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New Mexico Office of Superintendent of Insurance (OSI)

Small Group Market Health Insurance Affordability: Reinsurance Analysis

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Introduction

The State of New Mexico's Office of the Superintendent of Insurance (OSI) has engaged Myers & Stauffer and Wakely Consulting Group, LLC ("Wakely") to help the OSI carry out certain responsibilities assigned to the agency in Section 5 of Senate Bill 317 (SB317)[1] of the 2021 regular session of the New Mexico State Legislature. The New Mexico OSI would like to analyze the potential effects of a state-based reinsurance program on the 2023 small group Affordable Care Act (ACA) market. OSI is interested in exploring policy options that will lower small group health insurance premiums for New Mexico residents insured through their employer. OSI requested that Wakely analyze how a potential reinsurance program would impact premiums in 2023, what the potential enrollment would be, and potential reinsurance payment parameters for select funding scenarios.

This document has been prepared for the use of OSI for their discussions during the 2022 regular session of the New Mexico State Legislature. Wakely does not intend to benefit third parties and assumes no duty or liability to those third parties. Any third parties receiving this work should consult their own experts in interpreting the results. This report, when distributed, must be provided in its entirety, and include caveats. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Use of the information in this report for other purposes may not be appropriate.

Summary

Reinsurance programs are designed to decrease premiums for consumers. Under a reinsurance program an issuer is reimbursed for some of the claims for which it previously would have been liable. Consequently, the issuer can lower premiums without incurring losses. While there are several ways to structure a reinsurance program, OSI requested that Wakely model a claims-based reinsurance program under various enrollment and funding scenarios. Under claims-based reinsurance, an issuer is reimbursed a portion of their claims costs (coinsurance mount) above a set threshold (attachment point) and up to a maximum amount (cap).

Before analyzing the impact of a claims-based reinsurance program on the small group market, it is important to first understand the market prior to a reinsurance program being implemented. New Mexico's small group ACA market has had stable carrier participation over the last several years with five issuers offering coverage since 2018, and six starting in 2021. The market size has been declining since 2018 as premiums have increased steadily over time, as can be seen

[1] https://www.nmlegis.gov/Sessions/21%20Regular/final/SB0317.pdf

in Table 1. The average 2022 rate change in the market was estimated to be an 11.5% increase in average premiums per member per month (PMPM), which is a significant increase from prior years.[2] Small group premium rates are significantly higher than the comparable individual market (On Exchange) rates, particularly for bronze and gold plans in New Mexico. Hence, affordability of health coverage in the small group market is an ongoing concern.

Table 1: Historical Experience

Year	Enrollment	% Enrollment Change	Average Premium PMPM[3]	% Premium Change
2018	50,007	N/A	$490	N/A
2019	47,445	-5.1%	$512	4.5%
2020	46,316	-2.4%	$523	2.0%
2021	46,358	0.1%	$535	2.4%

Given the impact of the COVID-19 pandemic on the small group employer market, the slow economic recovery, as well as recent Federal regulatory changes, the enrollment and premiums for the 2023 market prior to reinsurance are uncertain. The 2023 baseline enrollment and premiums scenarios, prior to reinsurance, described in more detail later in the report, are as follows and are intended to create a range of reasonable results:

- Low Estimate
  - Enrollment: This enrollment scenario assumes an ongoing decrease in the small group market enrollment given the 2022 premium increases.
  - Premiums: This scenario also assumes a 5.2% premium increase in 2023, driven by a lower claim cost trend assumption.
- High Estimate
  - Enrollment: This enrollment scenario assumes that market enrollment stays flat from the current 2021 levels, driven by economic recovery as more employees return to the labor force post pandemic.
  - Premiums: The estimated premium increase in 2023 is 8.8%, driven by a higher

[2] Based on the average reported 2022 rate increase in ACA Sign Ups, https://acasignups.net/tags/new-mexico. Wakely estimates an average increase of 9.9% based on a more recent weighting of issuer premiums.
[3] The average premium presented reflects the issuer, demographic, metal and geography mix of enrollees in each year.

claim cost trend assumption.

For the reinsurance program, OSI requested that Wakely model various premium impacts on the individual market. Based on the premium impacts and baseline assumptions, Wakely can estimate the needed funding for the program. The following highlight the key assumptions for the reinsurance modeling.

- Target Premium Reductions[4] for the Program:
    - 5% Premium Reduction
    - 10% Premium Reduction
    - 15% Premium Reduction
- No Program Assessment:
    - Wakely assumed state funding would not rely on an additional premium assessment that would impact small group market premiums.

Table 2 shows a summary of total needed funding for a reinsurance program in New Mexico small group market. The ranges illustrate that the estimates will vary depending on the level of premium reduction sought, and the enrollment assumptions. The total amount of funding for the program would be the responsibility of the state[5].

Table 2: 2023 Range of Results

Funding Level	5% Premium Reduction	10% Premium Reduction	15% Premium Reduction
Total Funding (in millions)	$15.0 to $16.3	$30.2 to $32.8	$45.9 to $49.6

The following three sections provide additional information on the detailed results and methodology for the premium impacts, enrollment impacts, and reinsurance parameters for the various scenarios.

[4] Premium reductions refer to the change in premiums compared to what they would have been without the reinsurance program. They are not the expected premium change from 2021 to 2023.
[5] Please note that this differs from how reinsurance programs are typically funded in the individual market, where the program can be partially funded through federal pass-through funding.

Premium Impacts

Reinsurance is a program that protects issuers against high claim costs for enrollees. A state-based reinsurance program is operated by the state and provides reinsurance to the issuers in the small group ACA market with the primary goal of lowering premiums. The analysis estimated state costs and specific reinsurance parameters of a claims-based reinsurance program based on various levels of targeted reduction in premiums (5%, 10%, and 15%).

Wakely did not assume any carrier assessment in the funding for the program. Wakely further assumed all reinsurance funds would be allocated to paying claims (that is, none would be allocated to administering the program).[6] If an assessment is needed to fund the program, the amount of total and state funding that is needed to achieve similar premium reductions would increase since the assessment would partially offset the reduction in premium as a result of the reinsurance program in the small group market.

Estimates of the 2023 benefit year rely heavily on the 2019, 2020, and emerging 2021 experience. The following table shows the projected 2023 enrollment and premium by scenario.

Table 3: Enrollment and Premium Projections 2023 Baseline

	2023 Low	2023 High
Enrollment (Lives)	44,096	46,358
Enrollment (Member months)	529,154	556,301
Average Premium PMPM	$618	$640

Appendix A includes the methodology and data sources for the 2019 through 2021 benefit years as well as further assumptions used to estimate the 2021 through 2023 experience.

Table 4 below shows the estimated 2023 funding levels relative to baseline by premium reduction scenario. The funding levels show how much total funding is required to lower premiums (i.e., by 5%, 10%, and 15%). Premium reductions are displayed relative to what they otherwise would have been absent reinsurance. The table does <u>not</u> reflect 2023 premium changes relative to 2021.

[6] Wakely did not analyze administrative costs for the program in this report.

Table 4: Total Funding Level of Reinsurance Needed by Enrollment Scenario (in millions)

Premium Reduction	5%	10%	15%
Low Scenario	$15.0	$30.2	$45.9
High Scenario	$16.3	$32.8	$49.6

As expected, larger reductions in premiums require larger funding for the reinsurance program. Appendix B includes more detail on the calculations supporting the premium and enrollment impacts.

As a rough approximation, we estimate that for every additional 5% reduction in target premiums will require approximately $15 to $16.5 million dollars more in total funding. Given the modest impact on the corresponding market enrollment (ranging from 400 to 1,200 members, or a 1% to 3% increase), the reinsurance program's key value is in increasing premium affordability, and not in increasing market enrollment.

Note that a reinsurance program lowers premiums, not just for new enrollees, but for the entire market of enrolled members, or an estimated 44,000 to 46,000 individuals enrolled through the small group market.

Reinsurance Parameters

If New Mexico decides to pursue a state-based reinsurance program, reinsurance parameters can be developed to match the targeted premium reduction and available funds. For illustrative purposes, Wakely is including examples of what the parameters may look like. The parameters in Tables 5A and 5B were developed based on the two enrollment and premium scenarios.

Wakely considered the following when determining reinsurance parameters for the two funding levels:

- A cap of no more than $1 million should be used to avoid overlap with the HHS risk adjustment methodology's high cost pooling reimbursement, which has an effective attachment point of $1 million in 2022.
- Issuers may have private reinsurance that needs to be considered to avoid overlap of private and state-funded reinsurance. Private reinsurance typically has relatively high attachment points, but any overlap should be confirmed before New Mexico finalizes any parameters. To avoid this potential overlap, Wakely used a maximum cap of $100,000.
- Ideally, coinsurance would be between 50% and 80% to incentivize issuers to continue to manage the care of the high cost individuals.

- Where appropriate, higher coinsurance amounts were used to avoid having an unreasonably low attachment point or excessively high caps.

Table 5A: Reinsurance Parameters for Low Scenario

Target Premium Reduction	Attachment Point	Cap	Coinsurance
5%	$26,500	$50,000	50%
10%	$31,000	$79,000	70%
15%	$28,000	$100,000	80%

Table 5B: Reinsurance Parameters for High Scenario

Target Premium Reduction	Attachment Point	Cap	Coinsurance
5%	$26,500	$50,000	50%
10%	$31,000	$78,500	70%
15%	$28,000	$97,000	80%

It is important to note that small group issuers may be affected differently by reinsurance. Issuers with relatively higher claims costs will receive relatively more reinsurance payments. However, since premiums will be lower, the risk adjustment transfers will also be lower on a per member per month (PMPM) basis, which somewhat offsets the variation by issuers. That is, issuers with high cost members will tend to get more reinsurance and will also likely receive risk adjustment receivables, but those receivables will decrease slightly due to a lower statewide average premium. Conversely, issuers with lower cost members will receive less reinsurance dollars but their risk adjustment payable may decrease as part of the reinsurance program.

While the reinsurance program will reduce total risk adjustment transfers, some enrollees with Hierarchical Condition Categories (HCCs) will get compensated both for risk adjustment and reinsurance. The result could be very different profitability patterns within the market than currently exists, although this is less likely the lower for the smaller reinsurance program scenarios. The ultimate impact of reinsurance by issuer will vary depending on the chosen funding level and reinsurance parameters. Table 6 summarizes the range of values across issuers and two enrollment scenarios of the percentage of claim costs that would be reimbursed by the reinsurance program.

Table 6: Range of Reinsurance Recovery by Issuer

Range of Values	5% Premium Reduction	10% Premium Reduction	15% Premium Reduction
Percent of Claim Cost Reimbursed by Reinsurance Program by Issuer	4.5% to 6.3%	9.8% to 12.8%	14.6% to 19.4%

These impacts are only the reinsurance claims over total claims by issuer. Premium impacts by issuer may vary significantly from these numbers due to multiple factors:

- Issuer estimates may vary from these estimates. Additionally, some issuers may add conservatism into their estimates. OSI should ensure that the value of the program is being included in the rates of issuers as part of their rate review process.
- Risk adjustment. As noted prior, changes in the statewide average premium will impact risk adjustment transfers which will further impact premiums under the reinsurance program.
- Non-benefit expenses. To the extent issuer have fixed non-benefit expenses (for example, fixed administrative costs), those will not decrease due to the reinsurance program. This tends to mute the impact of the reinsurance program, but the amount will vary by issuer.

One goal of setting the parameters may be to set the parameters to limit variability by issuer. This ensures that the reinsurance program does not change the market dynamics in terms of the competitive landscape. If New Mexico pursues a reinsurance program, OSI should review various parameter options to find one that meets the various goals of the state.

Appendix A: Data and Methodology

1. Using publicly available data and data from the issuers (see Appendix C, Reliances and Caveats), estimates were made for 2021 to 2023 average enrollment without a reinsurance program (baseline).

2. Given the uncertainties in estimating market enrollment from 2021 to 2023, we analyzed two scenarios that have varying enrollment and premium assumptions to create a range of low and high funding estimates. Consequently, Wakely used these two enrollment and premium scenarios to examine the effect of reinsurance on New Mexico's small group market. The following indicates the enrollment assumptions for each of the low and high scenarios.

    a. Low Scenario: The first enrollment scenario assumed an ongoing decrease in the small group market enrollment consistent with the average decrease in market enrollment from 2018 to 2021, which was calculated to be -2.5% per year in 2022 and 2023.

    b. High Scenario: The second enrollment scenario assumes that market enrollment stays flat from the current estimated 2021 levels, driven by economic recovery as more employees return to the labor force post pandemic.

3. 2023 Statewide average premium: Wakely estimated 2023 average premium per member per month by projecting 2023 average claim costs and administrative expenses. First, Wakely projected 2023 average claim cost using 2019 and 2020 statewide claim cost experience along with issuer specific trends rates as reported in the 2022 Unified Rate Review Template (URRT) public use files to develop a range of plausible claim cost trends from 2022 to 2023 for each enrollment scenario. Wakely also analyzed 2021 and 2022 statewide average administrative costs (fixed per member per month amounts, and percent of premium variables amounts) from URRT to project these costs into 2023.

    a. The estimated market-wide 2022 average premium was based on the average of issuer projected average premiums from 2022 URRT public use files.

    b. Low Scenario: The estimated market-wide 2023 average premium was $618 PMPM, 5.2% higher than the market average estimated 2022 premium of $578 PMPM.

    c. High Scenario: The estimated market-wide 2023 average premium was $640 PMPM, 8.8% higher than the market average estimated 2022 premium of $578 PMPM.

Please note that we did not assume an enrollment mix change in 2023 between issuers. To the extent that there are new issuers in 2023 market (e.g., Friday Health Plans) with more or less competitive premiums, the market average premium would be impacted be member plan migration.

4. 2023 Statewide reinsurance recovery: Wakely collected 2019 and 2020 summary data from each New Mexico carrier in the small group market. In both years of continuance data from all issuers, only 0.5% of enrollees have claims exceeding $100,000 and only 0.2% have claims exceeding $200,000. The data was adjusted to 2023 using the following steps:

    a. The first adjustment was to adjust the 2019 and 2020 claim experience to account for the enrollment differences between 2020 and post-reinsurance estimate for 2023. First, Wakely projected 2023 average claim cost using 2019 and 2020 statewide claim cost experience along with issuer specific trends rates as reported in 2021 Unified Rate Review Template (URRT) public use files. Each claim bucket in the continuance table was trended at the same rate. The following annualized claim cost trends that were used in this analysis for each scenario are summarized in Table A1.

    b. We used two years of experience for this analysis to ensure that the more recent experience from 2020 experience year was not significantly dampened by the pandemic related utilization suppression that was generally observed during second and third quarters of 2020.

    c. Given that the coverage enrollment decision is at employer's discretion, a lower level of member selection is expected. As a result, we did not assume a change in market morbidity in 2023. To the extent the actual morbidity impact differs from what Wakely has included in this analysis, the resulting reinsurance parameters will be impacted.

    d. Finally, the adjusted continuance tables (projected to 2023) were used to estimate the projected reinsurance recovery amounts under three reinsurance parameter scenarios targeting 5%, 10% and 15% decrease in premiums. The associated reductions in claim costs ranged from 5.7% to 17.3% for the entire market, with greater variance by issuer ranging from 4.5% to 19.4%. In general, while some issuers are expected to recover relatively higher or lower reinsurance amounts due to the differences in morbidity, no large disparities were observed under any reinsurance parameter scenarios.

To calculate the effects of reinsurance payments on market enrollment, we estimated the increase in enrollment that would result from the lower premiums using CBO take-up function that estimates enrollment reactions to premium changes in group markets.[7] The enrollment impacts

[7] https://www.cbo.gov/system/files?file=2019-01/54915-New_Rules_for_AHPs_STPs.pdf

differed by the reinsurance parameter scenarios and ranged from an increase of 0.9% to 2.8%.

Table A1: Annualized Claim Cost Trend Rates

Trend Time Period	Trend per Year	Source
2019 – 2020	3.3%	Actual average trend PMPM from experience
2020 – 2021	6.6%	Prospective average 2020 – 2021 trend from 2022 rate filings
2021 – 2022	7.3%	Prospective average 2021 – 2022 trend from 2022 rate filings
2022 – 2023:		
Low Scenario	3.8%	Average 2019 – 2022 trend, also reduced by 2%
High Scenario	7.3%	Set to 2021 – 2022 trend

Appendix B: Additional Detailed Results

The following table shows the 2019 through 2023 actual and projected enrollment and premiums under the two enrollment scenarios.

Table B1: Enrollment and Premium Projections 2023 Baseline

	2019	2020	2021	2022[8]	2023 Low	2023 High
Enrollment (Average Lives)	47,445	46,317	46,358	45,213	44,096	46,358
Enrollment (Member months)	569,338	555,801	556,301	542,558	529,154	556,301
Average Premium PMPM	$512	$523	$535	$588	$618	$640

The following table shows the process to estimate the enrollment and premium impacts due to the reinsurance program.

Table B2: 2023 Enrollment and Premium Impact Calculations Low Scenario

Scenario	5%	10%	15%
Baseline Before Reinsurance			
Average Members/Lives	44,096	44,096	44,096
Premium without Reinsurance, PMPM	$618	$618	$618
Claim Cost, PMPM	$489	$489	$489
After Reinsurance			
Reinsurance Recovery PMPM	$28.02	$56.05	$84.42
Reinsurance Recovery, % of Claims	5.7%	11.5%	17.3%
Small Group Premium PMPM	$588	$557	$526
Total Premium Impact	-5.0%	-10.0%	-15.0%
Small Group Enrollment	44,501	44,905	45,315
Percent Change in Total Enrollment	0.9%	1.8%	2.8%
Total Premiums (in millions)	$313.8	$300.0	$285.8
Total Program Cost (in millions)	$15.0	$30.2	$45.9

[8] Note that the average premiums presented here reflect the demographic, metal, geographic and issuer enrollment mix for each year, and hence the year-to-year premium increase reflects the mix changes over time and differs from the mix-neutral estimated market average increase of 11.5% in 2022.

Table B3: 2023 Enrollment and Premium Impact Calculations High Scenario

Scenario	5%	10%	15%
Baseline Before Reinsurance			
Average Members/Lives	46,358	46,358	46,358
Premium without Reinsurance, PMPM	$640	$640	$640
Claim Cost, PMPM	$505	$505	$505
After Reinsurance			
Reinsurance Recovery PMPM	$29.01	$58.00	$86.90
Reinsurance Recovery, % of Claims	5.7%	11.5%	17.2%
Small Group Premium PMPM	$608	$576	$544
Total Premium Impact	-5.0%	-10.0%	-15.0%
Small Group Enrollment	46,765	47,171	47,576
Percent Change in Total Enrollment	0.9%	1.8%	2.6%
Total Premiums (in millions)	$341.0	$325.8	$310.4
Total Program Cost (in millions)	$16.3	$32.8	$49.6

Appendix C: Reliance's and Caveats

The following is a list of the data Wakely relied on for the analysis:

- Wakely collected 2019, 2020, and emerging 2021 data from each small group market carrier. The data collected includes:
  - o 2019 and 2020 continuance tables
  - o 2019, 2020 and 2021 (as of July 2021) enrollment and premium information
- 2021 and 2022 submitted rate increases and rate templates[9]
- New Mexico SG market 2021 plan rates[10]
- New Mexico SG market 2022 plan rates and URRTs provided by New Mexico OSI
- 2021 and 2022 New Mexico SG market URRT Public Use Files[11]
- How CBO and JCT Analyzed Coverage Effects of New Rules for Association Health Plans and Short-Term Plans[12]
- Abraham, J., Drake, C., Sacks, D., and Simon, K. (2017). Demand for health insurance marketplace plans was highly elastic in 2014-2015

The following are additional reliance's and caveats that could have an impact on results:

- **Data Limitations.** As discussed above, Wakely collected 2019 and 2020 data from small group market carriers in order to complete this analysis. There were some variances in the data compared to other data sources that were used to check the reasonability of the data; however, the variances were reasonable and not expected to impact the results.
- **Political Uncertainty.** There is significant policy uncertainty. Future federal actions or requirements in regard to continuation of ARP after 2022, ongoing PHE and Medicaid eligibility determination, and economic recovery following COVID-19 pandemic could all influence small group market composition in 2023.
- **Enrollment Uncertainty**. At the time of producing this report, mid-year 2021 enrollment data was available. To the extent 2021 attrition varies significantly from historical rates, the estimates for 2023 will not be accurate. 2023 is additionally uncertain. Beyond changes to potential rates and policy, small group employer responses to these changes also has uncertainty. All of these factors result in uncertainty for estimates on reinsurance

[9] https://www.catalog.state.ct.us/cid/portalApps/RateFilingComment.aspx
[10] https://www.cms.gov/CCIIO/Resources/Data-Resources/marketplace-puf.
[11] https://www.cms.gov/CCIIO/Resources/Data-Resources/ratereview
[12] https://www.cbo.gov/system/files?file=2019-01/54915-New_Rules_for_AHPs_STPs.pdf

parameters. Finally, it is also anticipated that economic changes could influence enrollment in the small group market.

- **Premium Uncertainty**. Given the impact of several regulations (continuation of ARP in 2023, end of PHE, etc.), there is uncertainty in how issuers may respond in their 2023 premium filings and the subsequent impact on enrollment and morbidity costs. These uncertainties result in limitations in providing point estimates.

- **State Funding.** The analysis assumed state funding of the program would not include an assessment affecting small group market premiums. Estimates will differ if an assessment is needed to fund the state portion of the program. For example, total funding would need to be higher than estimated if premium reduction targets were to be maintained.

- **Reinsurance Operations**. If actual operations of the reinsurance program differ from the data configurations used in this analysis, Wakely's analysis would need to be adjusted to match actual reinsurance data requirements.

While Wakely did not analyze future years beyond 2023. Without a reinsurance program in 2024, premiums would be expected to rise commensurate with the impact of reinsurance payments on the 2023 benefit year.

Appendix D: Disclosures and Limitations

Responsible Actuaries. Julie Peper and Ksenia Whittal are the actuaries responsible for this communication. They are Members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to issue this report. Michael Cohen and Alex Jarocki have also made significant contributions to this analysis.

Intended Users. This information has been prepared for the sole use of the management of the New Mexico OSI and cannot be distributed to or relied on by any third party without the prior written permission of Wakely. This information is confidential and proprietary. Wakely does not intend to create a reliance to these outside parties and these materials may not be released to third parties without Wakely's prior written consent, and when consent is granted, the materials should be provided in their entirety. The parties receiving this report should retain their own actuarial experts in interpreting results.

Risks and Uncertainties. Please note that these results are preliminary and are subject to change as we gather input, and potentially refine the modeling methodology and assumptions. 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 our estimates. It is the responsibility of the New Mexico OSI receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. The responsible actuaries are 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 the New Mexico OSI.

Data and Reliance. We have relied on information and data provided by New Mexico OSI, CMS, New Mexico issuers and other public data sources in the analysis. We have reviewed the data for reasonableness but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly.

Subsequent Events. These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. We have not modeled any migration from the individual market into the small group market. Material changes in state or federal laws regarding health benefit plans may have a material impact on the results included in this analysis. Furthermore, changes in state or Federal law were not included in the analysis. The potential impact of COVID-19 was included in the analysis. There are no other known relevant events subsequent to the date of information received that would impact the results of this report.

Contents of Actuarial Report. This document constitutes the entirety of actuarial report and supersedes any previous communications on the project.

Deviations from ASOPs. Wakely completed the analyses using sound actuarial practice. To the best of our 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. 23, Data Quality

ASOP No. 41, Actuarial Communication

ASOP No. 56, Modeling