The Individual Market: Prospects for Stability, the Policy Whirlwind and the Roller Coaster Continues

Hospital Association of Southern California
Big Potential – The Power of Inclusion

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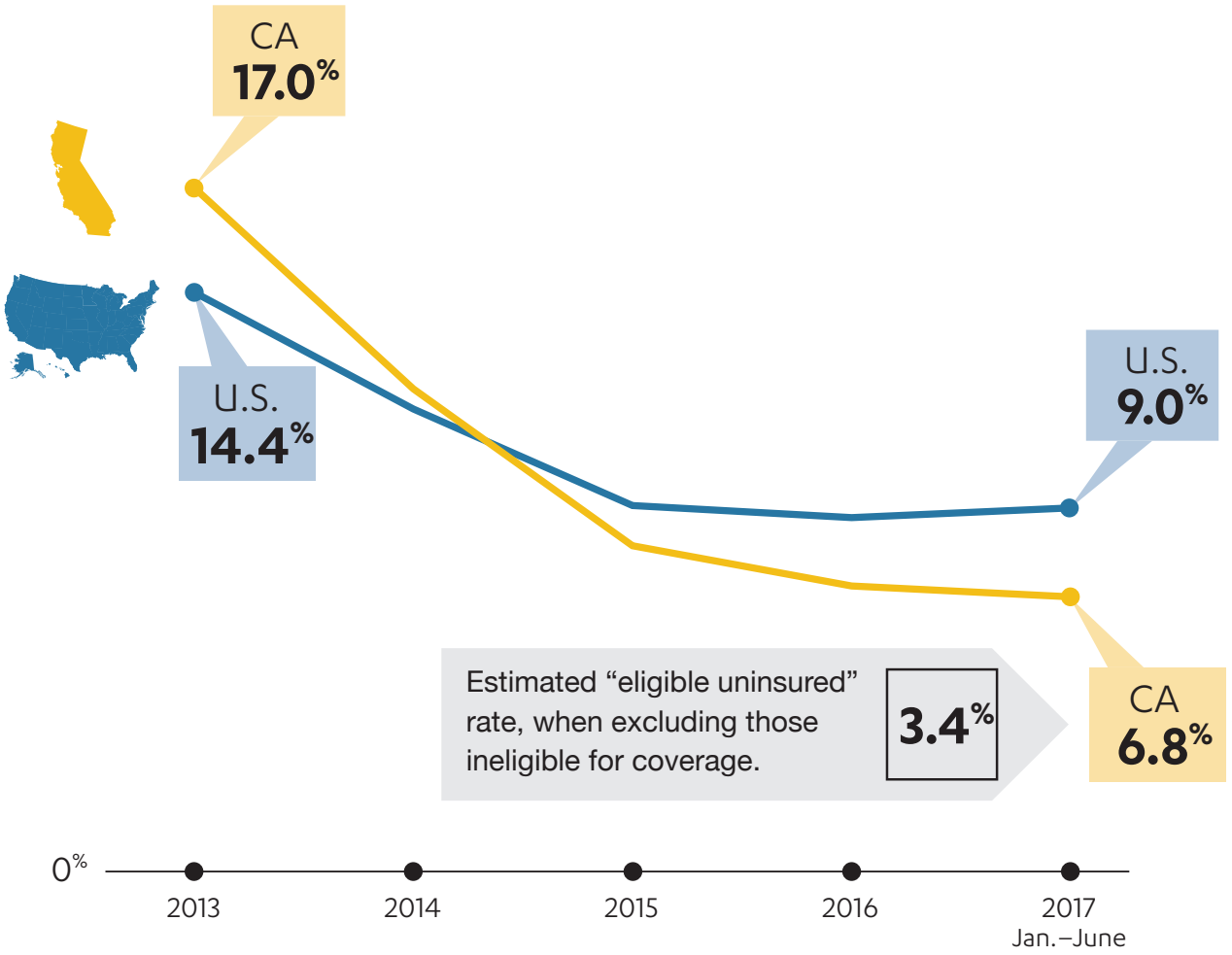
Coverage Expansion Having Dramatic Effects in California



With California's expansion of Medicaid and the creation of a state-based marketplace, the rate of the uninsured has dropped to historic lows. Almost four million new enrollees are in the Medi-Cal program and 1.3 million people are enrolled through Covered California.

Source: U.S. Centers for Disease Control and Prevention's National Health Institute Survey

The Individual Market Was Stabilizing In Plan Year 2017 — Stability Was Becoming The National Norm In 2017

Kaiser Family Foundation analysis[1] of insurer financial data from the first six months of 2017 showed:

- Individual market was stabilizing and on the path to insurer profitability. 2017 rates were estimated to result in "medical loss ratios" of 77 percent through the second quarter of 2017 (down from a high of 93 percent in the second quarter of 2015).

S&P global market analysis[2] found:

- 2016 was the first year since the start of the exchanges that Blue Cross/Blue Shield insurers nationally reported a gross profit (in aggregate) in the individual business line.

[1] https://www.kff.org/health-reform/issue-brief/individual-insurance-market-performance-in-mid-2017/

[2] https://www.spglobal.com/our-insights/The-US-ACA-Individual-Market-Showed-Progress-In-2016-But-Still-Needs-Time-To-Mature.html

The Stability Was Shaken In 2018, But Overall Markets Were Remarkably Steady

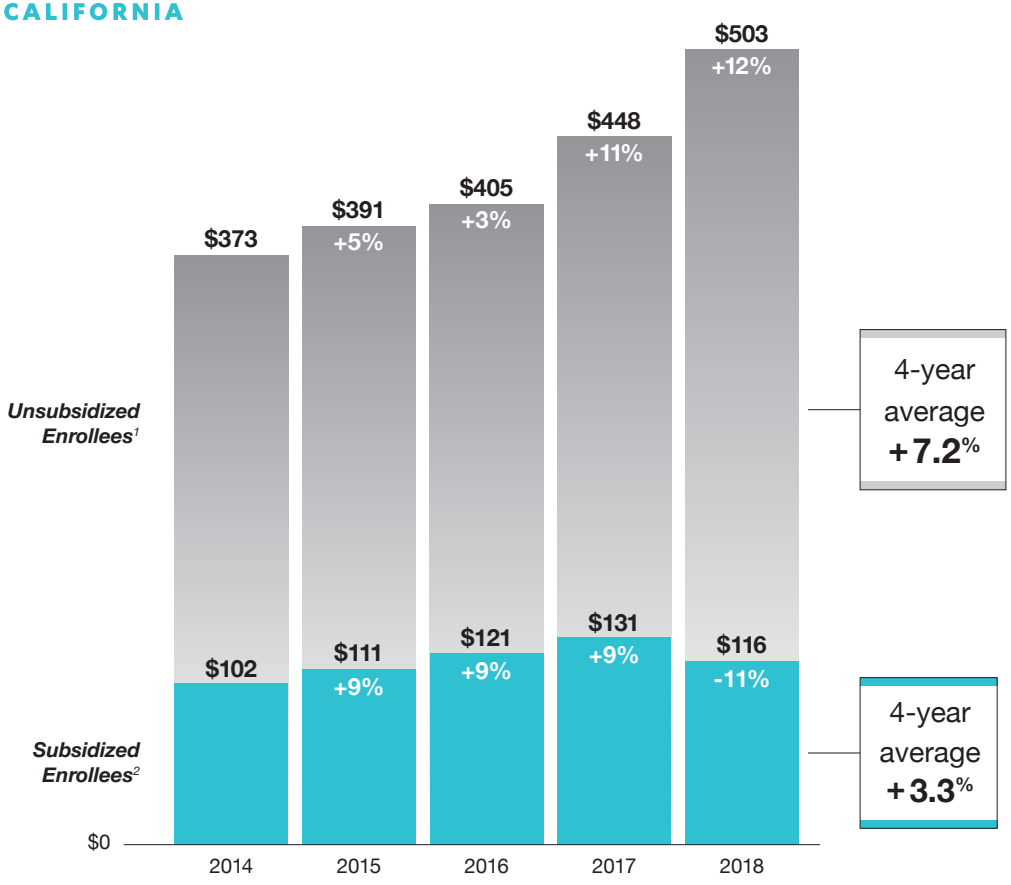
Huge uncertainty going into 2018:

- Reduced marketing to consumers living in states supported by the federal marketplace
- Penalty enforcement unclear
- Fall decision to end direct funding of cost-sharing reduction subsidies

Results — huge state-by-state variation, but:

- Much cajoling and nudges kept coverage in all counties, but we now have 30 percent of Americans in marketplaces with only one plan.
- Most states did “CSR work around” — result was DECREASE in premium for those with subsidies (down 3 percent for FFM states) and unsubsidized shielded from the “CSR Surcharge” (unsubsidized premiums up 15 percent or more).
- Spike in earned media coverage filled some of the gap from drop in marketing.
- While marketplace enrollment dropped slightly, big unknown is changes in off-exchange enrollment — all unsubsidized.

California's Individual Market Premiums Have Been Stable Since the Launch of Covered California in 2014

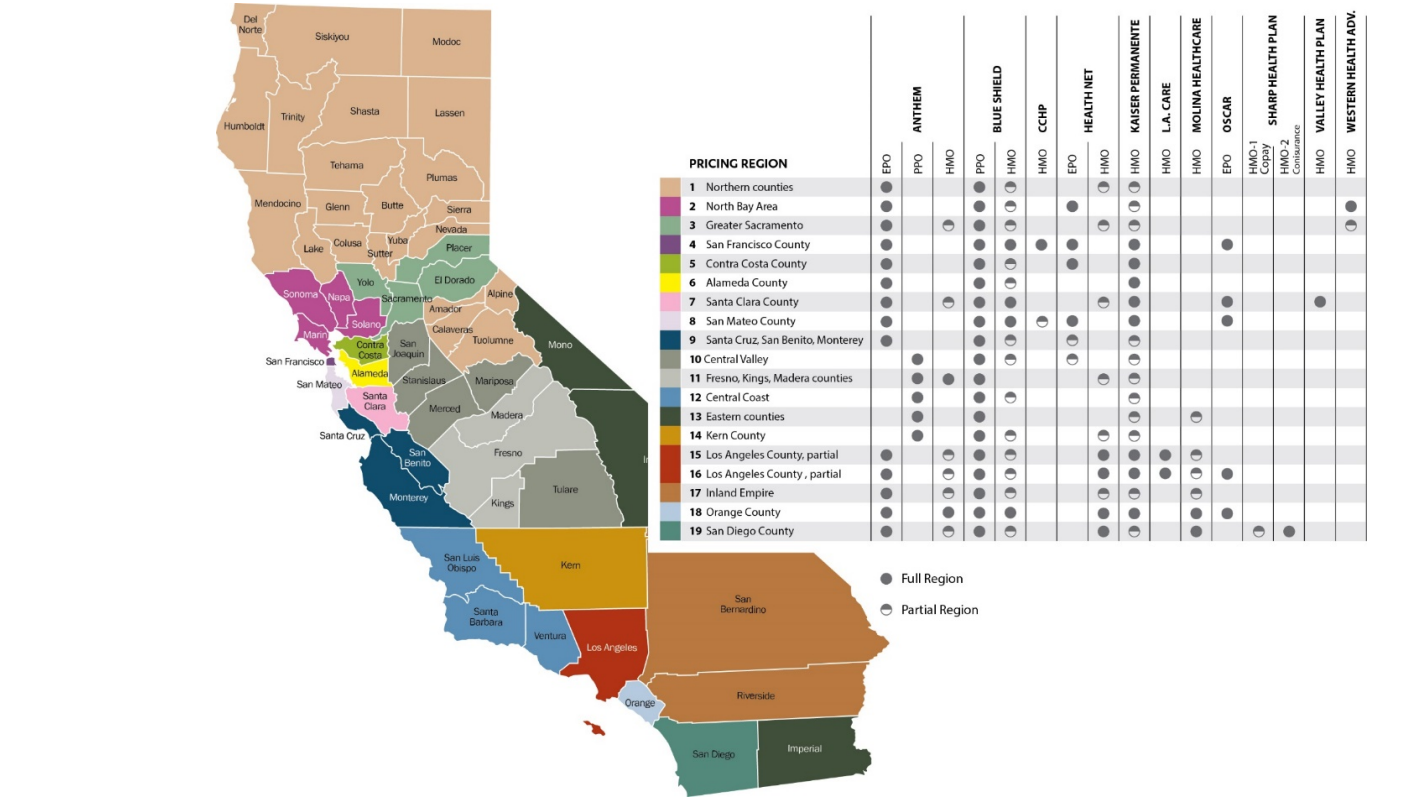


Premiums shown are the actual observed average monthly premiums in Covered California administrative data for renewal and open enrollment plan selections, and the percentage change is the change to the average observed premiums. Year over year, the average premiums shown may be influenced by changes in the population distributions from year to year (such as for region, age, metal tier, etc.). Average premiums for the unsubsidized market are estimated from observed on-exchange unsubsidized premiums: actuals could differ from these estimates to the extent that the off-exchange population and plan choice profiles differ from the Covered California profile. Additionally, the 2018 unsubsidized premiums have been adjusted to remove the Cost Share Reduction "surcharge" in Silver, as off-exchange enrollees do not incur the surcharge and Covered California encouraged its unsubsidized Silver enrollees to move off-exchange to avoid the surcharge in 2018.

- Covered California has held average annual rate increases to about **3.3 percent** after tax credits for subsidized enrollees and **7.2 percent** for unsubsidized enrollees, bringing stability to the individual market.
- The average cost of coverage for subsidized Covered California enrollees that frequently saw high increases in premiums in prior years **decreased 11 percent** in 2018 to $116 per member per month, a decline driven by the increase in the tax credit caused by the cost-sharing reduction surcharge.
- Over 1 million unsubsidized consumers buy coverage either through Covered California or directly from the same carriers in the individual market. For most of these consumers, premiums increased at an estimated average annual rate of **7.2 percent**. While this is a better experience than many had in the pre-Affordable Care Act individual market, an average monthly premium of $503 is still a significant expense for unsubsidized enrollees many of whom are working middle class individuals and families that nationally have a median income of $75,000.

Assuring Competition, Choice and Affordability

Eleven health plans participate in Covered California in different combinations across 19 rating regions. Covered California is also an entry point to Medi-Cal for those who qualify.



PRICING REGION	ANTHEM			BLUE SHIELD		CCHP	HEALTH NET		KAISER PERMANENTE	L.A. CARE	MOLINA HEALTHCARE	OSCAR	SHARP HEALTH PLAN		VALLEY HEALTH PLAN	WESTERN HEALTH ADV.
	EPO	PPO	HMO	PPO	HMO	HMO	EPO	HMO	HMO	HMO	HMO	EPO	HMO-1 Copay	HMO-2 Coinsurance	HMO	HMO
1 Northern counties	●			●	◓			◓	◓							
2 North Bay Area	●			●	◓		●		◓							●
3 Greater Sacramento	●		◓	●	◓			◓	◓							◓
4 San Francisco County	●			●	●	●	●		●			●				
5 Contra Costa County	●			●	◓		●		●							
6 Alameda County	●			●	◓				●							
7 Santa Clara County	●		◓	●	●			◓	●			●			●	
8 San Mateo County	●			●	●	◓	●		●			●				
9 Santa Cruz, San Benito, Monterey	●			●	◓		◓		◓							
10 Central Valley		●		●	◓		◓		◓							
11 Fresno, Kings, Madera counties		●	●	●				◓	◓							
12 Central Coast		●		●	◓				◓							
13 Eastern counties		●		●					◓		◓					
14 Kern County		●		●	◓			◓	◓							
15 Los Angeles County, partial	●		◓	●	◓			●	●	●	◓					
16 Los Angeles County , partial	●		◓	●	◓			●	●	●	◓	●				
17 Inland Empire	●		◓	●	◓			◓	◓		◓					
18 Orange County	●		●	●	●			●	●		●	●				
19 San Diego County	●		◓	●	◓			●	◓		●		◓	●		

● Full Region
◓ Partial Region

Covered California is Promoting Improvements in the Delivery of Care

Covered California contract requirements to promote the triple aim of improving health, delivering better care and lowering costs for all Californians include:

Promoting innovative ways for patients to receive coordinated care, as well as have immediate access to primary care clinicians

- All Covered California enrollees (HMO and PPO) must have a primary care clinician.
- Plans must promote enrollment in patient-centered medical homes and in integrated healthcare models/Accountable Care Organizations.

Reducing health disparities and promoting health equity

- Plans must "track, trend and improve" care across racial/ethnic populations and gender with a specific focus on diabetes, asthma, hypertension and depression.

Changing payment to move from volume to value

- Plans must adopt and expand payment strategies that make a business case for physicians and hospitals.

Assuring high-quality contracted networks

- Covered California requires plans to select networks on cost and quality and in future years, will require exclusion of "high cost" and "low quality" outliers — allowing health insurance companies to keep outlier providers, but detailing plans for improvement.

Note: for detailed information about improvements in the delivery of care, Covered California requires health insurance companies to abide by Attachment 7 of the model contract.
To view Attachment 7, go to http://hbex.coveredca.com/stakeholders/plan-management/PDFs/Attachment_7_Individual_7-5-2016_Final_Clean.pdf

Covered California Board presentation slides on Attachment 7: http://www.coveredca.com/news/pdfs/CoveredCA-Board-QualitySummary-04-07-16.pdf

Absent Policy Changes, Premium Increases in 2019 Likely to Range From 12 – 32 Percent; Three Year Cumulative Increases from 36 to 94 Percent

Estimates reflect potential state average increases; some states and individual carriers could be higher or lower. Premium estimates reflect gross premiums and would be fully born by the 6 million Americans who do not receive subsidies. For those who receive subsidies, premium increases would likely be far less.

Factors Affecting Premiums	2019	2020	2021
Medical Trend for Individual Market	**7%**	**7%**	**7%**
Elimination of Individual Mandate Penalty	**+7 to 15%**	**+2.5 to 10%**	**+ 2.5 to 10%**
Enrollment effect due to decreases in federally facilitated marketplace states due to less marketing/ shortened open-enrollment period	**-2% to +9%**	**0% to +2%**	**0% to +2%**
Association Health Plans and Short-Term Policies	**+0.3% to 1.3%**	**+0.5 to 2%**	**+0.5 to 2%**
Total Increase Effect	**Range of 12% to 32%**	**Range of 10% to 21%**	**Range of 10% to 21%**
Total Cumulative Effect			**Range of 36% to 94%**

See: Individual Markets Nationally Face High Premium Increases in Coming Years Absent Federal or State Action, With Wide Variation Among States (http://hbex.coveredca.com/data-research/library/CoveredCA_High_Premium_Increases_3-8-18.pdf)

National Variation in Potential Premium Increases for 2019 to 2021: From Bad to Really Bad

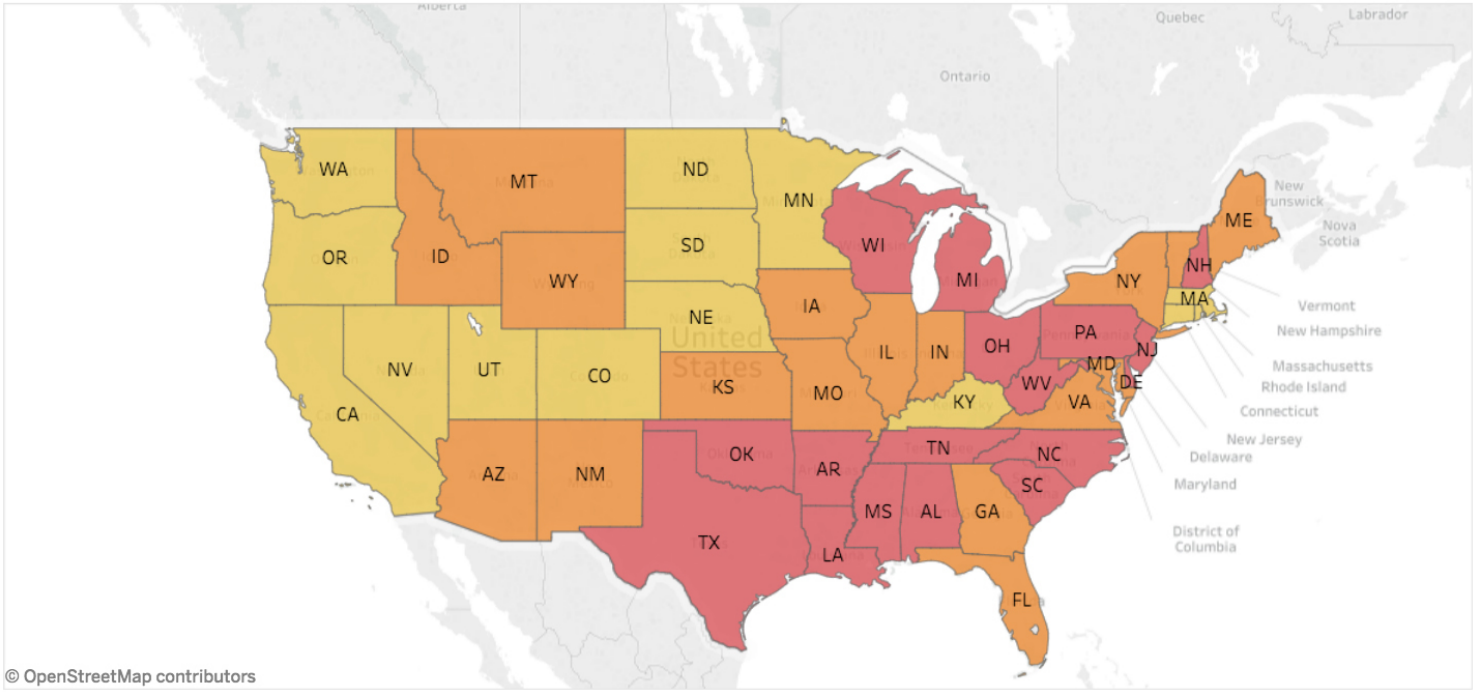
Estimate of 2019 Marketplace Risk

Select a State or Marketplace Type to view a subset of all marketplaces.

State (All)

Marketplace Type (All)

Summary of Marketplace Risk
- Catastrophic (possible 90% premium increase by 2021)
- High (possible 50% premium increase by 2021)
- Significant (possible 35% premium increase by 2021)



http://hbex.coveredca.com/data-research/data-viz/individual-market-risks-by-state-2019/

Federal and State Actions that Could Promote Stability Policy Actions That Could Promote Stability for 2019 and Beyond

- **Reinsurance**: State-based and/or national reinsurance programs, could have a dramatic impact on premiums and carrier participation in 2019.
- **Directly Fund Cost-Sharing Reduction (CSR) Subsidies:** Funding CSRs would **not** directly reduce premiums but would provide needed stability for health plans and reduce federal spending.
- **Increased Subsidies**: Increasing the financial assistance that is available to consumers would help more Americans afford coverage and increase the overall health of the consumer pools.
- **Increased Marketing and Outreach**: Increasing spending on targeting marketing promotes enrollment among healthier individuals and benefits federal taxpayers — who benefit from reduced per-person Advanced Premium Tax Credits — and those who do not receive subsidies and face lower premium increases.
- **State-Based Penalties for Non-Coverage:** States could adopt state-based penalties to promote enrollment.
- **State Regulations on Association Health Plans or Short-Term, Limited-Duration Plans:** States could adopt regulations that limit carriers from offering plans that do not provide comprehensive coverage or protect consumers with pre-existing conditions, which could harm the risk pool in the individual market.
- **Auto-Enrollment**: State or federal policies could promote automatic enrollment of eligible individuals, such as for those who lose employer-based coverage, earn too much for Medicaid or “age out” of coverage eligibility from parents plans

PROMOTING AND REWARDING QUALITY CARE AT THE BEST VALUE

Problem

1. Payments for volume pays more when things go wrong than right
2. Too many patients suffer avoidable complications– with an estimated 210-400,000 Americans dying annually as a result*.
   a) Low Risk C-section rate range 12 to 68%
   b) Blood stream infection rate with central line range from zero to 5.7 times expected

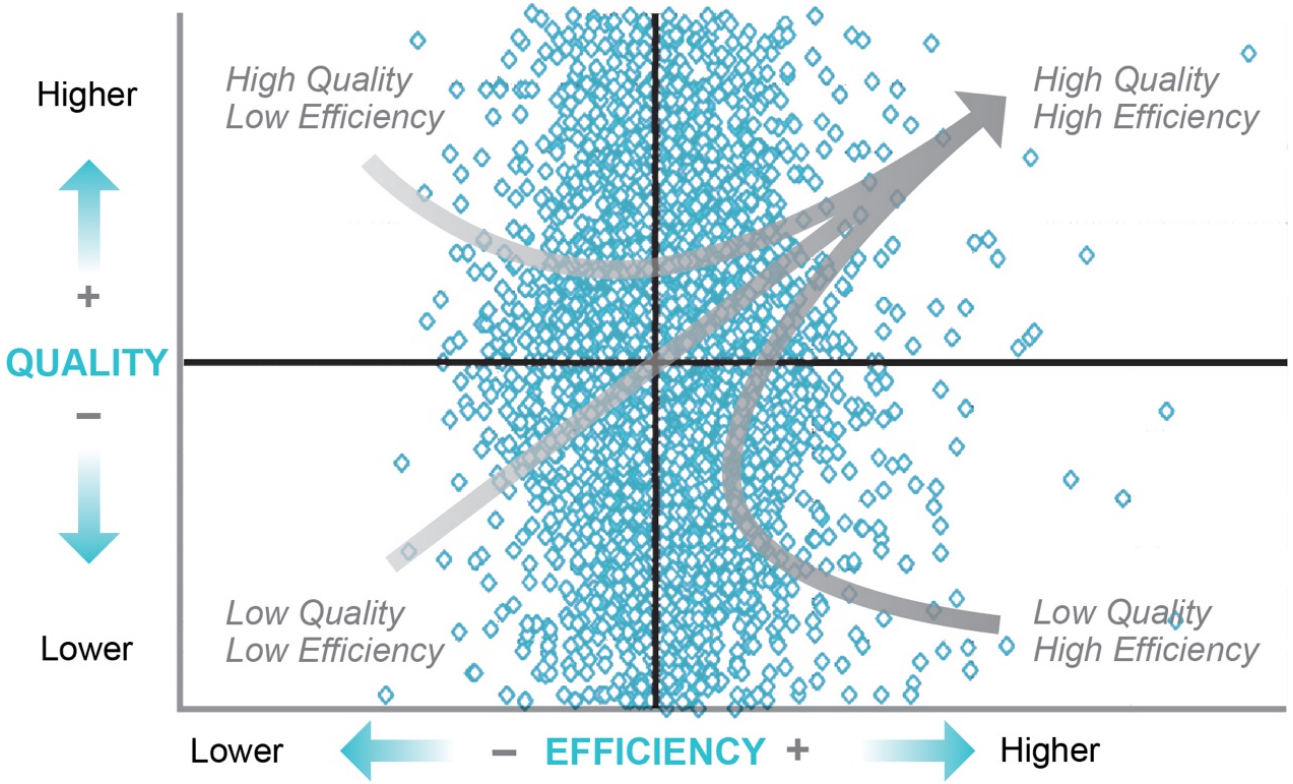
Covered California Approach

1. Work with health plans to connect doctors and hospitals to quality improvement → Track, trend and improve care against measured goals.
2. Require that doctors and hospitals be selected based on quality performance.
3. As of 2019, plans will either exclude low performing outliers or provide a justification for inclusion in the network.
4. Require plans to implement payment reform to reward outcomes and results in hospitals.

Makary, Medical Error—Third Leading Cause of Death in US, BMJ 2016;353:i2139

Covered California Will Require Transparency, Payment and Network Selection to Promote Higher-Value Care

Repeated research shows no correlation between more expensive health care and better quality.



Covered California will use all tools at its disposal to encourage consumers to use lower-cost/higher-quality providers, such as:

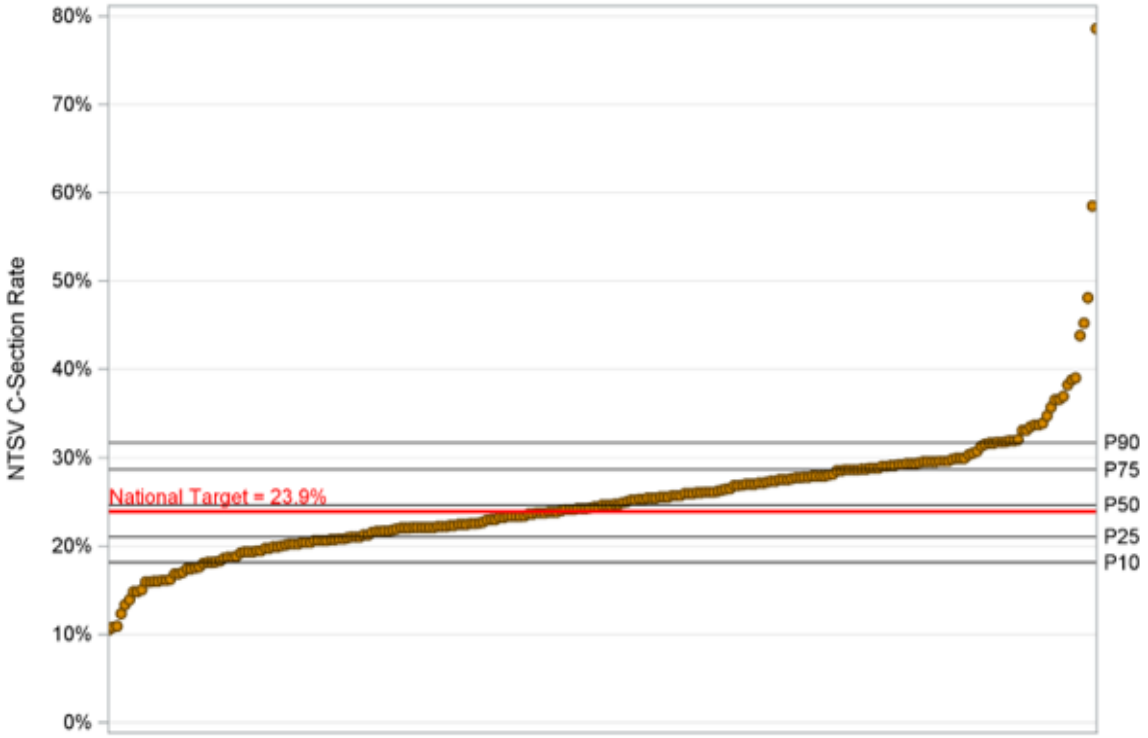
- Plan network policy disclosure.
- Health insurance tools with cost and quality information for consumers.
- Promoting the exclusion or justifying the inclusion of high-cost/low-quality outlier providers.

Distribution of physicians with “Higher Efficiency” equals lower relative cost for each instance of care delivered.

Source: Adapted from Regence Blue Shield and Pacific Business Group on Health

NTSV-C Section Rate among California Hospitals

January 2016 – December 2016



# Hospitals	Average	Standard Deviation	Minimum	Percentile Scores					Maximum
				10th	25th	50th	75th	90th	
241	25.2%	7.0%	10.5%	18.1%	21.0%	24.6%	28.6%	31.7%	78.6%

Data Source: California Maternal Quality Care Collaborative

Information for consumers

CoveredCA.com

Information on exchange-related activities

hbex.CoveredCA.com