MEMORANDUM

February 8, 2018

To: Chiqui Flowers, Administrator, Oregon Health Insurance Marketplace

From: Gary Helmer, Senior Economist

Subject: Oregon Health Insurance Marketplace Report – CY 2019 Administrative Charges
Marketplace Advisory Committee Material

Issue

DCBS needs to determine assessment rates for Marketplace individual medical plans and for stand-alone dental plans for CY 2019. The current assessment rates are:

- $6.00 per member per month (PMPM) for individual medical plans
- $0.57 PMPM for stand-alone dental plans

ORS 741.105 requires that the Health Insurance Marketplace Advisory Committee advise the Director on assessment rates. OAR 945-030-0020 requires a report on the proposed assessment, a public hearing, and a decision on the assessment rates by March 31. (The relevant ORS and OAR are attached to the end of this memo for reference.).

This memo provides information on Marketplace expenditures and possible enrollment patterns. The enrollment forecasts generate estimates of the assessment rates that would cover expenditures. The memo also discusses the cap on the fund balances and the cost of the federal technology.

Summary of results

- Combined, the Legislatively Approved Budget (LAB) expenditures and the stable enrollment forecast generate a recommended medical plan assessment rate of $5.36 PMPM. In forecasting, we normally include a slightly negative forecast to be reasonably sure that we do not underfund programs. The calculation under this assumption is $5.96 PMPM.
- There continues to be uncertainty about future enrollment.
- One of the department's financial goals is to maintain rate stability. With the current information, retaining the current assessment rates is reasonable.

Assessment rate history

The table below shows the history of the Marketplace assessment rates. The CY 2014 and CY 2015 rates were set by Cover Oregon. The CY 2016 rates were set jointly by Cover Oregon and DCBS because they were done early in 2015, before SB 1 transferred control to DCBS.

History of assessment rates

	2014	2015	2016	2017	2018
Medical PMPM	$9.38	$9.66	$9.66	$6.00	$6.00
Dental PMPM	$0.93	$0.97	$0.97	$0.57	$0.57

Last year, the advisory committee discussed two options. The first option was to assume enrollment would remain stable; this implied that the medical assessment rate could be lowered to $4.50 PMPM. The alternative was to maintain the assessment rates for a year to see what would happen to enrollment. The committee's concern was that changes at the federal level would lead to a sharp decline in enrollment late in CY 2017. The decision was to keep the rates unchanged.

The table shows that CY 2017 results were very close to those in the forecast developed after the advisory committee meeting.

Comparison of the April 2017 forecast with CY 2017 actuals
average member months

Medical plan enrollment forecast	April 2017 forecast	Actual	% difference
Ave enrollment per month	128,525	126,768	-1.4%
Ave premium	$467	$468	0.2%
Stand-alone dental plan enrollment forecast			
Ave enrollment per month	17,470	18,322	4.9%
Ave premium	$33.46	$32.45	-3.0%

Current spending projections

The following table shows the actual and planned expenditures used for the analysis. The table shows actual expenditures for FY 2016 and FY 2017. The FY 2017 figure understates true operating expenditures because it includes a $2.2 million reimbursement for IT contracts that is recorded as a reduction of expenditures in accordance with the Oregon Accounting Manual. The FY 2018 and FY 2019 figures are anticipated expenditures derived from the 2017-2019 LAB. The FY 2018 figure includes actual expenditures for the first quarter of FY 2018, so it is lower than the LAB amount. We assume that FY 2020 expenditures will be 3.6 percent higher than FY 2019, and FY 2021 expenditures will be 3 percent higher.

The decrease in expenditures between FY 2016 and FY 207 is due to reductions in legal fees related to Cover Oregon and Oracle lawsuit and decreases in technology fees related to the transition from Cover Oregon to DCBS. Also as discussed above, the Marketplace was

reimbursed a significant amount of money in FY 2017 for expenditures partially incurred in FY 2016.

The increase in expenditures from FY 2017 to FY 2018 is due to the reductions of expenditures related to IT costs in FY 2017, as detailed above. Additionally, FY 2018 consists of three months of actuals and nine month of expenditures equal to the LAB, and FY 2019 is solely based on the LAB. During the first months of the biennium, the Marketplace has spent less than allowed under the LAB, however, DCBS anticipates future expenditures will be closer to LAB.

With these expenditures, the program should collect $8.2 million in revenue on CY 2019 to cover these expenditures.

Marketplace expenditures
CY 2016-2017 actuals and FY 2018-2021 forecast

	Marketplace expenditures	Shared services	Total expenditures
FY 2016	$11,710,503	$474,266	$12,184,769
FY 2017	$4,570,408	$521,606	$5,092,014
FY 2018	$5,580,792	$436,075	$6,016,867
FY 2019	$7,578,043	$507,546	$8,085,589
FY 2020	$7,826,945	$550,108	$8,377,054
FY 2021	$8,051,254	$566,446	$8,617,700

FY 2018 runs from July 2017 through June 2018.
FY 2016-2017 figures are actuals. FY 2018 has one quarter of actuals and three quarters of forecast expenditures. FY 2019 - 2021 are forecast expenditures.

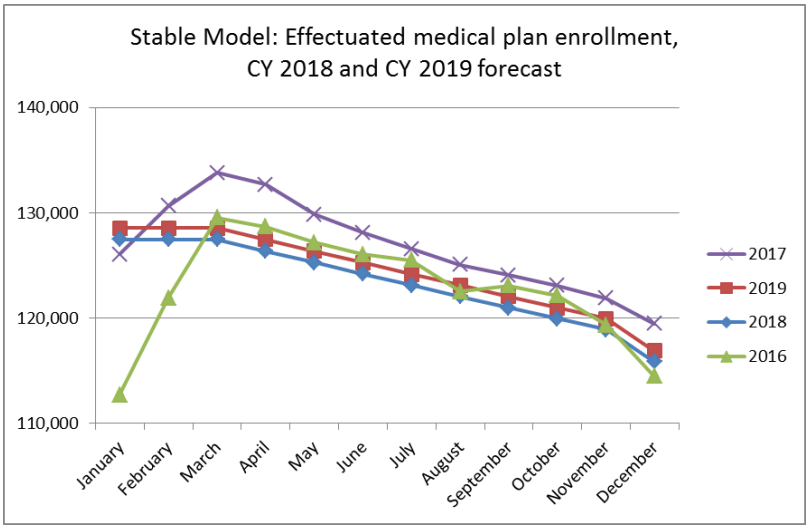
Marketplace medical-plan enrollment forecast

The assessment rate needed to fund the Marketplace's operations largely depends on the individual medical plan enrollment in CY 2018, CY 2019, and later years. Uncertainty at the federal level causes uncertainty about the enrollment forecast.

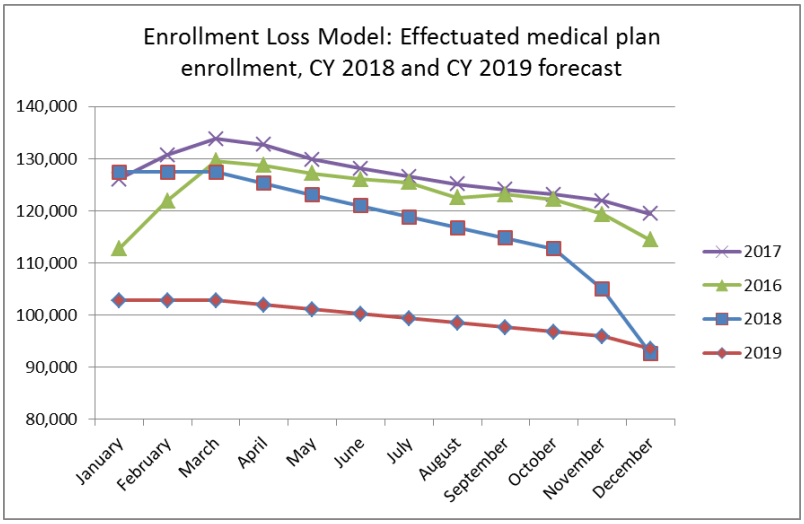
The next figure illustrates the actual enrollment for FY 2016 and CY 2017 and a forecast for CY 2018 and CY 2019. In the past, the sign-up period extended into the new year, so the peak enrollment was reached in March. Because of the shorter enrollment period for CY 2018, we assume the CY 2018 peak will be in January.

We are currently assuming that effectuated enrollment for January is about 127,500. The insurers reported 123,600 individual to OHIM in their January billing report and 138,700 individuals to DFR for their latest data call. We will revise the forecast for several months as new data becomes available.

We assume CY 2019 enrollment will be about 1 percent higher than in CY 2018. This is the growth rate of the under-65 Oregon population. We also assume that the future enrollment growth rate will continue to match the population growth rate.



As mentioned, there is uncertainty about future enrollment in the individual market. The next figure illustrates a scenario in which individuals begin to drop their enrollment and the December 2018 enrollment is 20 percent lower than forecast in the stable model. The financial outcomes from this enrollment loss model will be shown as an example of what might happen.



Individual medical plan assessment revenue

The following table shows the revenue generated by combinations of individual medical plan enrollment and assessment rates. Under the stable model, the monthly enrollment forecast for CY 2019 is about 124,300 members. An assessment rate of $6.00 PMPM would generate $9.0 million in revenue. With the same enrollment, a $5.50 PMPM would generate $8.2 million. If the average enrollment were 10 percent lower than forecast, the $6.00 PMPM would generate $8.1 million; if the enrollment were 20 percent lower (the enrollment loss scenario), the $6.00 PMPM would generate $7.2 million.

CY 2019 revenue ($ millions) from selected medical plan enrollments and assessment rates

Ave monthly enrollment	PMPM assessment rates							Equilibrium rates
	$7.00	$6.50	$6.00	$5.50	$5.00	$4.50	$4.00	
Forecast + 30%	$13.6	$12.6	$11.6	$10.7	$9.7	$8.7	$7.8	$4.13
Forecast + 20%	$12.5	$11.6	$10.7	$9.8	$9.0	$8.1	$7.2	$4.47
Forecast + 10%	$11.5	$10.7	$9.8	$9.0	$8.2	$7.4	$6.6	$4.88
Forecast = 124,323	$10.4	$9.7	$9.0	$8.2	$7.5	$6.7	$6.0	$5.36
Forecast - 10%	$9.4	$8.7	$8.1	$7.4	$6.7	$6.0	$5.4	$5.96
Forecast - 20%	$8.4	$7.8	$7.2	$6.6	$6.0	$5.4	$4.8	$6.71
Forecast - 30%	$7.3	$6.8	$6.3	$5.7	$5.2	$4.7	$4.2	$7.66

In our financial modeling, we define the "equilibrium rate" as the assessment rate needed to cover a year's expenditures. As mentioned, CY 2019 expenditures total about $8.23 million. The dental plan assessment and investment income will generate about $230,000, so the medical plan assessment will need to generate about $8.0 million. The right-hand portion of the table shows the equilibrium rates for the various enrollment forecasts. If the CY 2019 stable enrollment forecast is correct, the equilibrium rate for these expenditures is $5.36 PMPM. If enrollment were 20 percent less than forecast, the equilibrium rate would be $6.71 PMPM.

In setting the department's assessment rates, we usually model the financial outcomes of a somewhat pessimistic scenario. This is done to ensure that the department can fund its operations if there is a moderate economic turndown. Here, a somewhat pessimistic scenario might be a 10 percent reduction in enrollment. Under this scenario, the equilibrium rate would be $5.96 PMPM.

Statutory cap on the Marketplace account balance

ORS 741.105 (3) sets a cap on the Marketplace's fund balance. The process for applying the statutory cap is defined in OAR 945-030-0020(9). If, at the end of each biennium, the fund balance exceeds the account balance cap, the amount of the difference will be applied to insurers' future assessments as a credit. The formula is

> Balance = Marketplace account as of the end of the biennium (the COFA and SHIBA accounts are excluded)
>
> Cap = ¼ of the next biennium' s Marketplace Legislatively Approved Budget (LAB) and accompanying Shared Services costs
>
> Rebate = Balance – Cap, if the Balance is larger than the Cap

The rebate is to be applied to the assessment as a credit. However, HB 2391 (2017) changed that for the 2017 rebate. The rebate amount of $13.2 million was transferred to the Health System Fund.

Our financial model produces estimates of future rebates. These will be shown in the tables in the section on the financial outcomes.

In the future, if there is a rebate, the current OAR states it will be paid as a credit to the insurers participating in the Marketplace when the credit is calculated. An insurer's portion of the rebate will be its percentage of the assessment paid by the participating insurers during the 2017-2019 biennium.

Marketplace financial outcomes

The following table summarizes the forecast financial outcomes with the stable enrollment model, expenditures, a medical assessment rate of $6.00 PMPM, and a dental assessment rate of $0.57 PMPM.

The table shows that this financial outcome is stable. The revenue is somewhat higher than the total expenditures (including shared services expenditures), and there would be rebates at the end of each biennium.

Summary of financial outcomes

Stable enrollment model, $6.00 PMPM

FY end	Total expenditures	Total revenue	Fund balance	Forecast credit
FY 2016	$12,184,769	$20,630,447	$8,445,679	
FY 2017	$5,092,014	$11,773,092	$15,127,455	($13,200,656)
FY 2018	$6,016,867	$9,054,691	$4,964,623	
FY 2019	$8,085,589	$9,124,337	$6,003,371	($2,477,757)
FY 2020	$8,377,054	$9,251,918	$5,028,192	
FY 2021	$8,617,700	$9,322,223	$5,105,001	($856,312)

The next table summarizes the financial outcomes of the enrollment loss model. In this case, the revenue would be lower than the expenditures, and the fund balance would become negative by the end of FY 2022. There would still be a rebate of $1.15 million at the end of FY 2019.

Summary of financial outcomes

Enrollment loss model, $6.00 PMPM

FY end	Total expenditures	Total revenue	Fund balance	Forecast credit
FY 2016	$12,184,769	$20,630,447	$8,445,679	
FY 2017	$5,092,014	$11,773,092	$15,127,455	($13,200,656)
FY 2018	$6,016,867	$9,015,223	$4,925,155	
FY 2019	$8,085,589	$7,839,213	$4,678,780	($1,153,165)
FY 2020	$8,377,054	$7,413,796	$2,854,499	
FY 2021	$8,617,700	$7,436,403	$1,381,060	$0

Federal exchange technology charges

The federal technology charges are separate from the assessment and are paid directly by insurers to the federal government. Therefore, they affect neither revenue nor expenditures. The amount of the federal technology charge is 1.5 percent of premium in CY 2017, 2 percent in CY 2018, and 3 percent thereafter.

The CY 2017 costs were estimated to be about $10.8 million, which is equivalent to a charge of $7.02 PMPM on medical plans. This will increase to $26.2 million and a $17.39 PMPM charge on medical plans in CY 2019.

Summary

The following table provides a summary by calendar year using the stable enrollment forecast, the expenditures, the federal technology charges, and the continuance of the current assessment rates. Given these assumptions, the Marketplace assessment would be about 1 percent of the average premium in CY 2019, the federal technology charges would be 3 percent, so the total costs would be about 4 percent of the average premium.

The table shows that we would expect CY 2018 medical plan enrollment to be 2.8 percent lower than in CY 2017, followed by small increases. The table also shows the average premium for medical policies. The average increased by 25 percent in CY 2017 to $468. An OHIM estimate for the CY 2018 increase is about 13 percent. We have estimated increases of 10 percent and 6 percent for the next two years.

The table also shows our stand-alone dental plan forecast. We do not know how dental plan enrollment will grow, so we assume a growth rate of about 1 percent per year. This is the assumed growth in the under-65 population. We assume that the average premium will increase 3 percent per year; this is a bit higher than the average for the past two years.

Medical plans summary, assuming no assessment rate change

	2014	2015	2016	2017	2018	2019	2020	2021
Average enrollment	58,307	91,302	122,753	126,768	123,254	124,323	125,318	126,266
Total premiums ($ millions)	$228.3	$364.6	$550.9	$711.9	$779.3	$864.6	$923.8	$977.4
Ave premium	$326	$333	$374	$468	$527	$580	$614	$645
Assessment rate	$9.38	$9.66	$9.66	$6.00	$6.00	$6.00	$6.00	$6.00
Assessments ($ millions)	$6.6	$10.6	$14.2	$9.1	$8.9	$9.0	$9.0	$9.1
Rate as % of ave premium	2.9%	2.9%	2.6%	1.3%	1.1%	1.0%	1.0%	0.9%
Federal tech. charges ($ millions)				$10.7	$15.6	$25.9	$27.7	$29.3
Fed. as % of ave premium				1.5%	2.0%	3.0%	3.0%	3.0%

Dental plans summary, assuming no assessment rate change

	2014	2015	2016	2017	2018	2019	2020	2021
Average enrollment	10,070	13,917	16,103	18,322	18,518	18,679	18,828	18,970
Total premiums ($ millions)	$3.3	$5.2	$6.4	$7.1	$7.4	$7.7	$8.0	$8.3
Ave premium	$27	$31	$33	$32	$33	$34	$35	$37
Assessment rate	$0.93	$0.97	$0.97	$0.57	$0.57	$0.57	$0.57	$0.57
Assessments ($ millions)	$0.112	$0.162	$0.187	$0.125	$0.127	$0.128	$0.129	$0.130
Rate as % of ave premium	3.4%	3.1%	2.9%	1.8%	1.7%	1.7%	1.6%	1.6%
Federal tech. charges ($ millions)				$0.107	$0.149	$0.232	$0.240	$0.249
Fed. as % of ave premium				1.5%	2.0%	3.0%	3.0%	3.0%

Medical and dental combined, with no assessment rate change

	2014	2015	2016	2017	2018	2019	2020	2021
Total premiums ($ millions)	$231.545	$369.849	$557.264	$719.077	$786.694	$872.344	$931.850	$985.682
Total assessments ($ millions)	$6.675	$10.746	$14.417	$9.253	$9.001	$9.079	$9.152	$9.221
Total fed. charges ($ millions)				$10.786	$15.734	$26.170	$27.956	$29.570
Assessment and fed. charges ($ millions)	$6.675	$10.746	$14.417	$20.039	$24.735	$35.249	$37.107	$38.791
Total % of ave premium	2.9%	2.9%	2.6%	2.8%	3.1%	4.0%	4.0%	3.9%

Portions of ORS 741.105 Charges and fees to be paid by insurers and state programs

(1) The Department of Consumer and Business Services shall establish, by rule, an administrative charge. The department shall impose and collect the charge from all insurers and state programs participating in the health insurance exchange. The Health Insurance Exchange Advisory Committee shall advise the department in establishing the administrative charge. The charge must be in an amount sufficient … to pay the administrative and operational expenses of the department ….

(2) Each insurer's charge shall be based on the number of individuals … who are enrolled in health plans offered by the insurer through the exchange….

(3)(a) If charges collected under subsection (1) of this section exceed the amounts needed for the administrative and operational expenses of the department in administering the health insurance exchange, the excess moneys collected may be held and used by the department to offset future net losses.

(b) The maximum amount of excess moneys that may be held under this subsection is the total administrative and operational expenses of administering the health insurance exchange anticipated by the department for a six-month period. Any moneys received that exceed the maximum shall be applied by the department to reduce the charges imposed by this section.

Portion of Division 30 Administrative Charge for Operating Expenses

945-030-0020 Establishment of Administrative Charge Paid by Insurers

(1) After consulting with the advisory committee… the Marketplace will annually provide a report on administrative charges to the Director of the Department of Consumer and Business Services.

(2) The report will be posted on the Marketplace's website for public review and comment.

(3) At a minimum, the report will include:

(a) A projection of Marketplace operating expenses, including the Marketplace's share of the department's shared services expenses and operating expenses borne by the Marketplace and reimbursed by another agency, based on the department's budgets, assuming for this purpose that the operating expenses in any actual or expected biennial budget are distributed evenly over the biennium;

(b) A projection of Marketplace enrollment for the next calendar year; and

(c) A proposed administrative charge for the next calendar year.

(4) The department will hold a public hearing on a proposed administrative charge.

(9) By the 30th day of September of every odd year, the department shall:

(a) Calculate the maximum amount of funds that the department may hold under ORS 741.105(3)(b) by calculating:

(A) The Marketplace's fund balance as of the 30th day of the immediately preceding June minus:

(B) One-fourth of the Marketplace's budgeted operating expenses for the two-year period beginning on the first day of the immediately preceding July and ending on the 30th day of June of the following odd year;

(c) Credit each individual carrier participating in the Marketplace an amount equal to the pro-rata share of any positive difference obtained from the calculation described in paragraph (9)(b) of this rule based on the total assessments the carrier paid to the department during the two-year period described in paragraph (9)(a)(A) of this rule plus the pro-rata share of the total assessments paid during the two-year period described in paragraph (9)(a)(A) of this rule by carriers no longer selling qualified health plans through the Marketplace.