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Minnesota Comprehensive Health Association

Minnesota Premium Security Plan
2018 Quarterly Results for MPSP

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Introduction

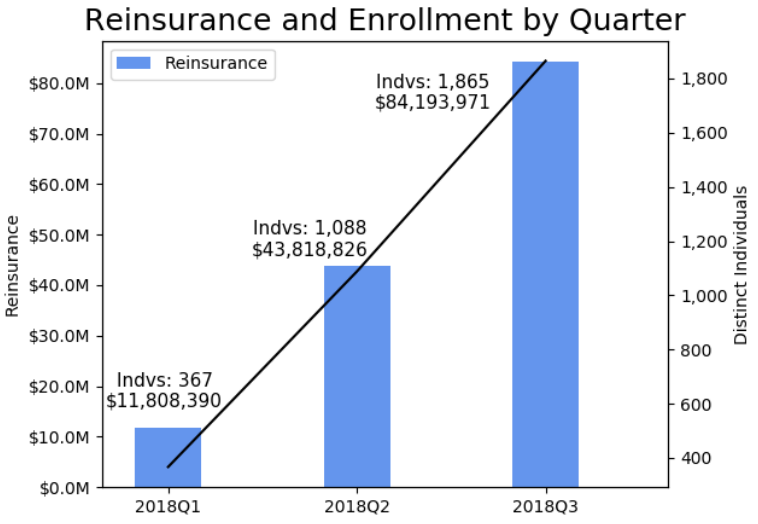
The Minnesota Comprehensive Health Association (MCHA) retained Wakely Consulting Group, LLC (Wakely) to collect data related to the Minnesota state-based reinsurance program (referred to as the Minnesota Premium Security Plan (MPSP)), review the data for reasonability, calculate the reinsurance payments 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 2018 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 September 2018 total $84.2 million for 1,865 distinct individuals. There are approximately 155,000 individuals in Minnesota's Non-Grandfathered Individual Market [1]. The reinsurance in this report does not represent a projection of final 2018 reinsurance. The data underlying this analysis was provided by Minnesota carriers eligible for reinsurance under MPSP. Final reinsurance will be calculated based on benefit year 2018 claims in compliance with Minnesota Statutes §62E.23. As a result, the final reinsurance and member counts will increase, potentially significantly, from the values shown in this report.

The figure to the right shows the calculated reinsurance and distinct membership underlying the report for the first three reports of the MPSP program. Note that each quarter is cumulative. That is, the $11.8 million in the 2018Q1 report is included in the $84.2 million in the 2018Q3 report. The blue bars show the reinsurance calculated in each quarter and the black line represents the distinct members within each report.



The reinsurance in this report understates the final benefit year reinsurance and member counts for several reasons. The first reason is that there are members who will incur enough claims to exceed the attachment point between October and December 2018. The second is that additional runnout for claims incurred between January and September but are paid after October.

[1] Source: https://mn.gov/commerce/media/news/#/detail/appId/2/id/354562

Table One below gives enrollment and reinsurance information underlying the 2018Q3 report.

Table One: 2018Q3 Reinsurance and Membership Counts

Carrier	Reinsurance Amount	Distinct Reinsurance Individuals	Minnesota Statewide Enrollees
Statewide	$84,193,971	1,865	155,000

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

Methodology

Carriers participating in Minnesota's Non-Grandfathered Individual Commercial Market provided Wakely with 2018Q3 claim experience with run-out through October 2018 in a template developed by Wakely. The template included both membership and claim experience at the carrier level. The template also included individual-level data for individuals that carriers identified with claims above the attachment point of $50,000. To be consistent with the Federal Transitional Reinsurance Program, the associated claim must have an incurred date or inpatient discharge date between January 2018 and September 2018. Wakely then aggregated these templates and calculated reinsurance payments using the 2018 reinsurance parameters as described in the Project Overview section of the Administrative Manual. Wakely validated this amount against the carrier provided calculations and the values reconciled.

The individual-level data supplied by carriers accounted for movement between HIOS plans. 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.

Wakely did not make any adjustments to carrier paid amount data.

Analysis

This section provides additional detail for the reinsurance amount shown in Table One.

Reinsurance by First Quarter in Report

The table on the next page further divides Table One into the report when an individual first became eligible for reinsurance. For example, if an individual was in the 2018Q2 report but not the 2018Q1 report, then he or she would be included in the 2018Q2 line. This table illustrates how much of the increase in reinsurance between reports is attributed to individuals first exceeding the attachment point and individuals already exceeding the attachment point incurring additional claims.

Table Two: Reinsurance Amount by Individual First Report[2]

Cohort	Distinct Individuals	2018Q1 Reinsurance	2018Q2 Reinsurance	2018Q3 Reinsurance	Total thru 2018Q3
2018Q1 Report	367	$11,808,390	$11,936,441	$5,907,844	$29,652,675
2018Q2 Report	721		$20,073,995	$16,706,869	$36,780,864
2018Q3 Report	777			$17,760,432	$17,760,432
Total	**1,865**	**$11,808,390**	**$32,010,436**	**$40,137,349**	**$84,193,971**

The new reinsurance for individuals originally in the 2018Q1 report decreased significantly between the 2018Q2 and 2018Q3 reports ($11.9 million to $5.9 million). One cause of this result is the portion of individuals in this cohort that have exceeded the reinsurance cap of $250,000 that are no longer receving reinsurance for additional claims.

Reinsurance by Area

The table below provides the amount of reinsurance split out by Minnesota's rating region. Starting with this report, reinsurance is displayed for all nine regions separately. Reinsurance was reported at the Metro / Non-Metro level in previous reports. The distribution between Metro / Non-Metro has been relatively stable between quarterly reports with a slight shift towards the Metro region. For example, in the 2018Q1 report, approximately 51% of reinsurance was for members in the Metro region. In this report, approximately 58% of reinsurance dollars are in the Metro region.

Table Three: Reinsurance Amount by Area

Rate Region	Reinsurance Amount	Distribution
1 - Olmsted (Rochester)	$8,845,407	11%
2 - St. Louis (Duluth)	$4,345,348	5%
3 - South Central	$5,011,489	6%
4 - South West	$2,823,318	3%
5 - West Central (Chippewa)	$3,597,323	4%
6 - West (Wilkin)	$2,974,932	4%
7 - Central (Crow Wing)	$6,323,365	8%
8 - Metro / St. Cloud	$48,744,661	58%
9 - North West (Kittson)	$1,528,129	2%
Statewide	**$84,193,971**	100%

Reinsurance by Metal Level

The table on the next page 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 individual is expected to pay. The leanest is the bronze plan where the member 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 a member 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 under the age of 30 or who are eligible for hardship exemption.

[2]This is the first time a member appeared in the data submitted by the carrier. The member may have incurred enough claims in an earlier time period to be eligible for reinsurance, but he or she was not included in the data request because of the lag between when the claim was incurred and when it was paid.

Throughout the year, there has been a gradual shift away from the bronze tier into the higher metal tiers. In the 2018Q1 report, approximately 51% of the total reinsurance amount was in the Bronze tier. This has decreased to approximately 47% in the 2018Q3 report.

Table Four: Reinsurance Amount by Metal Tier

Metal Tier	Reinsurance Amount	Distribution
Catastrophic	$299,502	0%
Bronze	$39,676,273	47%
Silver	$23,944,774	28%
Gold	$19,231,311	23%
Platinum	$1,042,111	1%
Total	**$84,193,971**	**100%**

Reinsurance by Exchange Status

Wakely analyzed reinsurance amounts for plans bought on and off the exchange. Since the 2018Q1 report, there has been a slight shift in reinsurance distribution towards the on-exchange market. In the 2018Q1 report, approximately 66% of the reinsurance dollars were from plans sold on the exchange. In the 2018Q3 report, nearly 71% of the reinsurance dollars are from individuals that bought plans on the exchange.

Table Five: Reinsurance Amount by Exchange Status

Exchange Status	Reinsurance Amount	Distribution
On-Exchange	$59,538,778	71%
Off-Exchange	$24,655,193	29%
Total	**$84,193,971**	**100%**

Reinsurance by Plan Type

This section provides reinsurance amounts by plan type. In the Affordable Care Act, individuals and families with incomes between 138% and 400% of the Federal Poverty Limit are eligible 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 member's out-of-pocket cost to approximately 27% (= 1 - 73%) of total medical costs. 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.

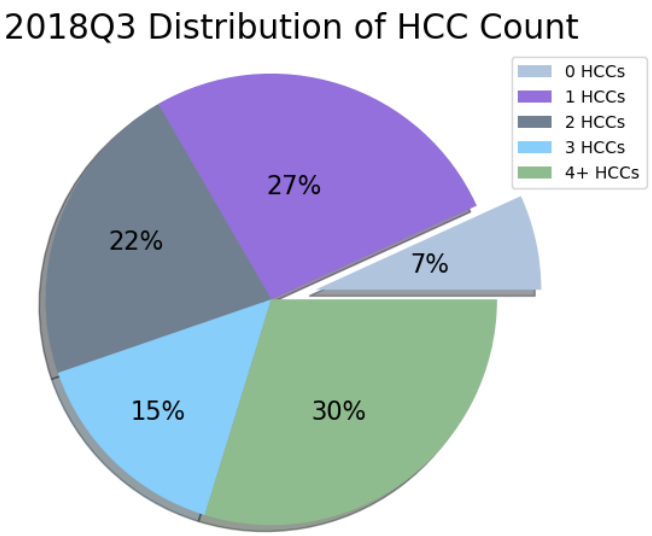
Table Six: Reinsurance Amount by Plan Type[3]

Plan Type	Reinsurance Amount	Distribution
Standard	$75,948,522	90%
Zero Cost Sharing	$310,002	0%
Limited Cost Sharing	$273,443	0%
73% CSR	$7,662,004	9%
Total	**$84,193,971**	**100%**

[3] Values do not add to 100% because of rounding.

Distribution of HCC Count

Minnnesota carriers provided hierarchical condition categories (HCC) data by individual as part of the Wakely data request. HCCs are used by CMS as part of the risk adjustment process that transfers money in the individual market from carriers that enrolled a healther population to carriers that enrolled a sicker population. An individual is assigned to an HCC based on his or her medical diagnostic history. For example, if an individual fractures his or her hip in an accident, the doctor may code the medical claim with a hip fracture diagnosis code. That diagnosis code then identifies that individual in the *Hip Fractures and Pathological Vertebral or Humerus Fractures* condition category (HCC226). On the other hand, there are diagnosis codes that do not map to an HCC. As a result, even though a member may have a claim, he or she may not be assigned to an HCC. Individuals can have more than one HCC in a year. Typically, the more HCCs an individual has, the sicker and more costly he or she is. As a general rule of thumb, approximately 20% of the population is assigned to an HCC. In other words, 80% of the general individual population does not have an HCC. In comparison, only 7% of the reinsurance population does not have an HCC. These individuals may have experienced a tramatic accident with a diagnosis code that is not used in the HCC model or may have diagnosis codes that were not coded correctly. The chart to the right shows the distribution of HCCs for the statewide reinsurance population.



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 partial year of experience with limited runout compared to the claim continuance table.

Wakely reviewed the list of individuals contained in each of the first three quarterly reports. Reports and claims are cumulative so if an individual is in one report, then he or she should also be included in subsequent reports. There were a few individuals that were not in the 2018Q3 report but were included in the 2018Q1 or 2018Q2 report. This result is not unexpected since an individual can change enrollee identifier numbers and show up in different quarters under a different enrollee number. In total, these individuals accounted for approximately 0.5% of total reinsurance amounts.

Cost Sharing Reductions

The Federal Transitional Reinsurance program utilized a complicated formula to reduce a carrier's paid amount to account for the fact that cost-sharing reductions (CSRs) were reflected in plan liability but were reimbursed by the Federal government under a separate program. Since the CSR program ended in 2017, Wakely is assuming that CSR subsidies will not be funded by the Federal government in 2018; therefore, we are not adjusting calculated reinsurance amounts for CSR using the Federal Transitional Reinsurance program methodology. Note that there could be a relatively small portion of plan liability already reimbursed by the federal government due to claims with admission dates prior to the termination of the CSR program and a discharge date after January 1st, 2018. Wakely will 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.

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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