Utah Health System Reform (Reinsurance Workgroup)

Summary of Survey Results

Troy Pritchett, FSA, MAAA
Principal and Consulting Actuary

September 11, 2012

Milliman

Assessing the 2014 Individual Market

- Considering the magnitude and complexity of the changes in the individual market, accurately pricing the cost of claims is very likely the most challenging actuarial problem ever faced by the actuaries working for the companies doing business in Utah
- On one day, January 1, 2014, the market will potentially increase in size by 50% to 150%
- The new participants will vary from risk pool and group conversion participants that have a known, but very high claim cost, to the uninsured with an unknown level of cost when moved to an insured environment
- The usual tools of underwriting: rate variation by health status, unlimited variation by age, pre-existing condition exclusions or rejection of application for the long term uninsured are unavailable

Assessing the 2014 Individual Market (cont.)

- Risk mitigation procedures: reinsurance, risk adjustment and risk corridors will be created that decrease the risk in some ways but also increase the uncertainty of premium cost since different carriers will have different estimates of the operation and effectiveness of these programs
- Medical loss ratios also limit the upside underwriting gain but do not limit the maximum loss
- Individual premium subsidies will change the economic behavior of thousands of potential enrollees
- Actuaries need to accurately assess the situation because premiums that are too low may lead to considerable losses, while premiums that are too high may lead to dramatic erosion of market share

Milliman

Why Are the Enrollment Estimates So Variable ?

- The net number of enrollees is the sum of additions and subtractions from groups with very different incentives to enroll
- Feedback effects where differences in the expected enrollees will change expected costs and premiums, which in turn changes the expected number of adds and drops leading to a new estimate of costs and premium, etc.
- Major sources of enrollment change:
  – Currently uninsured newly motivated by guaranteed issue at one rate, federal subsidies and individual mandate,
  – Both state and federal Risk pool enrollees newly eligible to the market
  – Employees of small and large employers that are changing benefits in response to the new law
  – Drops in individual market coverage due to Medicaid expansion and excessive premium increases from rate variation restrictions

Survey Predicted Enrollment Change - Typical Ranges

▪ Baseline current enrollment in individual market: 140,000	
▪ Risk pool and group conversion:	6,000 to 9,000
▪ Drop current coverage:	(10,000) to (40,000)
▪ Convert from former employer coverage:	25,000 to 90,000
▪ Newly covered from uninsured:	30,000 to 80,000
▪ Composite totals:	191,000 to 280,000

Milliman

Survey Predicted Enrollment Change - Average Cost Factors

▪ Baseline current enrollment in individual market: Current Average	
▪ Risk pool and group conversion:	3 to 15 times greater
▪ Drop current coverage:	Likely lower claims
▪ Convert from former employer coverage:	Mixed
▪ Newly covered from uninsured:	Mixed
▪ Composite totals:	Unknown

Milliman

How Will Rate Factor Changes Potentially Increase Premiums for Younger and Healthier Enrollees ?

- Age Compression: Impact solely on the youngest age category 10% to 20% increase
- Community Rating: Impact solely on the youngest age category 50% to 60% increase
- High Risk Enrollees: Impact across the entire individual block including the youngest age category 35% to 45% increase
- Normal 1/1/2014 Trend Increase: Impact across the entire individual block including the youngest age category using a normal trend of 8% to 10% increase
- Composite Increase 103% to 135%

Milliman

How Can Reinsurance Mitigate These Risks?

Depending on the design of the reinsurance program it can:

- Reduce extra claims cost from risk pools and group conversion
- Reduce age variation by reinsuring more claims from older enrollees
- Reduce outmigration by decreasing cost of adverse selection under guaranteed issue
- Together with risk adjustment, help protect individual carriers from more risk than market average

Risk adjustment and Reinsurance are far from perfect and cannot reverse all adverse selection effects

It is important that program be transparent, timely and targeted to produce the best stabilization of the individual market

Caveats

These slides are a compilation of information provided by various contributors to the working group.

These slides have been compiled and edited by Troy Pritchett, FSA, MAAA but are not an actuarial work product of Milliman and should not be relied by any party as actuarial estimates.