projected PO enrollees = (a) * (b)	60,000	3,000	22,000	85,000	
PMPI	M Cost by Funding Source					
(d)	Cost of PO coverage PMPM	\$890	\$799	\$569	\$802	
(e)	PO enrollee premium PMPM	\$287	\$704	\$279	\$298	
(f)	Federal subsidies for PO enrollees PMPM	\$0	\$0	\$0	\$0	
(g)	Federal PTF from PO enrollees PMPM	\$452	\$0	\$0	\$318	
(h)	Required state funding PMPM = (d) - (e) - (f) - (g)	\$151	\$95	\$290	\$186	
Annu	al Cost by Funding Source (in thousands)					
(i)	Cost of PO coverage	\$638,000	\$25,000	\$153,000	\$816,000	
(j)	PO enrollee premium	\$206,000	\$22,000	\$75,000	\$303,000	
(k)	Federal subsidies for PO enrollees	\$0	\$0	\$0	\$0	
(I)	Federal PTF from PO enrollees	\$324,000	\$0	\$0	\$324,000	
(m)	Required state funding = (i) - (j) - (k) - (l)	\$108,000	\$3,000	\$78,000	\$189,000	



 Table 6

 State of Minnesota Department of Human Services

 Public Option Analysis: Scenario 1E

 Projected Public Option Enrollment, Revenue, and Cost by Enrollment Source

 Calendar Year 2028

		PO Enrollment Source			
Enrollment		MNsure	Off-Exchange	Uninsured	Total
(a)	Projected 2027 population - Baseline	110,000	52,000	310,000	472,000
(b)	% selecting PO	62%	10%	9%	21%
(c)	Projected PO enrollees = (a) * (b)	68,000	5,000	28,000	101,000
PMP	I Cost by Funding Source				
(d)	Cost of PO coverage PMPM	\$920	\$840	\$566	\$818
(e)	PO enrollee premium PMPM	\$330	\$735	\$325	\$350
(f)	Federal subsidies for PO enrollees PMPM	\$0	\$0	\$0	\$0
(g)	Federal PTF from PO enrollees PMPM	\$421	\$0	\$0	\$282
(h)	Required state funding PMPM = (d) - (e) - (f) - (g)	\$169	\$105	\$241	\$186
Annu	al Cost by Funding Source (in thousands)				
(i)	Cost of PO coverage	\$741,000	\$54,000	\$189,000	\$984,000
(j)	PO enrollee premium	\$265,000	\$47,000	\$109,000	\$421,000
(k)	Federal subsidies for PO enrollees	\$0	\$0	\$0	\$0
(I)	Federal PTF from PO enrollees	\$339,000	\$0	\$0	\$339,000
(m)	Required state funding = (i) - (j) - (k) - (l)	\$137,000	\$7,000	\$80,000	\$224,000

	Table 7					
	State of Minnesota Department of Human Services					
	Public Option Analysis: Scenario 1E					
	Projected Public Option Enrollment,	Revenue, and Co	ost by Enrollment	Source		
	Calenda	ar Year 2029	DO Enrollmor	at Course		
Franci		MNerre	PU Enrollmer	IL Source	Tatal	
Enroi	iment	winsure	Off-Exchange	Uninsured	Total	
(a)	Projected 2027 population - Baseline	110,000	52,000	311,000	473,000	
(b)	% selecting PO	65%	19%	10%	24%	
(c)	Projected PO enrollees = (a) * (b)	72,000	10,000	31,000	113,000	
PMPN	I Cost by Funding Source					
(d)	Cost of PO coverage PMPM	\$944	\$884	\$575	\$838	
(e)	PO enrollee premium PMPM	\$355	\$774	\$350	\$390	
(f)	Federal subsidies for PO enrollees PMPM	\$0	\$0	\$0	\$0	
(g)	Federal PTF from PO enrollees PMPM	\$412	\$0	\$0	\$263	
(h)	Required state funding PMPM = (d) - (e) - (f) - (g)	\$177	\$110	\$225	\$185	
Annu	al Cost by Funding Source (in thousands)					
(i)	Cost of PO coverage	\$813,000	\$104,000	\$212,000	\$1,128,000	
(j)	PO enrollee premium	\$306,000	\$91,000	\$129,000	\$525,000	
(k)	Federal subsidies for PO enrollees	\$0	\$0	\$0	\$0	
(I)	Federal PTF from PO enrollees	\$355,000	\$0	\$0	\$355,000	
(m)	Required state funding = (i) - (j) - (k) - (l)	\$152,000	\$13,000	\$83,000	\$248,000	

SENSITIVITY ANALYSES: CHANGES IN THE ENROLLEE DEDUCTIBLE

DHS requested that we evaluate the sensitivity of the results if the annual enrollee deductible amounts increase or decrease. The deductibles modeled in the sensitivity analysis are shown in Table 8.



Table 8 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Annual Enrollee Deductible						
	Decrease Annual Increase Annual					
FPL Bucket	Enrollee Deductible	Enrollee Deductible				
Under 400%	\$0	\$0				
400 to 500%	\$250	\$750				
500 to 600%	\$500	\$1,500				
Over 600%	\$750	\$2,250				

Table 9 illustrates how the state funding requirement in CY 2027 through CY 2029, respectively, under Scenario 1E is impacted by these changes in the annual enrollee deductible. Note that the required state funding amounts shown in the sensitivity results do not include the 10% margin reflected in Table 1.

Table 9 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Projected Required State Funding with Different Enrollee Deductibles (in millions)							
	2027 2028 2029						
Scenario 1E \$189,000 \$224,000 \$248,000							
Decrease deductibles \$192,000 \$232,000 \$266,000							
Increase deductibles	\$186,000	\$217,000	\$235,000				

The change in deductibles has a small impact on the required state funding for PO enrollees coming from MNsure or from the uninsured population, since most individuals in these populations are generally below 400% FPL and not subject to the deductibles. The change in deductibles has a material impact on the required state funding PMPM from off-exchange, since the majority of this population is above 600% FPL; however, the projected volume of PO enrollees from off-exchange is small.

Table 10 shows the projected distribution of CY 2027 enrollment by age group and income level for all enrollees from MNsure, off-exchange, and the uninsured population expected to enroll in the PO. This distribution does not include the impact of enrollment caps, which would limit enrollment in the PO for enrollees above 400% FPL.

Table 10 State of Minnesota Department of Human Services Public Option Analysis: Scenario 1E Public Option Enrollment Distribution by Age Group and Income Level FPI Bucket						
Age	Under	400 to	500 to	Over		
Bucket	400%	500%	600%	600%	Total	
0 to 14	3.8%	0.5%	1.3%	2.0%	7.7%	
15 to 20	3.1%	0.5%	0.8%	3.9%	8.3%	
21 to 25	3.2%	0.4%	0.8%	0.9%	5.2%	
26 to 30	5.7%	0.7%	0.6%	1.3%	8.3%	
31 to 35	5.6%	0.3%	0.5%	1.4%	7.8%	
36 to 40	5.4%	0.2%	0.3%	1.0%	6.9%	
41 to 45	4.6%	0.1%	0.2%	0.4%	5.3%	
46 to 50	4.3%	0.2%	0.1%	0.3%	4.8%	
51 to 55	6.3%	0.5%	0.1%	0.0%	7.0%	
56 to 60	10.9%	1.1%	0.5%	2.7%	15.2%	
61 to 64	14.5%	1.7%	0.7%	6.3%	23.2%	
over 65	0.2%	0.0%	0.0%	0.1%	0.4%	
Total	67.7%	6.2%	5.9%	20.2%	100.0%	



DATA AND METHODOLOGY

The data and methodology used to develop the results in this letter are based on the data and methodology outlined in the Public Option Study, except as noted below.

Enrollment assumptions

The following assumption is modified from the Public Option Study to include the change in bold font:

Incremental enrollment growth due to the public option

We assume the reductions in gross premium, state premium wrap, state cost-sharing reductions, **deductibles**, and the supplemental benefits are offered only to enrollees choosing a PO plan. This will result in individual market enrollment growth and a substantial portion of the individual market joining the PO Plan. The total growth from new enrollees for each scenario can be seen in the new membership from uninsured status coming on-exchange in each scenario. The total take-up from each enrollment source in each segment is also included in the summary table. We model varying take-up from each population based on the relative value of the additional benefits compared to each enrollee's current selection.

We add the following assumption for Scenario 1E:

Enrollment cap

Before we apply the enrollment cap, we identify potential PO enrollment as described in the Public Option Study. The enrollment cap is applied to the potential PO enrollment on a pro rata basis by FPL and age. For purposes of applying the enrollment cap in 2028, we assume half of the potential PO enrollees between 500% and 600% FPL are above 550% FPL.

Premium assumptions

We add the following assumption for Scenario 1E:

Deductibles

We estimate the impact of deductibles using an actuarial benefit adjustment model that estimates the change in enrollee cost sharing based on benefit design including deductible, copays, maximum out-of-pocket amounts and other cost sharing features of a major medical plan. We first simulated the existing Basic Health Plan benefit structure, which has a zero-dollar deductible and is intended to have enrollees cover about 6% of the overall cost (i.e., a 94% actuarial value). We then simulated the various deductibles and applied the ratio of the simulated costs relative to the base 94% AV plan to derive the increased enrollee cost sharing and lower State costs.

CAVEATS AND LIMITATIONS

Differences between the projected amounts in this analysis and actual program experience will depend on the extent to which future experience conforms to the assumptions made in the calculations. It is certain that actual experience will not conform exactly to the assumptions used in the calculations due to differences in program design, health care cost and utilization trends, economic changes, provider reimbursement levels, regulatory or legislative changes, consumer behavior, exchange issuer pricing assumptions, population changes, and many other factors. The most material assumption in this modeling is the extent to which migration to the PO occurs, once offered. This depends in part on predictions of consumer behavior, which is subject to significant uncertainty and variability.

There is heightened uncertainty concerning future insurance market enrollment due to the recent expiration of the COVID-19 public health emergency (PHE) and its associated policies, specifically the redetermination of current Medicaid enrollees and in certain cases, the termination of Medicaid coverage.

This analysis represents our best estimate of future experience, given the assumptions described in this analysis and information that is currently available.



Milliman developed certain models to estimate the values included in this analysis. The intent of the models was to estimate the financial impact of a public option program based on Minnesota's Basic Health Program, known as MinnesotaCare, and provide analysis to support the requirements of Minnesota SF 2995. We reviewed the models, including their inputs, calculations, and outputs, for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP).

The models rely on data, assumptions, and other information as inputs. We relied upon certain data and information provided by the Minnesota Department of Human Services (DHS), Minnesota Department of Commerce (COMM), MNsure, and publicly available data published by the State of Minnesota and federal agencies to develop the analyses shown in this analysis. We did not audit this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency, and we did not find material defects in the data. If there are material defects in the data, it is possible they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable, or for relationships that are materially inconsistent. Such a review was beyond the scope of our engagement.

We prepared this analysis for the specific purpose of evaluating the enrollment changes and financial impacts due to the introduction of a public option program under a 1332 waiver in the State of Minnesota. This analysis should not be used for any other purpose. This analysis has been prepared for the internal business use of, and is only to be relied upon by, the management of DHS and COMM. We understand this analysis may be shared with other interested parties as a part of the State of Minnesota's 1332 waiver design and modeling discussions. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work. This analysis should only be reviewed in its entirety. The results of this analysis may not be appropriate for every stakeholder.

The results of this analysis are technical in nature and are dependent upon specific assumptions and methods. No party should rely on these results without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.

The authors of this analysis are health actuaries. Milliman's advice is not intended to be a substitute for qualified tax, legal, or accounting counsel.

The authors of this analysis, Fritz Busch and Alisa Gordon, are actuaries for Milliman, members of the American Academy of Actuaries, and meet the Qualification Standards of the Academy to render the actuarial opinion contained herein. To the best of their knowledge and belief, this analysis is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles.

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Pamela, please let us know if you would like to discuss further or have any other questions.

Sincerely,

Tredenth & Busch

Frederick (Fritz) Busch, FSA, MAAA Principal and Consulting Actuary

FSB/ACG/crl

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Alisa C. Gordon, FSA, MAAA Consulting Actuary