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Minnesota Comprehensive Health Association

Final 2019 Third Quarter Report

Results for The Minnesota Premium Security Plan

December 10th, 2019

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Contents

Introduction

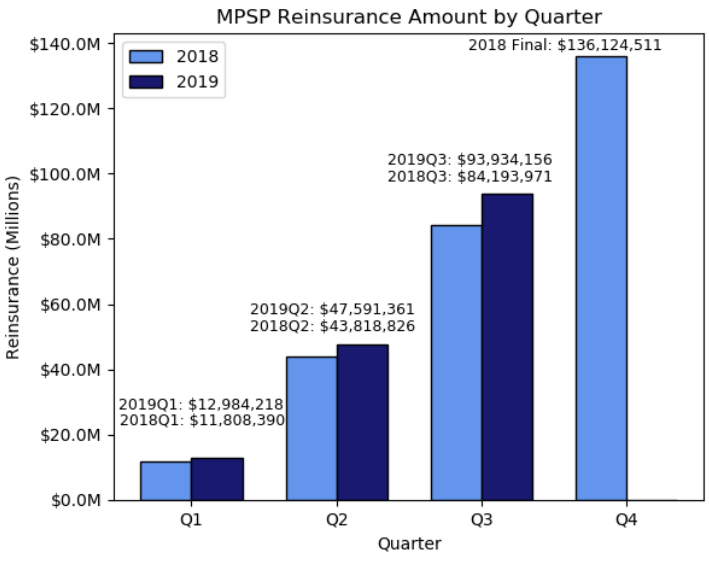
The Minnesota Comprehensive Health Association (MCHA) retained Wakely Consulting Group, LLC (Wakely) to collect data related to the Minnesota state-based reinsurance program (referred to as the Minnesota Premium Security Plan (MPSP)), review the data for reasonability, calculate the reinsurance payments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

This document has been prepared for the use of MCHA and its Board of Directors. Wakely understands that this report will be made public and distributed to stakeholders beyond MCHA and its Board of Directors due to Minnesota Statutes 62E.24. Wakely does not intend to benefit third parties and assumes no duty or liability to other parties who receive this work. The report should be reviewed in its entirety. This document contains the data, assumptions, and methods used in these analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements.

Executive Summary

MPSP reinsurance amounts between January and September 2019 total approximately $93.9 million for 2,061 distinct enrollees. The figure below shows the reinsurance underlying both the 2018 and 2019 quarterly reports. The 2018Q4 reinsurance in the chart reflects the final 2018 reinsurance. The data underlying this analysis was provided by Minnesota carriers eligible for reinsurance under MPSP. The reinsurance amount in this report does not represent a projection of final 2019 benefit year reinsurance.

The total reinsurance in the 2019Q3 quarterly report is approximately 11.6% higher than reinsurance amount from the 2018Q3 quarterly report. There are many reasons reinsurance can change between years. For instance, total medical costs for reinsurers typically increase due to changes in utilization, cost of services, and mix of services. In addition to regular trends, a reinsurer's trends can be impacted by deductible leveraging. Deductible leveraging is illustrated and explained in further detail in the Deductible Leveraging section on page eight of this memorandum. Finally, if the size of the market changes, then so will the number enrollees eligible for reinsurance. This is partially off-set by anti-selection where high-cost individuals have a higher propensity to remain enrolled if premiums increase.



The final reinsurance and enrollee counts will increase significantly from the values shown in this report. Final reinsurance will be calculated based on 2019 benefit year claims in compliance with Minnesota Statutes §62E.23.

Table One provides enrollment and reinsurance information underlying the 2018Q3 and 2019Q3 reports.

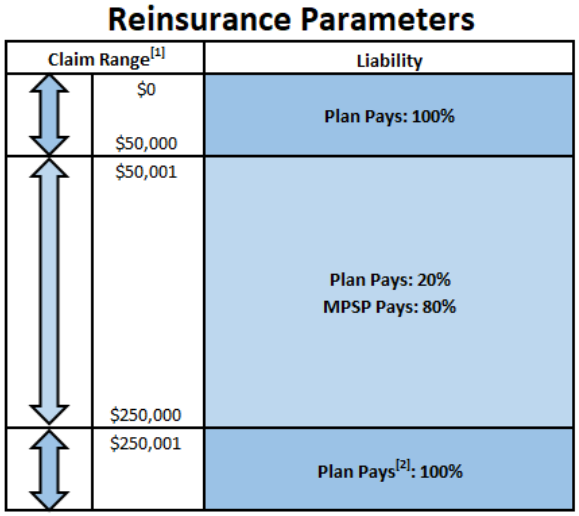
Table One: Reinsurance Amounts and Enrollee Counts

	Distinct Individuals	Reported Reinsurance
Statewide 2019Q3	2,061	$93,934,156
Statewide 2018Q3	1,865	$84,193,971

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

Methodology

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



The enrollee-level data supplied by carriers accounted for movement between HIOS plan identifiers. For example, under certain circumstances, an enrollee might have been enrolled in both a silver and gold plan for a portion of the benefit year. 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 enrollees transferring between cohorts based on incurred claims within that time period. For example if 75% of an enrollee's claims occurred in a silver plan and 25% occurred in a gold plan, then 75% of the reinsurance for the individual was allocated to the silver plan and 25% to the gold plan.

Analysis

This section provides additional detail for the reinsurance amount shown in Table One. The distribution total in the following tables may not add to 100% due to rounding. The 2018Q3 and final 2018 distributions are shown next to the 2019Q3 distribution for reference.

Reinsurance by First Quarter in Report

The table below shows the enrollee count and estimated reinsurance by the quarter an enrollee first became eligible for reinsurance in 2019. For example, if an individual is in the 2019Q3 data template but not the 2019Q1 data template, then he or she is included in the 2019Q3 line. This table illustrates how much of the increase in reinsurance between quarterly 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

		Reinsurance by Quarter			
Cohort	**Enrollees**	**2019Q1**	**2019Q2**	**2019Q3**	**2019 YTD**
2019Q1	393	$12,984,218	$12,201,277	$6,926,065	$32,111,560
2019Q2	752		$22,405,866	$18,218,486	$40,624,352
2019Q3	916			$21,198,244	$21,198,244
Total	**2,061**	**$12,984,218**	**$34,607,143**	**$46,342,795**	**$93,934,156**

Reinsurance by Area

The table in this section shows the amount of reinsurance for each of Minnesota's nine rating regions. The 2019Q3 report indicates that there has been a decrease in the portion of reinsurance in the Metro / St. Cloud region (58% to 53%) and a corresponding increase in Olmsted, St. Louis, South Central, and Central.

Table Three: Reinsurance Amount by Area

Rate Region	**2019Q3 Reinsurance**	**2019Q3 Dist'n**	**2018Q3 Dist'n**	**2018 Final Dist'n**
1 - Olmsted	$12,100,321	13%	11%	10%
2 - St. Louis	$5,366,272	6%	5%	6%
3 - South Central	$7,632,497	8%	6%	6%
4 - South West	$2,844,567	3%	3%	3%
5 - West Central	$3,804,258	4%	4%	5%
6 - West	$3,348,567	4%	4%	4%
7 - Central	$8,076,952	9%	8%	7%
8 - Metro / St. Cloud	$49,232,953	52%	58%	55%
9 - North West	$1,527,770	2%	2%	2%
Statewide	**$93,934,156**	**100%**	**100%**	**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 market which reflect different levels of cost sharing an enrollee is expected to pay. The leanest is the bronze plan where an enrollee can expect to pay for about 40% of his or her total medical costs out of pocket in the form of cost sharing such as deductibles, coinsurance, and copays. The richest plan type is the platinum tier where an enrollee can expect to pay approximately 10% of total costs out of pocket. There is a fifth tier called Catastrophic with enrollment limited to enrollees who are eligible for a hardship exemption or are under the age of 30.

Due to the cost sharing levels of the different metal types, the distribution may shift between metal levels as 2019 completes. There has been an increase in the portion of reinsurance in the Gold metal level in 2019Q3 compared to 2018Q3 (25% compared to 23%).

Table Four: Reinsurance Amount by Metal Tier

Metal Tier	2019Q3 Reinsurance	2019Q3 Dist'n	2018Q3 Dist'n	2018 Final Dist'n
Catastrophic	$454,550	0%	0%	0%
Bronze	$43,084,684	46%	47%	48%
Silver	$25,769,249	27%	28%	29%
Gold	$23,908,555	25%	23%	22%
Platinum	$717,118	1%	1%	1%
Total	**$93,934,156**	**100%**	**100%**	**100%**

Reinsurance by Exchange Status

This section provides the reinsurance based on whether the member purchased coverage through Minnesota's exchange, MNSure, or directly through the issuer. Multiple issuers updated the on- and off-exchange mapping in the data they provided to Wakely between the 2019Q2 and 2019Q3 reports. As a result, the 2019Q3 distribution is not directly comparable to previously published quarterly reports.

Table Five: Reinsurance Amount by Exchange Status

Exchange Status	2019Q3 Reinsurance	2019Q3 Dist'n	2018 Final Dist'n
On-Exchange	$64,296,868	68%	68%
Off-Exchange	$29,637,288	32%	32%
Total	**$93,934,156**	**100%**	**100%**

Reinsurance by Plan Type

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

Table Six: Reinsurance Amount by Plan Type

Plan Type	2019Q3 Reinsurance	2019Q3 Dist'n	2018Q3 Dist'n	2018 Final Dist'n
Standard	$85,737,307	91%	90%	91%
Zero Cost Sharing	$337,663	0%	0%	0%
Limited Cost Sharing	$70,620	0%	0%	0%
73% CSR	$7,788,566	8%	9%	9%
Total	**$93,934,156**	**100%**	**100%**	**100%**

Reinsurance by Claim Spend

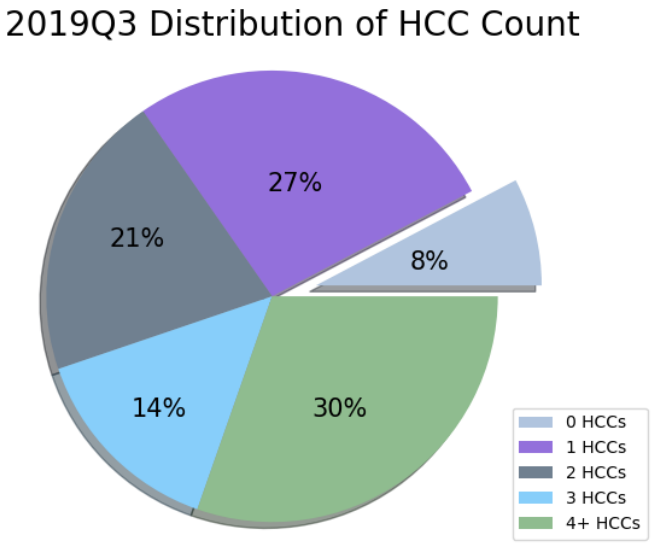
Please see Appendix A for reinsurance by claim spend level.

Distribution of HCC Count

Minnesota 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 healthier population to carriers that enrolled a sicker population. An individual is assigned to an HCC based on his or her medical diagnostic history during the benefit year. 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 an individual 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 Individual Commercial population is assigned to an HCC. In other words, 80% of the general individual population does not have an HCC. In comparison, only 8% of the reinsurance population does not have an HCC. These individuals may have experienced a traumatic accident with a diagnosis code that is not used in the HCC model or may have diagnosis codes that were not coded correctly.

The HCC model is hierarchical and similar conditions are grouped together. For example, diabetes has three HCCs: Diabetes with Acute Complications (HCC019), Diabetes with Chronic Complications (HCC020), and Diabetes without Complication (HCC021). A member with a diagnosis code in both HCC019 and HCC021 would be only classified as HCC019 to avoid double counting. Finally, all diabetic HCCs are grouped together in the Diabetic Group (G01). Similar hierarchies and groupings exist for other conditions.

The chart to the right shows the distribution of HCCs for the statewide reinsurance population. HCC counts and risk scores are dependent on how long an individual is enrolled during the year. An individual with 12 months of enrollment typically has more conditions identified than an individual with 6 months of enrollment. As such, the distribution shown in this report may change in future reports as 2019 completes. Appendix B gives the list of the most prevalent HCCs and groupings during benefit year 2019 for enrollees eligible for reinsurance.



To see the 2018 HCC distribution, please see page 8 of the final 2018 report.

Reinsurance by Product

Appendix C gives the amount of reinsurance and number of claimants that exceeded $50,000 in claims by product and exchange status. To define product, Wakely used the first ten digits of the HIOS plan identifier and requested that issuers provide a product name associated with the product identifier.

For the column labeled *Claimant*, an enrollee may be double counted if he or she transferred between products during the experience period. As a result, the claimant count in Appendix B will not match the enrollee count in Table One. The column labeled *Claimants* reflects "*<100*" for product and exchange-status combinations with less than 100 claimants for protected health information (PHI) reasons. Multiple issuers updated the on- and off-exchange mapping in the data they provided to Wakely between the 2019Q2 and 2019Q3 reports. As a result, the results shown in Appendix C for the 2019Q3 report is not directly comparable to the results shown in the 2019Q2 report.

Deductible Leveraging

In a reinsurance setting, trends for a reinsurer can be higher than the overall cost trend of the reinsured entity due to deductible leveraging. Deductible leveraging occurs when the underlying claim costs for the insurer increases at a rate higher than the increase in the deductible. In context of MPSP, the words attachment point and deductible are synonymous. The example below shows the calculation of liability for an insurance company that has an enrollee with $55,000 in total claims using MPSP's $50,000 attachment point and 20% coinsurance. This example is for illustrative purposes only and does not represent an analysis of the impact of deductible leveraging for MPSP.

Table Seven: Deductible Leveraging Example

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

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

Table Eight: Deductible Leveraging Example – Trended

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

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

Cost Sharing Reductions

The Federal Transitional Reinsurance program utilized a formula to reduce a carrier's paid amount to account for the fact that cost-sharing reductions (CSRs) were reflected in plan paid amount but were already reimbursed by the Federal government. Since the CSR program ended in 2017, Wakely is assuming that CSR subsidies will not be funded by the Federal government in 2019; therefore, Wakely did not adjust calculated reinsurance amounts for CSR using the Federal Transitional Reinsurance

program methodology. If CSR payments are reinstated during 2019, Wakely will review this assumption and work with carriers to ensure that reinsurance payments made to carriers do not exceed the total amount paid by the carrier for any eligible claim pursuant to Minnesota Statute 62E.23.

Data Review

Wakely compared the portion of enrollees 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 enrollees with claims above the attachment point was lower than the expected portion of enrollees 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 claim runout. For example, the enrollee-level dataset excludes enrollees that will exceed the attachment point because of claims that are incurred between October and December 2019.

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 use of the management of MCHA. Wakely understands that the report will be made public and distributed to other stakeholders. Distribution to such parties should be made and evaluated in its entirety. The parties receiving this report should retain their own actuarial experts in interpreting results.

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 for reinsurance year 2019.

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,

Tyson Reed, FSA, MAAA
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Appendix A - Reinsurance Amount by Claim Spend Level

Incurred Claims		Enrollee Count	Average Incurred Claims Per Enrollee	Average Reinsurance Per Enrollee	Aggregate Reinsurance
Low Range	**High Range**				
$50,000	$52,508	129	$51,237	$989	$127,609
$52,508	$58,498	251	$55,459	$4,367	$1,096,113
$58,498	$119,795	1,098	$81,601	$25,281	$27,758,602
$119,795	$200,000	336	$152,012	$81,609	$27,420,755
$200,000	$9,999,999	247	$356,245	$151,948	$37,531,077
Total		**2,061**	**$120,910**	**$45,577**	**$93,934,156**

Notes:

1. Average Reinsurance Per Enrollee = min{(Average Incurred Claims - $50,000) × 80%, $160,000}.
2. The claim intervals originate from the 1332 Waiver Application which have been collapsed to ensure each cohort has at least 100 enrollees.
3. This distribution is expected to change as 2019 completes.

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Appendix B - Enrollee Count by HCC

Limited to HCCs with at least 100 Enrollees

Rank	HCC	HCC Description	Enrollee Count	% of Reinsurance Eligible Enrollees
1	G01	Diabetes	384	19%
2	HCC008	Metastatic Cancer	338	16%
3	G15	Asthma; Chronic Obstructive Pulmonary Disease, Including Bronchiectasis	294	14%
4	HCC130	Congestive Heart Failure	288	14%
5	HCC142	Specified Heart Arrhythmias	277	13%
6	G13	Respiratory Arrest; Cardio-Respiratory Failure and Shock, Including Respiratory Distress Syndromes	241	12%
7	HCC002	Septicemia, Sepsis, Systemic Inflammatory Response Syndrome/Shock	210	10%
8	HCC056	Rheumatoid Arthritis and Specified Autoimmune Disorders	174	8%
9	HCC023	Protein-Calorie Malnutrition	171	8%
10	HCC156	Pulmonary Embolism and Deep Vein Thrombosis	153	7%
11	HCC009	Lung, Brain, and Other Severe Cancers, Including Pediatric Acute Lymphoid Leukemia	149	7%
12	HCC075	Coagulation Defects and Other Specified Hematological Disorders	147	7%
13	HCC012	Breast (Age 50+) and Prostate Cancer, Benign/Uncertain Brain Tumors, and Other Cancers and Tumors	137	7%
14	G02A	Mucopolysaccharidosis; Metabolic Disorders; Endocrine Disorders	135	7%
15	HCC048	Inflammatory Bowel Disease	132	6%
16	HCC253	Artificial Openings for Feeding or Elimination	115	6%
17	HCC120	Seizure Disorders and Convulsions	113	5%
18	HCC088	Major Depressive and Bipolar Disorders	106	5%
19	HCC131	Acute Myocardial Infarction	105	5%
20	HCC118	Multiple Sclerosis	100	5%

Appendix C - Estimated Reinsurance Amount and Claimants by Product

Carrier	Product ID	Product Name	Exchange Status	Claimants[2]	Reinsurance
UCare	85736MN023	UCare Individual and Family Plans	On-Exchange	329	$16,571,630
Medica	31616MN042	Medica Applause	On-Exchange	314	$12,823,185
HealthPartners	34102MN007	GHI AM Off Exchange	Off-Exchange	257	$10,926,513
HealthPartners	34102MN001	GHI On Exchange	On-Exchange	257	$9,961,974
Medica	31616MN044	Engage by Medica	On-Exchange	179	$9,661,427
Blue Plus	57129MN008	Blue Plus Metro	Off-Exchange	135	$5,851,077
Blue Plus	57129MN009	Blue Plus Metro	On-Exchange	127	$5,595,011
Medica	31616MN042	Medica Applause	Off-Exchange	<100	$4,557,931
Blue Plus	57129MN007	Blue Plus Western	On-Exchange	<100	$3,021,702
Blue Plus	57129MN015	Blue Plus Southeast	On-Exchange	<100	$2,996,301
Blue Plus	57129MN006	Blue Plus Western	Off-Exchange	<100	$2,078,450
Medica	31616MN044	Engage by Medica	Off-Exchange	<100	$1,437,654
Blue Plus	57129MN014	Blue Plus Southeast	Off-Exchange	<100	$1,349,584
Blue Plus	57129MN017	Blue Plus Northeast	On-Exchange	<100	$1,182,174
Blue Plus	57129MN052	Blue Plus Strive	On-Exchange	<100	$886,800
Medica	31616MN043	North Memorial Acclaim by Medica	On-Exchange	<100	$778,283
Blue Plus	57129MN016	Blue Plus Northeast	Off-Exchange	<100	$565,038
PreferredOne	88102MN021	Ultimate Choice	Off-Exchange	<100	$506,062
Medica	31616MN045	Altru Prime by Medica	On-Exchange	<100	$434,691
HealthPartners	34102MN008	GHI NAM Off Exchange - HP Ind	Off-Exchange	<100	$414,465
Blue Plus	57129MN051	Blue Plus Strive	Off-Exchange	<100	$410,333
Medica	31616MN020	Medica HSA	Off-Exchange	<100	$386,214
Medica	31616MN021	Medica Value	Off-Exchange	<100	$364,720
Medica	31616MN040	Engage by Medica	On-Exchange	<100	$233,154
Medica	31616MN018	Medica Solo	Off-Exchange	<100	$222,398

Appendix C - Estimated Reinsurance Amount and Claimants by Product

Carrier	Product ID	Product Name	Exchange Status	Claimants[2]	Reinsurance
Medica	31616MN045	Altru Prime by Medica	Off-Exchange	<100	$183,948
PreferredOne	88102MN001	PreferredHealth View	Off-Exchange	<100	$160,000
HealthPartners	34102MN009	GHI NAM Off Exchange - HP Ind Ded	Off-Exchange	<100	$108,853
Medica	31616MN043	North Memorial Acclaim by Medica	Off-Exchange	<100	$105,974
Medica	31616MN038	North Memorial Acclaim by Medica	On-Exchange	<100	$99,741
Medica	31616MN037	Medica Applause	On-Exchange	<100	$50,797
Medica	31616MN040	Engage by Medica	Off-Exchange	<100	$8,075
			Total	**2,074**	**$93,934,156**

Notes:

1. Products with less than 100 claimants are labeled as < 100 due to protected health information (PHI) reasons.
2. The *Claimants* column counts enrollees that transfer between products more than once. As a result, the total claimants in this section differs from the enrollee count shown in Table One.