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Minnesota Comprehensive Health Association

2019 First Quarter Report

Results for The Minnesota Premium Security Plan

Update – This report updates Tables One through Five of the 2019Q1 report dated June 7th, 2019 to account for missing data.

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Introduction

The Minnesota Comprehensive Health Association (MCHA) retained Wakely Consulting Group, LLC (Wakely) to collect data related to the Minnesota state-based reinsurance program (referred to as the Minnesota Premium Security Plan (MPSP)), review the data for reasonability, calculate the reinsurance payments to the carriers participating in the program, and provide summary reports for MCHA to distribute as appropriate to stakeholders. This report is not intended to project final year-end 2019 reinsurance amounts.

This document has been prepared for the sole use of MCHA and its Board of Directors. This report may not be provided to other outside organizations or used for other purposes without Wakely's advance, written permission. Wakely does not intend to benefit third parties and assumes no duty or liability to other parties who receive this work. The report should only be reviewed in its entirety and then only by qualified individuals. This document contains the data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements.

Executive Summary

MPSP reinsurance amounts between January and March 2019 total approximately $13.0 million for 393 distinct enrollees. At the end of 2018, there were approximately 150,000 Minnesotans enrolled in the Individual market. The reinsurance amount in this report does not represent a projection of final 2019 benefit year reinsurance. The data underlying this analysis was provided by Minnesota carriers eligible for reinsurance under MPSP. Final reinsurance will be calculated based on 2019 benefit year claims in compliance with Minnesota Statutes §62E.23. As a result, the final reinsurance and individual counts will increase significantly from the values shown in this report.

The figure to the right shows the reinsurance underlying both the 2018 and 2019 quarterly reports. The 2018Q4 reinsurance in the chart is based on the projected 2018 reinsurance and not the final 2018 reinsurance due to the fact that 2018 benefit year reinsurance has not been finalized as of the release of this report. The total reinsurance in the 2019Q1 quarterly report is approximately 10% higher than reinsurance amount from the 2018Q1 quarterly report. There are many reasons reinsurance can increase between years. Total medical costs for insurers typically increase due to changes in utilization, cost of services, and mix of services. MPSP's costs increase for similar reasons. In addition to regular trends, a reinsurer's trends can be impacted by deductible leveraging. Deductible leveraging is illustrated and explained in further detail in the Deductible Leveraging section on page six of this memorandum. Finally, if the size of the market changes, then so will the number enrollees eligible for reinsurance. This is partially off-set by anti-selection where high-cost individuals have a higher propensity to remain enrolled if premiums increase.

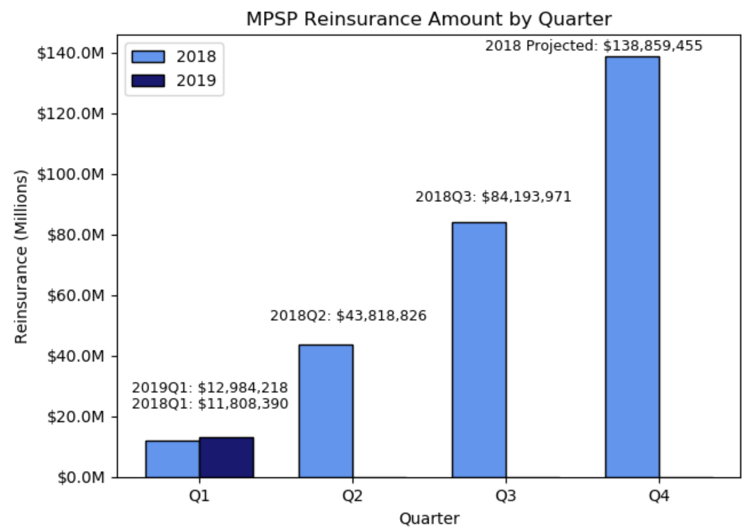

Table One below provides enrollment and reinsurance information underlying the 2018Q1 and 2019Q1 reports.

Table One: Reinsurance Amounts and Enrollee Counts

	Distinct Individuals	Reported Reinsurance
Statewide 2019Q1	393	$12,984,218
Statewide 2018Q1	367	$11,808,390

The remainder of this report provides a description of the methodology, additional breakout of reinsurance by region, metal level, and other reporting variables, and associated caveats and disclosures.

Methodology

Carriers participating in Minnesota's Non-Grandfathered Individual Commercial Market provided Wakely with January through March 2019 claim experience with paid dates through April 2019 in a template developed by Wakely. The template included both enrollment and claim experience at the carrier level. The template also included enrollee-level data for Minnesotans that carriers identified with claims above the attachment point of $50,000. Wakely then aggregated these templates and calculated reinsurance payments using the reinsurance parameters shown in the figure below. Wakely validated this amount against the carrier provided calculations.

Reinsurance Parameters

Claim Range[1]	Liability
$0 – $50,000	Plan Pays: 100%
$50,001 – $250,000	Plan Pays: 20% MPSP Pays: 80%
$250,001	Plan Pays[2]: 100%

[1] - Claim Range Excludes Member Cost Sharing
[2] - Excludes Impact of High-Cost Risk Pool

The enrollee-level data supplied by carriers accounted for movement between HIOS plan identifiers. For example, under certain circumstances, an individual might have been enrolled in both a silver and gold plan for a portion of the experience period. This transferring does not impact results when reporting at a carrier level; however, when reporting at a more granular level (e.g. metal), reported results may change depending on the allocation method. For this report, Wakely allocated reinsurance estimates for individuals transferring between cohorts based on incurred claims within that time period. For example if 75% of an individual's claims occurred in a silver plan and 25% occurred in a gold plan, then 75% of the reinsurance for the individual was allocated to the silver plan and 25% to the gold plan.

Analysis

This section provides additional detail for the reinsurance amount shown in Table One. The distribution total in the following tables may not add to 100% due to rounding. The 2018Q1 distribution is shown next to the 2019Q1 distribution for comparison purposes. Once 2018 benefit year reinsurance is finalized, Wakely will include a 2018 column on the following tables.

Reinsurance by Area

The table below shows the amount of reinsurance for each of Minnesota's rating regions. The decrease between 2018Q1 and 2019Q1 in South Central (from 10% to 4%) appears to be caused by both fewer reinsurance eligible enrollees and lower reinsurance costs per eligible enrollee in the region.

Table Two: Reinsurance Amount by Area

Rate Region	2019Q1 Reinsurance Amount	2019Q1 Distribution	2018Q1 Distribution
1 - Olmsted (Rochester)	$2,169,641	17%	16%
2 - St. Louis (Duluth)	$706,432	5%	5%
3 - South Central	$584,086	4%	10%
4 - South West	$97,714	1%	2%
5 - West Central (Chippewa)	$483,313	4%	6%
6 - West (Wilkin)	$486,398	4%	2%
7 - Central (Crow Wing)	$866,374	7%	7%
8 - Metro / St. Cloud	$7,482,835	58%	51%
9 - North West (Kittson)	$107,425	1%	1%
Statewide	**$12,984,218**	**100%**	**100%**

Reinsurance by Metal Level

The table below provides the reinsurance and distribution by metal tier. There are four different metal tiers in the Individual Commercial market which reflect different levels of cost sharing an enrollee is expected to pay. The leanest is the bronze plan where an individual can expect to pay for about 40% of his or her total medical costs out of pocket in the form of cost sharing such as deductibles, coinsurance, and copays. The richest plan type is the platinum tier where an individual can expect to pay approximately 10% of total costs out of pocket. There is a fifth tier called Catastrophic, but enrollment is limited to individuals who are eligible for hardship exemption or are under the age of 30.

Due to the cost sharing levels of the different metal types, the distribution may shift between metal levels as 2019 completes. In the 2018Q4 report, approximately 47% of the reinsurance was in the bronze level compared to 51% in 2018Q1.

Table Three: Reinsurance Amount by Metal Tier

Metal Tier	2019Q1 Reinsurance Amount	2019Q1 Distribution	2018Q1 Distribution
Catastrophic	$0	0%	1%
Bronze	$6,422,555	49%	51%
Silver	$3,903,689	30%	27%
Gold	$2,575,120	20%	20%
Platinum	$82,855	1%	1%
Total	**$12,984,218**	**100%**	**100%**

Reinsurance by Exchange Status

Wakely analyzed reinsurance amounts for plans bought on and off the exchange. The distribution between Exchange and Non-Exchange was consistent between 2018Q1 and 2019Q1.

Table Four: Reinsurance Amount by Exchange Status

Exchange Status	2019Q1 Reinsurance Amount	2019Q1 Distribution	2018Q1 Distribution
On-Exchange	$8,628,986	66%	66%
Off-Exchange	$4,355,232	34%	34%
Total	**$12,984,218**	**100%**	**100%**

Reinsurance by Plan Type

This section provides reinsurance amounts by plan type. In the Affordable Care Act, some individuals and families qualify for cost-sharing reduction subsidies (CSR) which lower out-of-pocket costs. There are several different levels of CSRs. The first is 73% which reduces the individual's out-of-pocket cost to approximately 27% (= 1 - 73%) of total medical costs. CSR plans are only available on the exchange. There are other levels of CSR which are not prevalent in Minnesota's market due to Minnesota's Basic Health Plan, MNCare. Finally, there are limited cost-sharing and zero cost-sharing plans for American Indians and Alaska Natives.

Table Five: Reinsurance Amount by Plan Type

Plan Type	2019Q1 Reinsurance Amount	2019Q1 Distribution	2018Q1 Distribution
Standard	$12,120,749	93%	91%
Zero Cost Sharing	$48,597	0%	0%
Limited Cost Sharing	$0	0%	1%
73% CSR	$814,872	6%	9%
Total	**$12,984,218**	**100%**	**100%**

Distribution of HCC Count

Previous reports included a hierarchical condition category (HCC) distribution for reinsurance eligible enrollees. The data underlying this report is based on a partial year of experience which may not accurately reflect the final HCC distribution using a complete year of claim experience. HCC identification is highly correlated with the length of time an individual is enrolled during the year. For example, an enrollee with twelve months of enrollment has more time to visit a physician compared to an enrollee with only three months of enrollment. Second, the total number of reinsurance eligible enrollees in this report is small relative to the number of enrollees that will be eligible after full year of experience. In the 2018Q1 report, there were 367 reinsurance eligible enrollees compared to the projected 2,947 enrollees in the 2018Q4 report. [1] Note that Wakely did not include the HCC distribution the 2018Q1 report either. The HCC distribution for 2019 benefit year reinsurance will be provided in future reports.

Deductible Leveraging

In a reinsurance setting, trends for a reinsurer can be higher than the overall cost trend of the reinsured entity due to deductible leveraging. Deductible leveraging occurs when the underlying claim costs for

[1] Source: Initial 2018 Benefit Year Reinsurance Estimate Under Minnesota's Premium Security Plan

the insurer increases at a rate higher than the increase in the deductible. In context of MPSP, the words attachment point and deductible are synonymous. The example below shows the calculation of liability for an insurance company that has an enrollee with $55,000 in total claims using MPSP's $50,000 attachment point and 20% coinsurance. This example is for illustrative purposes only and does not represent an analysis of the impact of deductible leveraging for MPSP.

Table Six: Deductible Leveraging Example

Description	Amount	Formula	Payer
Deductible	$50,000	min{$55,000, $50,000}	Issuer
Coinsurance	$1,000	($55,000 - $50,000)× 20%	Issuer
Reinsurance	$4,000	($55,000 - $50,000)× 80%	Reinsurer

If the claim increases by 1% because of regular cost trends, then the cost of the claim is now $55,550 (= $55,000 × 1.01), but the cost to the reinsurer increases by approximately 11% (= $\frac{\$4,440}{\$4,000}$ - 1). This is shown in the next table.

Table Seven: Deductible Leveraging Example – Trended

Description	Amount	Formula	Payer
Deductible	$50,000	min{$55,550, $50,000}	Issuer
Coinsurance	$1,110	($55,550 - $50,000)× 20%	Issuer
Reinsurance	$4,440	($55,550 - $50,000)× 80%	Reinsurer

The impact of deductible leveraging is minimally off-set by a reinsurance cap since the reinsurer is no longer liable for additional costs exceeding the reinsurance cap. Deductible leveraging can impact both the number of enrollees eligible for reinsurance and the average cost of reinsurance per reinsurance eligible enrollee. The overall deductible leveraging trend depends both on the proportion of claims for enrollees exceeding the attachment point and the total change in costs for enrollees exceeding the attachment point.

Cost Sharing Reductions

The Federal Transitional Reinsurance program utilized a formula to reduce a carrier's paid amount to account for the fact that cost-sharing reductions (CSRs) were reflected in plan paid amount but were already reimbursed by the Federal government. Since the CSR program ended in 2017, Wakely is assuming that CSR subsidies will not be funded by the Federal government in 2019; therefore, Wakely did not adjust calculated reinsurance amounts for CSR using the Federal Transitional Reinsurance program methodology. If CSR payments are reinstated during 2019, Wakely will review this assumption and work with carriers to ensure that reinsurance payments made to carriers do not exceed the total amount paid by the carrier for any eligible claim pursuant to Minnesota Statute 62E.23.

Data Review

Wakely compared the portion of individuals with claims above the attachment point underlying the carrier submitted templates against the claim continuance table located in the actuarial report in Minnesota's 1332 Waiver. The table is based on the 2015 individual market. In the comparison, the actual portion of individuals with claims above the attachment point was lower than the expected portion of individuals with claims above the attachment point. This is likely caused by the underlying carrier data being based on a full year of experience with limited claim runout. For example, the individual-level dataset excludes members that will exceed the attachment point because of claims

that are incurred or paid between April and December 2019.

Wakely reviewed the list of HIOS plan identifiers underlying the reinsurance calculation to ensure that all plan identifiers were active in either 2019 or 2018.

Disclosures and Limitations

Responsible Actuary. I, Tyson Reed, am responsible for this communication. I am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to issue this report.

Intended Users. This information has been prepared for the sole use of the management of MCHA. Wakely understands that the report may be made public. Distribution to such parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results. This information is proprietary.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results may vary, potentially materially, from Wakely's estimates. Wakely does not warrant or guarantee that Minnesota carriers will attain the estimated values included in the report. It is the responsibility of those receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. I am financially independent and free from conflict concerning all matters related to performing the actuarial services underlying these analyses. In addition, Wakely is organizationally and financially independent of MCHA.

Data and Reliance. I have relied on others for data and assumptions used in the assignment. I have reviewed the data for reasonableness, but I have not performed any independent audit or otherwise verified the accuracy of the data / information. If the underlying information is incomplete or inaccurate, my estimates and calculations may be impacted, potentially significantly. The information included in the other sections identifies the key data and assumptions.

Subsequent Events. Material changes in state or federal laws regarding health benefit plans may have a material impact on the results included in this report. I am not aware of any additional subsequent events that would impact the results of this analysis.

Contents of Actuarial Report. This document constitutes the entirety of the actuarial report and supersede any previous communications on the project.

Deviations from ASOPs. Wakely completed the analyses using sound actuarial practice. To the best of my knowledge, the report and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

- ASOP No. 1, Introductory Actuarial Standard of Practice
- ASOP No. 23, Data Quality
- ASOP No. 41, Actuarial Communication

Sincerely,

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