



# State Reinsurance Program

## 2019 – 2021 Program Update & Guidance Document, a Supplement to the 2020 Letter to Issuers

MHBE Policy and Plan Management

October 10, 2019

### Background

In 2018, Maryland established the State Reinsurance Program (SRP), under a State Innovation Waiver, to increase premium affordability and foster stability in the individual market. Because of the Waiver, Maryland has experienced two successive years of double-digit premium decreases, resulting in 2020 premiums that are 22% lower than 2018 premiums, and enrollment that exceeds projections by 24%.

### Purpose

The State Reinsurance Program must meet operational requirements established by COMAR 14.35.17, Md. INSURANCE Code Ann. § 31-117.1, and federal agreements supporting the waiver. This document serves to provide MHBE stakeholders with important updates on the State Reinsurance Program under these requirements for the 2019, 2020, and 2021 program years. Specifically, this document provides detail on:

- 2019
  - Projections for 2019 & 2020 SRP Claims
  - 2019 Carrier State Reinsurance Program Accountability Report
  - Carrier Attestations for the SRP
  - 2019 SRP Payment Schedule
- 2020
  - Parameters for the 2020 State Reinsurance Program
  - 2020 Open Enrollment Reporting Requirements
  - 2020 SRP Payment Schedule
- 2021
  - 2021 SRP Program Schedule
  - Operational Changes to the SRP
  - Risk Adjustment and Reinsurance Interaction – Alternative Framework
- Future Years
  - 10-Projection for the SRP
  - Carrier incentives under the SRP

Stakeholders are encouraged to contact MHBE for any questions related to this document, or the State Reinsurance Program in general, at [mhbe.publiccomments@maryland.gov](mailto:mhbe.publiccomments@maryland.gov).

## 2019 – Program Updates

*Projections for 2019 & 2020 SRP Claims.* MHBE's actuarial services vendor, Lewis & Ellis (L&E), utilized carrier claims continuance data for 2017 & 2018, and emerging 2019 data when available, to project total payments under the 2019 State Reinsurance Program.<sup>1</sup> The updated projection estimates SRP payments at \$370 million in 2019 and \$400 million in 2020.

Table 1. below outlines the differences between 2019 and 2020 projections previously performed by Wakely Consulting (Wakely) in 2018.<sup>2</sup>

Table 1. 2019 & 2020 Projections for the State Reinsurance Program.

Model	Total Reinsurance Payment		Premium Reduction		Morbidity Improvement		Average Enrollment <sup>4</sup> (with reinsurance)	
	2019	2020	2019	2020	2019	2020	2019	2020
L&E	\$370M	\$400M	-28.1%	-29.7%	-4.0%	-2.7%	194.1k	193.0k
Wakely	\$462M	\$459M	-30.9%	-29.0%	-1.4%	-1.4%	181.5k	179.4k

There is high a variance between the 2019 and 2020 SRP payments projected by L&E and Wakely, with L&E's projections estimating a \$92 million and \$59 million difference in payments, respectively. MHBE's own analysis of emerging 2019 claims continuance data also supports these projections as actual claims were lower than projected in 2018. Further, L&E's projection also estimates higher market-wide enrollment in 2019 & 2020 than projected by Wakely, by 12,600 and 13,600 enrollments, respectively.

It is important to note that MHBE received \$373 million in federal pass through funds, under the State Innovation Waiver, to defray the cost of the SRP. If current projections for SRP payments maintain, there is potential that federal pass through funds could fully fund 2019 SRP payments, helping to secure the financial sustainability of the SRP.

*2019 Carrier State Reinsurance Program Accountability Report.* In the interest of transparency and to foment carrier stewardship of Maryland taxpayer funds, the MHBE Board of Trustee promulgated regulations at COMAR 14.35.17.03C that requires carriers to provide a report documenting carrier action to manage the costs and utilization of enrollees whose claims are reimbursable under the SRP.

<sup>1</sup> The L&E report is available in the appendix.

<sup>2</sup> Wakely Consulting provided the actuarial & economic impact analysis for Maryland's State Innovation Waiver application, submitted in 2018.

As indicated under COMAR 14.35.17.03C, MHBE shall set a date for the submission of the report in the Annual Letter to Carriers. For the 2019 and future benefit years, carriers shall submit the report to the MHBE Board of Trustees no later than June 30 of each year following the end of the plan year. Carriers should note that the report shall be made publicly available on MHBE's SRP website and should be presented in a manner that will foster public understanding.

See Table 2 below for additional information on report content requirements

**Table 2. Carrier State Reinsurance Program Accountability Report Requirements**

Requirement	Format	Citation
1. List the initiatives and programs the carrier administers to manage cost and utilization of enrollees whose claims are reimbursable under the State Reinsurance Program.	Narrative	14.35.17.03C(1)
2 Identify the total population of enrollees whose claims are reimbursable under the State Reinsurance Program, the allocation of these enrollees across each of the initiatives and programs identified in 1, and the allocation of these enrollees who do not participate in the initiatives and programs identified in 1.	A data table indicating the magnitude (n) and proportion (%) of each population.	14.35.17.03C(2)
3 Estimate the effectiveness of the initiatives and programs identified in 1 as measured by the estimated reduction of claims and utilization by the enrollees identified in 1.	A data table indicating the dollar amount (\$) of total reduced claims and utilization expressed as services per enrollee.	14.35.17.03C(3)
4 Identify and detail the actions the carrier will take to improve on the effectiveness estimates identified in 3.	Narrative	14.35.17.03C(4)
5 Estimate savings to the State Reinsurance Program based upon the effectiveness identified in 3.	A data table indicating the dollar amount (\$) of total savings for each program identified in 1.	14.35.17.03C(5)
6 Estimate the rate impact of the initiatives and programs identified in 1.	Aggregated, expressed as a percentage (%)	14.35.17.03C(6)
7 Detail the methodology utilized to determine which programs to include in 1 of this regulation, estimated effectiveness in 3 of this regulation, and estimated savings to the State Reinsurance Program in 5 of this regulation.	Narrative	14.35.17.03C(7)
8 Population health initiatives and outcomes for Individual Exchange enrollment.	Narrative	14.35.17.03C(8)

*Carrier Attestation for the SRP.* Maryland entered into an agreement with the Centers for Medicaid and Medicare Services (CMS) to receive federal support in calculating payments under the SRP. Under the agreement, carriers shall submit claims data to their External Data Gathering Environment (EDGE) servers and CMS shall determine reinsurance payments using parameters set by MHBE.

Under COMAR 14.35.17.05, carriers are required to submit data to MHBE to determine SRP payments. To meet the data submission requirement under the regulation, MHBE developed the Carrier Attestation for the State Reinsurance Program (included in the Appendix). The attestation allows carriers to meet claims data sharing requirements to MHBE under COMAR via the required carrier claims data sharing to their EDGE servers under the CMS agreement.

Carriers must submit a signed attestation to MHBE no later than December 31, 2019. It is important to note that the attestation mirrors the attestation that was utilized to support the Supplemental Maryland Reinsurance Program from 2014 - 2016.

*2019 Payment Schedule.* In Maryland's State Innovation Waiver application MHBE indicated that issuers would receive SRP payments for their 2019 claims experience no later than December 31, 2020. MHBE will update this timeline to quarter three of calendar year 2020 (July 2020 – September 2020).

## 2020 – Program Updates

*Parameters for the 2020 State Reinsurance Program.* At their September 2019 session, the MHBE Board of Trustees finalized the parameters for the 2020 State Reinsurance Program to the following:

1. Attachment Point: \$20,000
2. Coinsurance Rate: 80%
3. Cap: \$250,000
4. Dampening Factor: .785<sup>3</sup>

Analysis performed by L&E determined that modifications to the 2019 parameters for the SRP were not necessary to support a 30% rate offset. Further, L&E provided an evaluation of the dampening factor necessary to account for interaction between the SRP and the Risk Adjustment Program. During this process, L&E identified methodological differences between their interaction analysis and that performed by Wakely for 2019 that, if reproduced for the 2020 SRP, would have yielded actuarially inconsistent results. The L&E report containing this analysis is available in the Appendix of this document.

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<sup>3</sup> Under COMAR 14.35.17.04 the MHBE Board of Trustees determines if a dampening factor is necessary, the dampening factor used for SRP payments is provided by the Commissioner of the Maryland Insurance Administration.

*2020 Open Enrollment Reporting Requirements.* During the 2019 Open Enrollment Period (OEP) MHBE collected enrollment for off-Exchange 2019 QHPs to track the impact of the SRP. For the 2020 OEP MHBE will continue to collect off-Exchange enrollment data. The data should include the following parameters for all enrollees:

- Metal level of selected coverage
- Age Category
- County

This data should be provided to the Exchange every two weeks on the following dates:

- November 17, 2019
- December 02, 2019
- December 16, 2019

The data may be sent to [mhbe.policy@maryland.gov](mailto:mhbe.policy@maryland.gov).

*2020 SRP Payment Schedule.* In alignment with expected 2019 SRP payments in quarter three of 2020, MHBE will remit 2020 SRP payments to quarter three of calendar year 2021 (July 2021 – September 2021).

## 2021 – Program Updates

*2021 SRP Schedule.* MHBE understands the importance of consistent stakeholder expectations for yearly SRP milestones. Further, given the MIA's rate and form filing schedule and MHBE's yearly schedule for coverage renewal and Open Enrollment Period operations, it is important that SRP fit into existing processes and workflows. To support these needs, MHBE has established a 2021 SRP Schedule, found in Table 3 below.

**Table 3. 2021 State Reinsurance Program Milestone Schedule.**

Date	Event/Entity	Milestone
February 17, 2020	MHBE Board of Trustees Meeting	Set estimated 2021 SRP parameters. [COMAR 14.35.17.04C]
Early March 2020	MIA	2021 Form Filing Deadline
Early May 2020	MIA	2021 Rate Filing Deadline
May 15, 2020	MHBE Policy	2019 Data Submission Deadline: <ul style="list-style-type: none"><li>○ 2019 claims continuance table</li><li>○ Emerging 2020 claims continuance tables (through March 2020)</li><li>○ 2019 Carrier EDGE Server Data</li></ul>
Early July 2020	MHBE Policy	Finalization of annual SRP reporting: <ul style="list-style-type: none"><li>• Recommended 2021 SRP parameters</li><li>• Recommendation for SRP &amp; Risk Adjustment Interaction</li></ul>

Date	Event/Entity	Milestone
		[COMAR 14.35.17.04B(4)] • Estimates for 2020 SRP payments
July 20, 2020	MHBE Board of Trustees Meeting	Set final 2021 SRP parameters. [COMAR 14.35.17.04D]
Mid-August – Early September 2020	MIA	2021 Rate Release
September 15, 2020	MHBE Policy	Data submission to CMS to determine 2021 pass through funding
November 1, 2020 – December 15, 2020	MHBE	Open Enrollment Period & Carrier Off-Exchange Enrollment Reporting
January 2021 – December 2021	Carriers	Monthly claims data submissions to EDGE server
June 30, 2022	Carriers	Carrier State Reinsurance Program Accountability Report Due Date
July 2022 – September 2022	MHBE	2021 SRP payments remitted to carriers

*Operational Changes to SRP Administration.* Stakeholders should note that MHBE's agreement with CMS to utilize the federal EDGE server to calculate program payments sunsets at the end of calendar year 2020. MHBE shall notify stakeholders of the implementation approach that will replace the existing process no later than July 31, 2020.

A potential option for the replacement process would be for MHBE to establish a State Database (i.e., a Maryland EDGE server) where carriers may submit their claims data. Under this option MHBE would maintain the State Database and would receive federal software updates. More information on this option is available in the *Risk Stabilization Waiver Concept in the Section 1332 State Relief and Empowerment Waiver Concept Discussion Paper* released by CMS on November 29, 2018.<sup>4</sup> It is important to note that administrative costs attributed to the SRP may be defrayed by pass through funds.

*Risk Adjustment and Reinsurance Interaction – Alternative Framework.* Under COMAR 14.35.17.04B(4) the MHBE Board of Trustees may apply a market level dampening factor, if determined necessary, to account for interaction between the Risk Adjustment (RA) and the SRP. To support Board decision-making, each year MHBE will retain an Actuarial Services vendor (L&E for FY 2020) to perform an independent analysis of the potential interaction and supply MHBE Staff, and the Board, with a recommendation.

For the 2019 & 2020 SRP, MHBE utilized a claims-based analytical framework to interpret the interaction between RA and the SRP. To summarize the methodology; projected individual market membership is bucketed into claims cohorts, then projected

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<sup>4</sup> <https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Downloads/Waiver-Concepts-Guidance.PDF>

receivables (or transfers) under RA and the SRP are incorporated to estimate claims-to-premium ratios for each claims cohort.

Under this framework, program interaction is interpreted as claims-to-premium ratios for claims cohorts that do not follow expected profitability patterns post-risk adjustment. For example, if a cohort that is expected to receive SRP payments (> \$20,000) expresses a post-RA claims-to-premiums ratio that is more profitable than the preceding claims cohort (i.e., cohorts with higher claims are more profitable than cohorts with lower claims) then there is program interaction for this cohort. Various dampening factors are then applied to estimated RA transfers to remove the interaction and restore expected profitability dynamics to each claims cohort. It is important to note that this approach yielded inconsistent results when reproduced across plan years without modification. L&E notes this inconsistency in the attached report.

To mitigate carrier uncertainty, and in the interest of programmatic consistency, MHBE releases for comment an alternative framework to interpret the interaction between RA and the SRP. This *risk-based* analytical framework follows a similar cohort methodology from the claims-based framework but utilizes *plan liability risk scores* to establish cohorts instead of claims. To summarize the methodology, projected individual market membership is bucketed into *risk score* cohorts (risk adjustment payers and risk adjustment receivers), then projected receivables (or transfers) under RA and the SRP are incorporated to estimate claims-to-premium ratios for each risk cohort. Dampening factors are then applied as in the claims-based framework.

MHBE believes that the risk-based approach provides a more accurate framework to interpret RA and SRP interaction given that claims experience serves as an imperfect proxy for expected risk adjustment transfers. L&E performed program interaction analyses for the 2020 SRP using both the *claims-based* and *risk-based* analytical frameworks. This analysis is available in the *L&E* report in the Appendix of this document.

MHBE seeks stakeholder comment on this alternative approach for potential adoption in the program interaction analysis for the 2021 SRP. Stakeholders are invited to submit written comment to [mhbe.publiccomments@maryland.gov](mailto:mhbe.publiccomments@maryland.gov) by October 25, 2019.

## Future Years

*10-Year Projection for the SRP.* In the *Maryland 1332 State Innovation Waiver Application to the State Reinsurance Program* MHBE reported several assumptions to the Departments of Health and Human Services and of Treasury, which have since changed. Key assumptions included:

- 10% enrollment attrition attributed to effective repeal of the individual shared responsibility payments
- One-time assessment of \$365 million to fund the SRP
- A -1.4% reduction in risk pool morbidity

MHBE commissioned L&E to perform a 10-year projection of the SRP to update these key assumptions to reflect 1) the actualized enrollment experience; and 2) dedicated funding of the SRP for the waiver period under Md. INSURANCE Code Ann. § 6-102.1.

The 10-Year Projection for the SRP is included in the Appendix of this document.

## APPENDIX

1. Carrier Attestation for the State Reinsurance Program
2. Lewis & Ellis *2020 Analysis for the State Reinsurance Program*
3. 10-year State Reinsurance Program Projection

## **Carrier Attestation for the State Reinsurance Program**

### **A. AUTHORITY**

I HEREBY AFFIRM that I, \_\_\_\_\_ [name] am the \_\_\_\_\_ [title] duly authorized representative of \_\_\_\_\_ [name of business entity] (the “Carrier”) and that I possess the legal authority to make this attestation on behalf of the Carrier.

### **B. PURPOSE**

I FURTHER AFFIRM THAT:

1. Under Section 31-117(a) of the Insurance Article (Ins.), Maryland Code Annotated, the Maryland Health Benefit Exchange (MHBE) is authorized to establish a State Reinsurance Program (SRP) to mitigate the impact of high-risk individuals on rates in the individual insurance market inside and outside the Exchange.
2. MHBE has adopted regulations, codified in the Code of Maryland Regulations at COMAR 14.35.17 (the “SRP Regulations”), that govern, among other things, the Carrier’s eligibility for receipt of reinsurance payments, data collection and maintenance for reinsurance payments, disbursement of reinsurance payments, and request for reinsurance payment.
3. The SRP Regulations require that the Carrier (a) submit to MHBE, or make accessible to MHBE, the data required to determine reinsurance payments as specified in the Annual Letter to Carriers; and (b) request payment in accordance with the requirements in the Annual Letter to Carriers. See COMAR 14.35.17.05.A, 07.B.
4. Effective as of March 21, 2019, MHBE has contracted the Centers for Medicare & Medicaid Services (CMS) to administer the SRP for MHBE in 2019 and 2020, during which time Carriers are to submit SRP claims data to CMS each month using the External Data Gathering Environment (EDGE) infrastructure.
5. The Carrier is entitled to SRP payments from the State of Maryland only to the extent that (a) the Carrier complies with, and is eligible under, the SRP Regulations, and (b) pursuant to the 2020 Annual Letter to Issuers, makes representations in this attestation that are true and correct.

### **C. CERTIFICATION OF COMPLIANCE WITH SRP REQUIREMENTS**

I FURTHER AFFIRM THAT:

1. The Carrier is in compliance with the:
  - a. Distributed data environments, data requirements, establishment and usage of masked enrollee identification numbers, and data submission deadlines outlined in 45 C.F.R. 153 Subpart H – Distributed Data Collection for HHS-Operated Programs (153.700 – 153.730); and
  - b. Relevant HHS Guidance/Technical Instruction, including CMS-EDGE Server Interface Control Document – Risk Adjustment and Reinsurance Addendum.

2. The Carrier will submit or has submitted SRP claims data in compliance with the requirements set forth in COMAR 14.35.17.05A and the 2020 Annual Letter to Issuers.

I DO SOLEMNLY AFFIRM THAT THE CONTENTS OF THIS ATTESTATION ARE TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

DATE: \_\_\_\_\_

BY: \_\_\_\_\_ [Print Name of Authorized Representative and Attestor]

\_\_\_\_\_ [Signature of Authorized Representative and Attestor]



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# 2020 Analysis for the State Reinsurance Program

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MARYLAND HEALTH BENEFIT EXCHANGE  
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**Submitted on:**  
September 12, 2019

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## INTRODUCTION

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In 2019, the state of Maryland implemented the State Reinsurance Program ("SRP") for the individual market by using an Affordable Care Act ("ACA") Section 1332 waiver ("Waiver"). The SRP provides funds to health insurers operating in the individual market to help cover the costs of high-cost members.

Pursuant to the Code of Maryland Regulations ("COMAR") Section 14.35.17.04.B<sup>1</sup>, each year the Maryland Health Benefit Exchange ("MHBE") Board of Trustees ("Board") must set the payment parameters for the State Reinsurance Program by determining the attachment point, the coinsurance rate, and the reinsurance cap.

For 2019, the Board set payment parameters such that the SRP will provide a payment equal to 80% of the claims incurred between \$20,000 and \$250,000 for each member in the individual market. The goal based on these parameters was to reduce premiums in the individual market by 30% (due to direct funding and associated morbidity improvements).

The federal risk adjustment program, operated by the Department of Health & Human Services ("HHS"), also provides payments to insurers for members who are expected to have high costs based on demographic characteristics and diagnosis data.

Because both programs cover some of the same high-risk, high-cost individuals, there is potential that some insurer claims are covered by both programs. This interaction of the reinsurance and risk adjustment programs could inappropriately disrupt the individual market if adjustments are not made.<sup>2</sup> Therefore, pursuant to Section 14.35.17.04.B.(4), the Board can set a market-level dampening factor provided by the Maryland Insurance Commissioner, if determined necessary to mitigate the interaction of the SRP and the federal risk adjustment program.

For 2019, the Board established a dampening factor of 0.80, i.e. a reduction of 20% to calculated risk adjustment transfers. The Board concluded that a 20% reduction was appropriate to address the potential for interaction between the SRP and federal risk adjustment program.

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<sup>1</sup> <http://mdrules.elaws.us/comar/14.35.17.04>

<sup>2</sup> In this report, the word "interaction" refers to payments received by a carrier for the enrolled population whose risk and claims experience would be eligible for payments under both the Federal Risk Adjustment Program and the State Reinsurance Program.

The MHBE retained Lewis & Ellis, Inc. ("L&E") to provide an updated actuarial analysis of the Maryland individual health insurance market to assist the Board in setting the 2020 payment parameters and the 2020 dampening factor for the State Reinsurance Program.

The purpose of the report is to provide L&E's recommendation which will help inform the MHBE Board of Trustees decision to set final 2020 State Reinsurance Program parameters.

# REINSURANCE PAYMENT PARAMETERS

## METHODOLOGY

The steps in projecting the impact of the State Reinsurance Program's payment parameters for the 2020 individual market included:

- 1) **Reviewing original reinsurance reports and estimates** – These documents were produced by the Wakely Consulting Group ("Wakely") in 2018. These documents included estimated impacts to the individual ACA market for 2019 and beyond.
- 2) **Gathering experience data** – L&E collected 2017–2019 claims experience data from the insurers participating in the individual market, CareFirst and Kaiser.
- 3) **Collecting information for projection assumptions** - In addition to claims experience, L&E utilized actual 2019 plan enrollment as well as other information provided in the 2020 rate filings. L&E also had discussions with the Maryland Insurance Administration ("MIA") and MHBE concerning any internal reinsurance analyses performed.
- 4) **Developing and projecting reinsurance payments** – Starting with the claims data provided by CareFirst and Kaiser, L&E projected the claims through 2020 with estimated assumptions for claims trend, morbidity changes, enrollment and expenses.
- 5) **Comparing current results to prior projections** – An actual-to-expected analysis helped L&E understand differences versus prior projections and the implications for the State Reinsurance Program.

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## RESULTS

L&E projects Maryland's State Reinsurance Program will pay out approximately \$370M in 2019 and \$400M in 2020 and reduce premiums by approximately 28% in 2019 and 30% in 2020, compared to a scenario where the SRP did not exist<sup>3</sup>. The 2019 estimated reinsurance payment is \$92M lower (~20% lower) than the \$462M projected by Wakely in the previous analysis.

The expected premium reductions are driven by a reduction in claims due to:

1. Reinsurance (27% in 2019 and 29% in 2020); and
2. An improvement to the covered population's morbidity (4% in 2019 and 3% in 2020) due to additional healthy members entering and staying in the individual market because of the lower premiums that result from the SRP. This is consistent with the 2017 to 2018 experience, as most of the decrease in membership came from the healthiest (or, lowest claims) individuals.

Additionally, there is a premium offset due to the health insurer provider fee (Section 6-102.1 of the Maryland Insurance Code) which is 2.75% for 2019 and 1% for 2020.

To target and maintain a 30% premium reduction for 2020, the attachment point is estimated to need to decrease from \$20,000 to \$19,600. L&E does not believe the calculated result in the attachment point necessitates a change in the parameters due to immateriality.

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<sup>3</sup> 2020 compares a scenario with reinsurance in 2019 and 2020 to a scenario where there is reinsurance in 2019, but no reinsurance in 2020.

## DIFFERENCES FROM THE 2019 REINSURANCE ANALYSIS

Given that any adjustments to the reinsurance payment parameters could have substantial ramifications for a wide range of stakeholders, L&E believes it is important to comment on the differences in the 2020 analysis versus the 2019 analysis.

Key differences between L&E's 2020 analysis and the prior analysis include:

- Reduction in premiums due to reinsurance payments
  - L&E – calculated the reduction in premiums due to reinsurance payments as a PMPM reduction in a given year between a scenario with reinsurance and a scenario where there is no reinsurance for that year (see prior footnote).
  - Wakely – calculated the total reinsurance payment dollars (not PMPM) divided by the total premium dollars in a scenario that never included reinsurance.
- Enrollment
  - Due to emerging 2019 experience, L&E assumed a smaller membership decline than did prior estimates in the reinsurance scenario.
  - In the scenario without reinsurance, L&E assumed a larger decline in membership than did prior estimates, specifically for persons not eligible for an Advance Premium Tax Credit ("APTC").
- Trend and morbidity
  - L&E used trend and morbidity assumptions that were directionally like the prior analysis (e.g., enrollment changes are the healthy); however, they were updated based on more recent data.

The following table summarizes the differences between projections from the 2020 and the 2019 analyses.

Model	Total Reinsurance Payment		Premium Reduction		Morbidity Improvement		Average Enrollment <sup>4</sup> (with reinsurance)	
	2019	2020	2019	2020	2019	2020	2019	2020
L&E	\$370M	\$400M	-28.1%	-29.7%	-4.0%	-2.7%	194.1k	193.0k
Wakely	\$462M	\$459M	-30.9%	-29.0%	-1.4%	-1.4%	181.5k	179.4k

In 2017 and 2018, the actual market average enrollment was 228.6k and 193.8k, respectively (see prior footnote for a discussion on average and unique enrollment). For perspective, the average

<sup>4</sup> Enrollment shown in this table is the total average enrollment for a year, which is calculated as the total member months divided by 12. Total average enrollment should not to be confused with the total unique enrollment.

For perspective, the actual total unique members in 2017 was 303.5k members and 259.4k members in 2018. L&E is projecting 259.6k and 258.4k total unique members in 2019 and 2020, respectively.

rate increase from 2017 to 2018 was 44% in the Individual Market. The 2018 actual claims came in lower than what was projected.

The following table compares the claims continuance data that Wakely received (2017 incurred with runout through early 2018) and L&E received (2017 incurred with runout through early 2019 and 2018 incurred with runout through early 2019). Comparing the two 2017 incurred claims datasets, total average or unique members is approximately the same and total estimated reinsurance payments decreased 0.4% with the additional year of runout.

Continuance data	Total Members (average / unique)	Total Estimated Reinsurance Payments <sup>5</sup>
2017 incurred with runout through early 2018	228.7k / 303.3k	\$350.0M
2017 incurred with runout through early 2019	228.6k / 303.5k	\$348.6M
2018 incurred with runout through early 2019	193.8k / 259.4k	\$341.5M

<sup>5</sup> The estimated reinsurance in 2017 and 2018 is projected based off continuance tables for incurred claim provided. Although reinsurance was not in effect until 2019, these values are provided as a basis for comparison to 2019 and 2020 reinsurance payment projections. Additionally, the reinsurance parameters used are the same in the estimates for each year from 2017 through 2020 (\$20k attachment point, 80% coinsurance, and \$250k cap).

## DAMPENING FACTOR

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### METHODOLOGIES

The first step in evaluating the 2020 dampening factor was to examine 2018 historical data. L&E collected the External Data Gathering Environment (EDGE) server data from the individual carriers. The EDGE data contains risk scores, diagnosis data, claims data, and premium data. Based on this data, L&E evaluated how effective the ACA risk adjustment methodology was at compensating issuers for their risks in 2018.

L&E calculated 2020 risk scores based on expected changes to the risk adjustment calculation for coverage during 2020 relative to the calculation for coverage during 2018.

In addition to the historical EDGE data, L&E utilized plan enrollment experience as well as information provided in the 2020 rate filings. L&E also calculated 2020 premiums and claims projections based on trending forward 2018 claims using projections in the 2020 rate filings, and actual and expected rate increases for 2019 and 2020 by carrier. Premiums were calculated under the actual expected 2020 outcome as well as in the hypothetical scenario in which the State Reinsurance Program did not exist.

L&E assumed slight changes to membership distributions in the market, consistent with the 2019 approved rate decreases and the latest estimates of the 2020 rate changes. As premiums decrease, coverage becomes more attractive to healthy young individuals for whom high-priced coverage may not be economically viable without the SRP. Therefore, L&E has assumed that there will be an increase in low-morbidity members relative to 2018 due to decreasing premium rates.

L&E used the updated 2020 HHS risk adjustment formula for calculating risk transfer payments based on allowable rating factors and risk scores by member. There are two transfer amounts based on the two premiums scenarios referenced above. For each member, the contributions from the SRP and the HHS high-cost member program were calculated based on projected 2020 claims. Based on the payment parameter analysis, the 2020 reinsurance payment parameters were assumed to be unchanged in the dampening factor analysis.

The language from COMAR 14.35.17.02B11 requires that the dampening factor modify payments such that “the claims-to-premium ratio between payers and receivers under the risk adjustment is normalized.” This language is not entirely clear to what value these ratios should be “normalized.”

Last year's analysis performed by Wakely<sup>6</sup> and the analysis performed by the MIA used a normalization approach where the population was divided into six cohorts. The first cohort represented members with no paid claims. The last cohort represented members with reinsurance payments, i.e. those with claims over the \$20,000 attachment point. The remaining members were split evenly into four quartiles.

These six cohorts were then collapsed into two populations, intended to serve as a proxy for risk adjustment "payers" and risk adjustment "receivers". The payer population was made up of the non-claimants and the first three quartiles, while the receiver population was made up of the fourth quartile and the members with reinsurance payments. An adjusted loss ratio for each cohort was calculated based on the following formula:

*Adjusted Loss Ratio*

$$= \frac{\text{Claims} - \text{Reinsurance Contributions} - \text{Risk Adjustment Receivables}}{\text{Earned Premium}}$$

The final 2019 dampening factor was calculated in order to ensure that the adjusted loss ratios between the payer and the receiver populations were equal.

The choice of a final dampening factor ultimately hinges on many financial and policy decisions regarding the interaction of the reinsurance and risk adjustment programs. There are many ways to assess and adjust the interaction of the federal risk adjustment program and the Maryland State Reinsurance Program. L&E believes that a potential improvement to the dampening factor analysis would include an approach based on the covered population's Plan Liability Risk Score (PLRS) since that is the measure of risk used in the federal risk adjustment program.

For 2020, L&E estimated the dampening factor based on three different approaches for consideration.

1. The same claims-based cohort analysis used to calculate the final 2019 dampening factor;
2. A revised analysis based on claims cohorts; and
3. A risk-based approach that groups the population into 6 cohorts based on a member's PLRS.

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<sup>6</sup>[https://www.marylandhbe.com/wp-content/uploads/2018/07/Maryland\\_Risk\\_Adjustment\\_State\\_Flexibility\\_Report\\_7\\_02\\_18\\_Draft.pdf](https://www.marylandhbe.com/wp-content/uploads/2018/07/Maryland_Risk_Adjustment_State_Flexibility_Report_7_02_18_Draft.pdf)

## RESULTS – CLAIMS BASED COHORTS

This approach is consistent with the 2019 analysis that was ultimately used to determine the 0.80 dampening factor for 2019. In this approach L&E summarized the risk adjustment transfers, which are calculated at the member level, by grouping the members into six cohorts representing their overall claims level.

The first step in this analysis is based on the hypothetical scenario where the State Reinsurance Program is not in place for 2020. The results have been structured to replicate the reporting of last year's analysis:

### 1) Undampened Risk Adjustment, No Reinsurance

Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
No claims incurred	420,541	\$0	\$230,614,913	(\$158,701,297)	\$0	69%
Claims between \$0.01 and \$490	376,978	\$9,427,633	\$217,547,400	(\$126,453,417)	\$0	62%
Claims between \$490 and \$1,400	422,285	\$39,735,337	\$269,172,170	(\$141,951,852)	\$0	67%
Claims between \$1,400 and \$2,900	430,266	\$82,086,875	\$300,354,680	(\$127,279,176)	\$0	70%
Claims between \$2,900 and \$20,000	469,501	\$298,634,956	\$376,376,360	\$56,015,067	\$0	64%
Claims >= \$20,000	135,625	\$821,318,226	\$121,916,477	\$498,370,675	\$0	265%
Total	2,255,196	\$1,251,203,027	\$1,515,982,000	(\$0)	\$0	83%
Low Claims (<\$2,900)	1,650,069	\$131,249,844	\$1,017,689,163	(\$554,385,742)	\$0	67%
High Claims (>\$2,900)	605,126	\$1,119,953,183	\$498,292,837	\$554,385,742	\$0	114%

It is clear that the insurers have a significantly worse loss ratio for subscribers who had claims that qualified for the reinsurance program. This is to be expected, as members with high claims would be expected to have disproportionately higher loss ratios.

The second step in this analysis incorporates the implementation of the SRP parameters. As expected, premiums decrease significantly which decreases risk adjustment transfers proportionally.

### 2) Undampened Risk Adjustment, With Reinsurance

Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
No claims incurred	444,264	\$0	\$173,404,878	(\$122,414,019)	\$0	71%
Claims between \$0.01 and \$490	397,469	\$9,924,221	\$157,307,815	(\$96,942,969)	\$0	68%
Claims between \$490 and \$1,400	439,284	\$41,325,021	\$197,695,596	(\$107,188,201)	\$0	75%
Claims between \$1,400 and \$2,900	445,554	\$85,003,667	\$224,046,249	(\$94,927,510)	\$0	80%
Claims between \$2,900 and \$20,000	486,184	\$309,246,351	\$274,949,862	\$47,589,191	\$0	95%
Claims >= \$20,000	136,164	\$822,385,719	\$82,779,403	\$373,883,508	\$412,840,835	43%
Total	2,348,919	\$1,267,884,979	\$1,110,183,803	(\$0)	\$412,840,835	77%
Low Claims (<\$2,900)	1,726,571	\$136,252,909	\$752,454,538	(\$421,472,699)	\$0	74%
High Claims (>\$2,900)	622,348	\$1,131,632,070	\$357,729,265	\$421,472,699	\$412,840,835	83%

L&E notes that the application of the SRP reduces the loss ratio for the highest cohort to a lower value than the loss ratio for the next-highest claims cohort. Additionally, the "low" claimants are expected to have a 74% loss ratio while the "high" claimants have an 83% loss ratio.

In order to return the loss ratios for these groups back to the aggregate loss ratio of 77%, a dampening factor of -5% would be required. This methodology is summarized below:

### 3) Risk Adjustment Dampened by -5.0%, With Reinsurance

Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
No claims incurred	444,264	\$0	\$173,404,878	(\$128,534,720)	\$0	74%
Claims between \$0.01 and \$490	397,469	\$9,924,221	\$157,307,815	(\$101,790,118)	\$0	71%
Claims between \$490 and \$1,400	439,284	\$41,325,021	\$197,695,596	(\$112,547,611)	\$0	78%
Claims between \$1,400 and \$2,900	445,554	\$85,003,667	\$224,046,249	(\$99,673,886)	\$0	82%
Claims between \$2,900 and \$20,000	486,184	\$309,246,351	\$274,949,862	\$49,968,650	\$0	94%
Claims >= \$20,000	136,164	\$822,385,719	\$82,779,403	\$392,577,684	\$412,840,835	20%
Total	2,348,919	\$1,267,884,979	\$1,110,183,803	(\$0)	\$412,840,835	77%
Low Claims (<\$2,900)	1,726,571	\$136,252,909	\$752,454,538	(\$442,546,334)	\$0	77%
High Claims (>\$2,900)	622,348	\$1,131,632,070	\$357,729,265	\$442,546,334	\$412,840,835	77%

The 2019 dampening factor was 20%, which is drastically different from the -5% estimated in the above-described calculations, despite being developed in a consistent manner. The following section details L&E's understanding of the differences in the two years' results.

L&E does not believe this method produces reasonable results. The risk adjustment payments and the reinsurance payments clearly have an interaction and some degree of correlation. L&E does not believe that a negative dampening factor is an appropriate response to the interaction. Therefore, an alternative claims-based method was analyzed in order to isolate only the interaction between the two programs.

In the scenario with no reinsurance, the loss ratio for high claimants was higher than the loss ratio for low claimants by approximately 46%. To return the market to this loss ratio relationship post-reinsurance, a dampening factor of 21.5% is necessary, as demonstrated below. L&E recommends the use of this dampening factor in order to ensure that the reinsurance program does not introduce unwanted disruptions to the market.

### 4) Risk Adjustment Dampened by 21.5%, With Reinsurance

Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
No claims incurred	444,264	\$0	# \$173,404,878	(\$96,095,005)	\$0	55%
Claims between \$0.01 and \$490	397,469	\$9,924,221	# \$157,307,815	(\$76,100,231)	\$0	55%
Claims between \$490 and \$1,400	439,284	\$41,325,021	# \$197,695,596	(\$84,142,738)	\$0	63%
Claims between \$1,400 and \$2,900	445,554	\$85,003,667	# \$224,046,249	(\$74,518,096)	\$0	71%
Claims between \$2,900 and \$20,000	486,184	\$309,246,351	# \$274,949,862	\$37,357,515	\$0	99%
Claims >= \$20,000	136,164	\$822,385,719	# \$82,779,403	\$293,498,554	\$412,840,835	140%
Total	2,348,919	\$1,267,884,979	# \$1,110,183,803	(\$0)	\$412,840,835	77%
Low Claims (<\$2,900)	1,726,571	\$136,252,909	\$752,454,538	(\$330,856,069)	\$0	62%
High Claims (>\$2,900)	622,348	\$1,131,632,070	\$357,729,265	\$330,856,069	\$412,840,835	108%

L&E believes this approach is compliant with the COMAR 14.35.17 since it "normalizes" the results back to the loss ratio relationship that would have occurred in absence of the SRP.

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## DIFFERENCES BETWEEN THE 2019 AND 2020 CLAIMS BASED COHORT ANALYSIS

Given that any adjustments to the assumed dampening factor has substantial ramifications for a wide range of stakeholders, L&E believes it is important to comment on the differences between the claims cohort analysis performed in 2020 versus 2019.

Crucially, the curve of adjusted loss ratios by claims cohort with no dampening factor are projected to be much steeper than what was projected in the prior analysis.

Claims Cohort	Previously Projected 2019 Loss Ratio with No Reinsurance	L&E's Projected 2020 Loss Ratio with No Reinsurance
No Claims	91%	69%
1 <sup>st</sup> "Quartile"	77%	62%
2 <sup>nd</sup> "Quartile"	86%	67%
3 <sup>rd</sup> "Quartile"	80%	70%
4 <sup>th</sup> "Quartile"	66%	64%
Above Threshold	105%	265%

L&E has reviewed the materials that are available in support of the prior calculation and believes there are four main drivers of the difference. The two primary differences are: 1) the decrease in premiums from projected 2019 to projected 2020, and 2) the apparent exclusion of the Centers for Medicare and Medicaid Services' (CMS) 2018 introduction of the 86% reduction to market wide average premiums for the purpose of calculating risk adjustment transfers. If these two modifications were made to the 2019 analysis, the results would have been highly consistent with L&E's projections for 2020.

The four drivers of the difference between 2019 and 2020 are described in further detail below.

### 1. DECREASE IN PREMIUM RELATIVE TO CLAIMS

Risk adjustment transfers bear a strong linear relationship to the market-wide average premium. Last year's analysis assumed the market-wide average premium PMPM would be \$525 if reinsurance were in place, or \$744 otherwise.

L&E's analysis, which is based on actual rate filings not available in 2019, suggests that these values will be \$473 and \$672, respectively, in 2020. The approximate 10% reduction in premiums means that risk adjustment transfers, all else equal, will be dampened by approximately 10%. With lower risk transfer payments expected, there is less potential for an interaction between the risk adjustment and reinsurance programs.

While the premiums are projected to decrease, claims are projected to increase (primarily due to trend). Therefore, the risk adjustment transfers are projected to become less sufficient at covering expected extreme claims. This is because the cost of high cost members is increasing while the risk adjustment transfers for those members are decreasing. This implicit muting of risk adjustment transfers results in a reduction of the interaction of risk adjustment and reinsurance which reduces the magnitude of an explicit dampening factor.

## 2. CMS “86%” ADJUSTMENT

Beginning with the 2018 plan year, CMS instituted a risk transfer calculation adjustment which functionally operates as a dampening factor. This adjustment reduces transfer payments by 14% and is intended to reduce payments from a “premium basis” to a “claims basis.” The market-wide average premium, which features prominently in the risk adjustment calculation, includes some cost components, e.g. administrative expenses, which are not related to claims and therefore should not vary based on the morbidity of the covered population.

Last year’s analysis stated that this adjustment was considered. Based on a review of the prior analysis, it cannot be confirmed that the expense adjustment was applied. The results of the prior analysis appear consistent with modeling future risk adjustment transfers without the adjustment included. For example, last year’s analysis stated that risk adjustment transfers paid for members with no claims would be equal to 91% of those members’ premiums. Since this value exceeds 86%, it provides some evidence that the adjustment may have been excluded from last year’s analysis.

If it is correct to assume that last year’s projection did not include the 0.86 adjustment factor, then the projected interaction between the risk adjustment and reinsurance programs was likely overstated. That is, the recommended 2019 dampening factor may have been too large based on the claims-based cohort method that was selected.

## 3. ENROLLMENT SHIFTS

The 2019 analysis assumed that there would be a 20% drop in individual enrollment between 2017 and 2019, with the number of members in the no-claims cohort dropping by 40%. While there was undeniably a decrease in enrollment in 2018, actual decreases are less than 20% and the emerging 2019 enrollment suggests that enrollment has stabilized.

Moreover, L&E expects that enrollment will increase in 2020 in response to further rate decreases. Therefore, the population expected to be in the 2020 market is expected to be significantly different than the population in the 2019 market. These enrollment changes, and the associated morbidity change, significantly impact the interaction between the risk adjustment and reinsurance programs.

#### 4. MARKET-WIDE AVERAGE PLRS

Documentation of the 2019 analysis includes the statement "A simplifying assumption is made so that Risk Adjustment is 'forced' to be net \$0 by adjusting all payments down by the RA dollars 'leaving' the market place."

L&E believes this assumption, if used in the 2020 analysis, would distort results. The prior projections assumed that there would be a significant number of healthy members that would leave the market, which would materially increase the market-wide risk score. This implies that the prior analysis could have included the projection that some members were risk adjustment "receivers" in 2017 but would become risk adjustment "payers" in 2019. The "simplifying assumption" prohibits this from happening in the calculation, and therefore, appears to misallocate the transfer receivable for the highest-cost members. L&E did not include this assumption in the 2020 analysis.

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## RESULTS – RISK BASED COHORTS

As stated previously, COMAR 14.35.17.02B11 requires that the dampening factor modify payments such that “the claims-to-premium ratio between payers and receivers under the risk adjustment is normalized.” Consistent with last year’s analysis, L&E has used a grouping by claims level as a proxy for members being payers and receivers under the risk adjustment program.

As an alternative analysis that L&E believes should be considered for future calendar years, L&E evaluated the dampening factor based on the covered population’s Plan Liability Risk Score, not claims, since that is the most significant variable underlying the federal risk adjustment program.

The first step in calculating the dampening factor under the risk-based method is to group the data by PLRS cohort (instead of by claims). The first scenario assumes that reinsurance program is not in place.

### **1) Undampened Risk Adjustment, No Reinsurance**

Risk Score Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
0-0.5	1,625,031	\$255,596,258	\$994,972,006	(\$713,605,601)	\$0	97%
0.5-1.5	250,924	\$115,920,288	\$186,612,643	(\$57,453,707)	\$0	93%
1.5-2.5	72,717	\$52,851,934	\$54,075,380	\$5,518,241	\$0	88%
2.5-3.5	81,817	\$59,042,241	\$72,848,059	\$22,164,682	\$0	51%
3.5-4.5	38,089	\$40,010,099	\$34,241,883	\$23,726,927	\$0	48%
4.5+	186,619	\$727,782,207	\$173,232,028	\$719,649,458	\$0	5%
Total	2,255,196	\$1,251,203,027	\$1,515,982,000	(\$0)	\$0	83%
Risk Adj Payers	1,875,954	\$371,516,546	\$1,181,584,650	(\$771,059,308)	\$0	97%
Risk Adj Receivers	379,242	\$879,686,481	\$334,397,350	\$771,059,308	\$0	32%

The difference in loss ratios between risk adjustment payers and receivers is equal to 64% - 65% (97% less 32%). This is the loss ratio differential which would exist if the reinsurance program did not exist.

The next step in the risk-based analysis is to layer in the reinsurance program without any dampening adjustments.

## 2) Undampened Risk Adjustment, With Reinsurance

Risk Score Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
0-0.5	1,698,621	\$263,534,778	\$735,973,355	(\$544,829,250)	\$16,950,391	108%
0.5-1.5	260,675	\$118,835,032	\$136,710,528	(\$42,464,776)	\$14,498,069	107%
1.5-2.5	75,323	\$53,981,054	\$38,977,121	\$4,877,672	\$9,277,904	102%
2.5-3.5	84,678	\$60,299,633	\$52,980,334	\$17,961,387	\$10,673,819	60%
3.5-4.5	39,347	\$40,610,276	\$24,490,607	\$18,685,839	\$11,073,305	44%
4.5+	190,274	\$730,624,207	\$121,051,859	\$545,769,128	\$350,367,348	-137%
Total	2,348,919	\$1,251,203,027	\$1,110,183,803	(\$0)	\$412,840,835	76%
Risk Adj Payers	1,959,296	\$382,369,809	\$872,683,883	(\$587,294,026)	\$31,448,459	108%
Risk Adj Receivers	389,622	\$885,515,169	\$237,499,921	\$587,294,026	\$381,392,376	-35%

The loss ratio of -137% demonstrates that carriers would be materially overcompensated for the highest risk subscribers. This clearly demonstrates a material interaction between the risk adjustment program and the SRP. The difference in loss ratios between payers and receivers has grown from approximately 64% to approximately 143%.

In order to return this loss ratio difference to the targeted, pre-reinsurance rate of 64%, a dampening factor of approximately 25% would need to be applied. This is demonstrated below:

## 3) Risk Adjustment Dampened by 25%, With Reinsurance

Risk Score Cohort	Member Months	Claims	Premiums	Risk Adj	Reins	Loss Ratio
0-0.5	1,698,621	\$263,534,778	\$735,973,355	(\$408,621,937)	\$16,950,391	89%
0.5-1.5	260,675	\$118,835,032	\$136,710,528	(\$31,848,582)	\$14,498,069	100%
1.5-2.5	75,323	\$53,981,054	\$38,977,121	\$3,658,254	\$9,277,904	105%
2.5-3.5	84,678	\$60,299,633	\$52,980,334	\$13,471,040	\$10,673,819	68%
3.5-4.5	39,347	\$40,610,276	\$24,490,607	\$14,014,379	\$11,073,305	63%
4.5+	190,274	\$730,624,207	\$121,051,859	\$409,326,846	\$350,367,348	-24%
Total	2,348,919	\$1,251,203,027	\$1,110,183,803	(\$0)	\$412,840,835	76%
Risk Adj Payers	1,959,296	\$382,369,809	\$872,683,883	(\$440,470,519)	\$31,448,459	91%
Risk Adj Receivers	389,622	\$885,515,169	\$237,499,921	\$440,470,519	\$381,392,376	27%

Based on the risk-based cohort analysis, the implied dampening factor would be approximately 25%. Given the importance of the overall State Reinsurance Program process, L&E is not recommending a change away from a claims-based method until the newly considered method is fully vetted by all stakeholders. However, these results appear to confirm the previously estimated 21.5% dampening factor to be reasonable.

## APPENDICES

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### APPENDIX A: CAVEATS

L&E performed reasonability tests on the data used; however, L&E did not perform a detailed audit of the data. To the extent that the information provided was incomplete or inaccurate, the results in this report may be incomplete or inaccurate.

L&E made several assumptions in performing the analysis. Several of these assumptions are subject to material uncertainty and it is not unexpected that actual results could materially differ from the projections. Examples of uncertainty inherent in the assumptions include, but are not limited to:

- Data Limitations.
  - L&E relied on the data submitted from the insurers for significant portions of this analysis. To the extent that the data is inaccurate, the analysis will be impacted.
- Enrollment Uncertainty.
  - Beyond changes to premiums and market wide programs, consumer responses to these has inherent uncertainty. Therefore, actual enrollment could vary significantly.
- Political and Health Policy Uncertainty.
  - Future federal or state actions could dramatically change premiums and enrollment in 2020.
- Risk Adjustment Transfers.
  - Given large enrollment changes in the Maryland market up through 2019, estimates of risk adjustment transfers by cost category is highly uncertain.

This report has been prepared for the MHBE and the MIA for discussion purposes in relation to the State Reinsurance Program analysis. Any other use may not be appropriate. L&E understands that this report may be distributed to other parties; however, any user of this report must possess a certain level of expertise in actuarial science and/or health insurance so as not to misinterpret the data presented. Any distribution of this report should be made in its entirety. Any third party with access to this report acknowledges, as a condition of receipt, that L&E does not make any representations or warranties as to the accuracy or completeness of the material. Any third party with access to these materials cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.

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## APPENDIX B: DISCLOSURES

The Actuarial Standards Board (ASB), vested by the U.S.-based actuarial organizations<sup>7</sup>, promulgates Actuarial Standards of Practice (ASOPs) for use by actuaries when providing professional services in the United States.

Each of these organizations requires its members, through its Code of Professional Conduct<sup>8</sup>, to observe the ASOPs of the ASB when practicing in the United States. ASOP 41 provides guidance to actuaries with respect to actuarial communications and requires certain disclosures which are contained in the following.

### **IDENTIFICATION OF THE RESPONSIBLE ACTUARIES**

The responsible actuaries are:

- Dave Dillon, FSA, MAAA, MS, Senior Vice President & Principal
- Josh Hammerquist, FSA, MAAA, Vice President & Consulting Actuary
- Kevin Ruggeberg, ASA, MAAA, Assistant Vice President & Consulting Actuary
- Michael Lin, FSA, MAAA, Vice President & Consulting Actuary

The actuaries are available to provide supplementary information and explanation.

### **IDENTIFICATION OF ACTUARIAL DOCUMENTS**

The date of this document is September 12, 2019. The date (a.k.a. "latest information date") through which data or other information has been considered in performing this analysis is August 30, 2019.

### **DISCLOSURES IN ACTUARIAL REPORTS**

- The contents of this report are intended for the use of the Maryland Health Benefit Exchange and the Maryland Insurance Administration. Any third party with access to this report acknowledges, as a condition of receipt, that they cannot bring suit, claim, or action against L&E, under any theory of law, related in any way to this material.
- Lewis & Ellis Inc. is financially and organizationally independent from the companies that participate in the Maryland individual market. L&E is not aware of anything that would impair or seem to impair the objectivity of the work.
- The purpose of this report is to assist the MHBE and the MIA with an analysis of the 2020 State Reinsurance Program.
- The responsible actuaries identified above are qualified as specified in the Qualification Standards of the American Academy of Actuaries.

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<sup>7</sup> The American Academy of Actuaries (Academy), the American Society of Pension Professionals and Actuaries, the Casualty Actuarial Society, the Conference of Consulting Actuaries, and the Society of Actuaries.

<sup>8</sup> These organizations adopted identical Codes of Professional Conduct effective January 1, 2001.

- Lewis & Ellis has reviewed the data provided for reasonableness but has not audited it. L&E nor the responsible actuaries assume responsibility for items that may have a material impact on the analysis. To the extent that there are material inaccuracies in, misrepresentations in, or lack of adequate disclosure by the data, the results may be accordingly affected.
- L&E is not aware of any subsequent events that may have a material effect on the findings.

#### **ACTUARIAL FINDINGS**

The actuarial findings of the report can be found in the body of this report.

#### **METHODS, PROCEDURES, ASSUMPTIONS, AND DATA**

The methods, procedures, assumptions and data used can be found in the body of this report.

#### **ASSUMPTIONS OR METHODS PRESCRIBED BY LAW**

This report was prepared as prescribed by applicable law, statutes, regulations and other legally binding authority.

#### **RESPONSIBILITY FOR ASSUMPTIONS AND METHODS**

The actuaries do not disclaim responsibility for material assumptions or methods.

#### **DEVIATION FROM THE GUIDANCE OF AN ASOP**

The actuaries do not believe that material deviations from the guidance set forth in an applicable ASOP have been made.

## Baseline Data and Detailed Results after Reinsurance, by Year

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
<b>Baseline (Never Reinsurance)</b>										
Total Non-Group Enrollment	178,628	173,384	164,906	161,684	158,527	155,433	152,401	149,430	146,518	143,664
APTC Enrollment	110,847	111,401	111,958	112,518	113,081	113,646	114,214	114,785	115,359	115,936
Total Non-Group Premium PMPM	\$ 643	\$ 685	\$ 739	\$ 782	\$ 829	\$ 879	\$ 933	\$ 989	\$ 1,050	\$ 1,114
Gross Premium PMPM for APTC Mbrs	\$ 722	\$ 768	\$ 829	\$ 877	\$ 930	\$ 986	\$ 1,046	\$ 1,110	\$ 1,178	\$ 1,250
Net Premium PMPM for APTC Mbrs	\$ 108	\$ 115	\$ 124	\$ 132	\$ 140	\$ 148	\$ 157	\$ 166	\$ 177	\$ 187
APTC PMPM	\$ 613	\$ 653	\$ 705	\$ 746	\$ 791	\$ 838	\$ 889	\$ 943	\$ 1,001	\$ 1,062
Total Premiums	\$ 1,378,771,650	\$ 1,424,334,885	\$ 1,462,131,718	\$ 1,517,498,358	\$ 1,577,394,765	\$ 1,640,031,476	\$ 1,705,538,062	\$ 1,774,050,359	\$ 1,845,710,771	\$ 1,920,668,596
Total APTCs	\$ 815,834,184	\$ 872,625,961	\$ 946,543,135	\$ 1,006,969,581	\$ 1,072,898,475	\$ 1,143,395,158	\$ 1,218,785,432	\$ 1,299,418,701	\$ 1,385,669,698	\$ 1,477,940,332
<b>After Reinsurance</b>										
Reinsurance Funding	\$ 370,257,175	\$ 400,056,715	\$ 426,824,941	\$ 457,762,573	\$ 490,032,182	\$ 523,577,428	\$ 228,083,666	\$ -	\$ -	\$ -
Reduction in Premiums (Reinsurance Funding)	-27.3%	-28.5%	-29.1%	-29.7%	-30.2%	-30.7%	-12.7%	0.0%	0.0%	0.0%
Reinsurance Assessment	3.0%	1.1%	1.1%	1.1%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Reduction in Premiums (Improved Morbidity)	-4.0%	-6.2%	-9.0%	-10.2%	-11.3%	-12.4%	-13.6%	0.0%	0.0%	0.0%
Total Non- Group Premium PMPM	\$ 460	\$ 464	\$ 482	\$ 500	\$ 519	\$ 534	\$ 718	\$ 853	\$ 893	\$ 936
APTC PMPM	\$ 400	\$ 404	\$ 419	\$ 435	\$ 452	\$ 465	\$ 625	\$ 742	\$ 777	\$ 814
Change in Total Non-Group Enrollment	8.7%	11.3%	17.0%	19.9%	22.9%	26.0%	29.2%	32.4%	35.7%	39.1%
Total Non-Group Enrollment	194,128	192,969	192,969	193,934	194,903	195,878	196,857	197,842	198,831	199,825
APTC Enrollment	110,847	111,401	111,958	112,518	113,081	113,646	114,214	114,785	115,359	115,936
Total Premiums	\$ 1,070,802,970	\$ 1,074,817,215	\$ 1,116,200,794	\$ 1,162,516,218	\$ 1,213,966,881	\$ 1,255,983,594	\$ 1,696,818,042	\$ 2,025,539,954	\$ 2,131,595,078	\$ 2,243,362,763
Total APTCs	\$ 531,942,791	\$ 539,829,108	\$ 563,417,164	\$ 586,795,490	\$ 612,765,894	\$ 633,974,388	\$ 856,491,426	\$ 1,022,418,174	\$ 1,075,950,905	\$ 1,132,367,128
<b>Savings</b>										
Estimated APTC Savings	\$ 373,000,000	\$ 332,796,853	\$ 383,125,970	\$ 420,174,091	\$ 460,132,581	\$ -	\$ -	\$ -	\$ -	\$ -
Estimated Net Federal Savings	\$ 373,000,000	\$ 324,809,728	\$ 373,930,947	\$ 410,089,913	\$ 449,089,399	\$ -	\$ -	\$ -	\$ -	\$ -
Estimated Pass Through	101%	81%	88%	90%	92%	0%	0%	0%	0%	0%