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January 19, 2016

Mr. Kevin Beagan
Deputy Commissioner
Massachusetts Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Subject:
Analysis of Premium and Cost Sharing for Small Groups under Calendar Year Rating and Enrollment versus Quarterly Rating with Rolling Enrollment

Dear Kevin:

At your request, we have completed an analysis of the premium and cost sharing small employer groups would experience under calendar year rating and enrollment and quarterly rating with rolling enrollment.

Background Information

Currently, pursuant to Massachusetts requirements, the experience of individual policyholders and small group policyholders is combined for purposes of setting premium rates for those markets. Health insurance issuers offer the same plan design offerings to small groups as are offered to individuals, with the exception of catastrophic plans that are only available to eligible individuals. In many respects the individual and small group markets may be considered to be merged. From a Federal perspective, the markets are currently considered to be separate, and not a merged market, because Massachusetts was granted a transition period during which issuers may continue to apply certain rating practices to small groups that would not otherwise be permissible under the Affordable Care Act (ACA) in the absence of the transition period. For example, rating factors for group characteristics such as industry and group size may continue to be used while they are phased out during the transition period. Since the markets are not considered to be merged during this transition, issuers may also continue to revise rates on a quarterly basis for small groups, and small groups may enroll at any time during the year for a 12-month policy period.

The transition period is currently scheduled to end on December 31, 2017. Starting January 1, 2018 under current law, the individual and small group markets would be considered to be one merged market for purposes of both State and Federal law. As a result, all small groups would be required to enroll or renew on January 1 of each year. Rolling enrollments throughout the year would no longer be permitted and rates would be set only once during the year, effective January 1. Groups enrolling or renewing in 2017 with effective dates other than January 1 would receive a shortened plan year starting on the effective date of issue or renewal and continuing through December 31, 2017 in order to move to a calendar year enrollment schedule on January 1, 2018.

You requested we perform two analyses related to the impact that a move to calendar year rating and enrollment would have on small groups. The first analysis is the impact to groups as a result of cost sharing such as deductible and out-of-pocket maximums (OOPMs) that are applied on a plan year basis. During the 2017 calendar year, groups that renew on dates other than January 1 would be impacted by having plan year cost sharing that would be applied to a plan year that is shorter than 12 months. The second analysis is the impact on premiums of setting rates at most once per year for all small groups rather than setting rates on a quarterly basis for small groups that enroll throughout the year.

Data and Methodology

For both analyses, we relied on rate filings submitted to the Massachusetts Division of Insurance (DOI) for effective dates in 2015 to obtain the distribution of members by calendar month of renewal and metal level. The resulting distributions are shown in Table 1, below:

Table 1

	Renewal Month												
Metal Level	**Jan-15**	**Feb-15**	**Mar-15**	**Apr-15**	**May-15**	**Jun-15**	**Jul-15**	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**	**Total**
Bronze	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**1%**
Silver	2%	1%	2%	5%	2%	2%	2%	1%	2%	1%	1%	3%	**24%**
Gold	6%	3%	5%	11%	4%	4%	3%	2%	3%	3%	3%	7%	**53%**
Platinum	2%	1%	2%	7%	1%	1%	1%	1%	1%	1%	1%	2%	**22%**
Total	**10%**	**5%**	**9%**	**23%**	**7%**	**7%**	**6%**	**5%**	**6%**	**5%**	**5%**	**12%**	**100%**

Information on the number of enrollees with calendar year cost sharing versus plan year cost sharing, such as deductibles, was not available.

For the cost sharing analysis, claims and enrollment data from a proprietary database were used. The population analyzed includes active members living in Massachusetts in both 2011 and 2012 calendar years with drug and mental health/substance abuse coverage. The 2011 and 2012 medical and drug allowed claims were trended forward at 5% annually to 2017 and 2018, respectively. The trended allowed claims were run through an internal adjudication model under the following four plan design scenarios:

Table 2

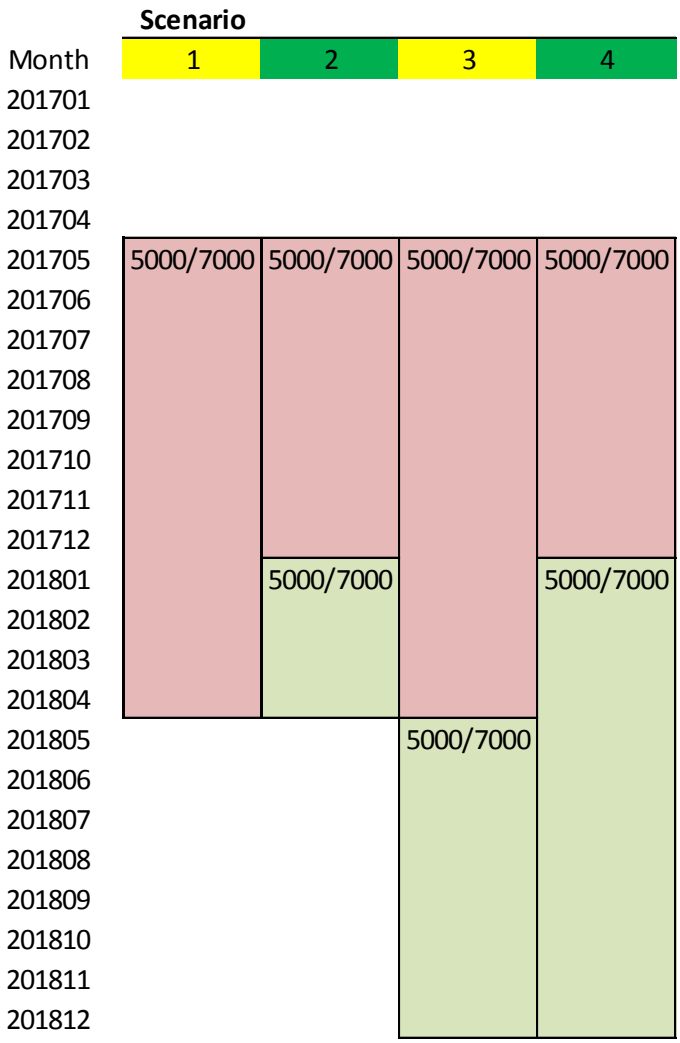
Metal	Deductible	Coinsurance	OOPM
Bronze	$5,000	80%	$7,000
Silver	$3,000	85%	$6,000
Gold	$1,500	90%	$4,000
Platinum	$500	90%	$2,500

The plan designs were selected in a way that they fit within a metal level. The model uses allowed claims and each plan design to determine insurer paid claims. Preventive claims were carved out as insurer paid claims because they are covered at 100%. Member cost sharing is calculated as the difference between allowed claims and insurer paid claims.

Member cost sharing was calculated under two scenarios: continuation of rolling enrollment, and rolling enrollment in 2017 with policy periods lasting only until December 31, 2017 at which point all small groups would enroll or renew on January 1 of each subsequent year. Member cost sharing for these two scenarios was calculated for the 12 months following the 2017 enrollment date, and again for the period from the date of enrollment in 2017 through December 31, 2018. An example of these scenarios for a group with a May 1, 2017 effective date and a Bronze plan is shown in Figure 1 below. The scenarios were run for every effective month and metal level. The distribution of enrollment by effective month and metal level was used to aggregate the results.

Figure 1

Deductible	$5,000
Coins	80%
OOPM	$7,000



We did not model any changes in member behavior aimed at timing services to minimize cost sharing when the plan year changes.

For the premium analysis, the rate filing data was used along with the Massachusetts required filing dates. The filing dates are 90 days prior to the effective date for rates effective for policies issued or renewed in second, third, or fourth quarter. Rates for first quarter effective dates are due 180 days prior to the effective date. While Federal dates are slightly earlier and issuers would have to set rates and submit Federally-required forms by that time, the dates for the Massachusetts specific requirements were used in the analysis since emerging information could still be incorporated and reflected in revised documents up until the date of filing of the Massachusetts materials.

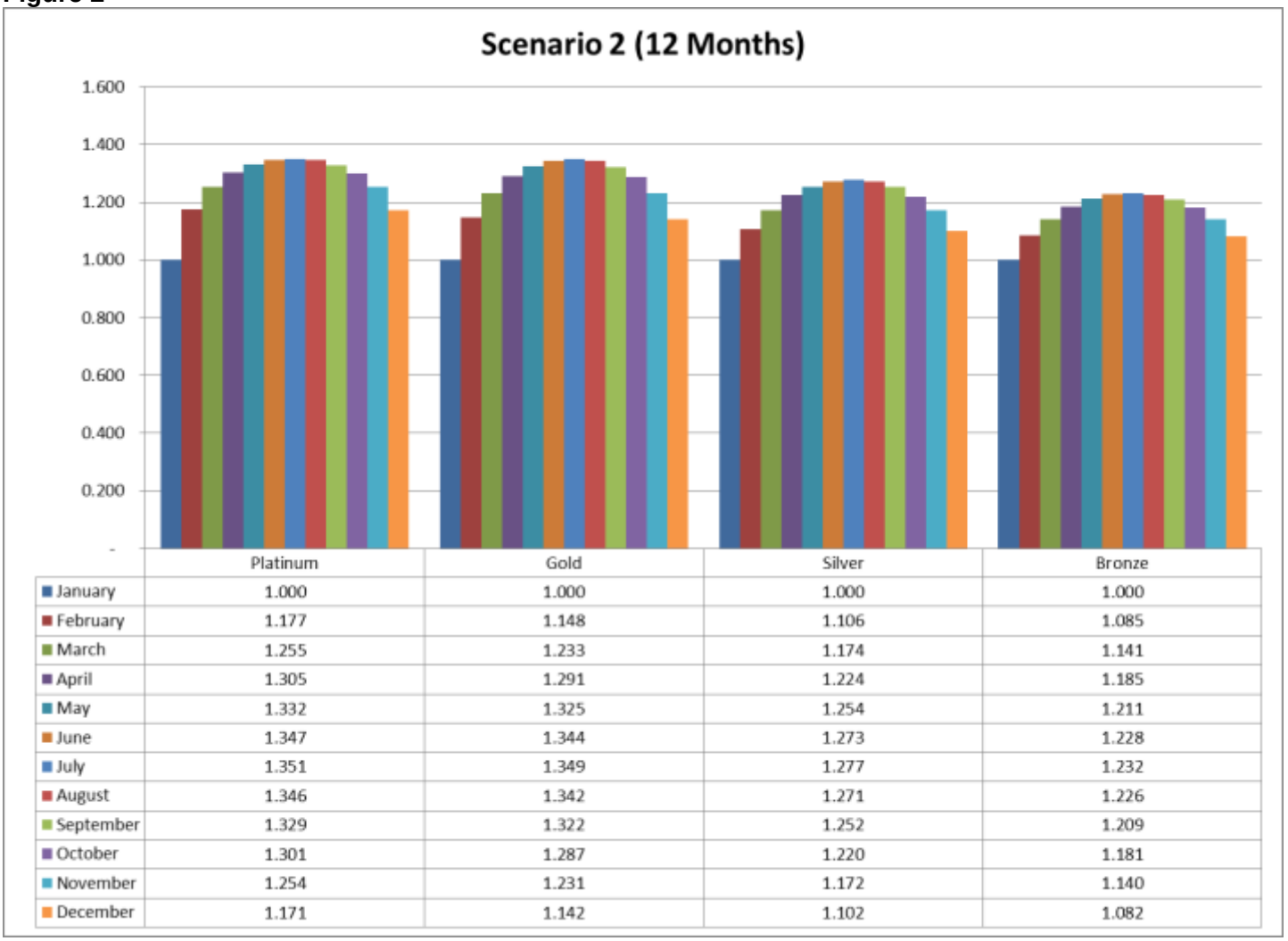
We used the rate filings to determine the experience periods used by issuers in the rate development and the resulting number of months of trend used by the issuers in setting rates for a given combination of filing date and effective date. Then we used the distribution of enrollment by month to determine the average number of months of trend assumed across all small groups using the current practice of quarterly rating with rolling enrollment and compared it to the number of months of trend for January rating and enrollment. The trends from the rate filings were used to observe the variation in trends assumed by different issuers and over the four quarterly filings in a given year, to estimate additional uncertainty related to additional months of trending in setting rates.

Results of Analyses

Cost Sharing Analysis

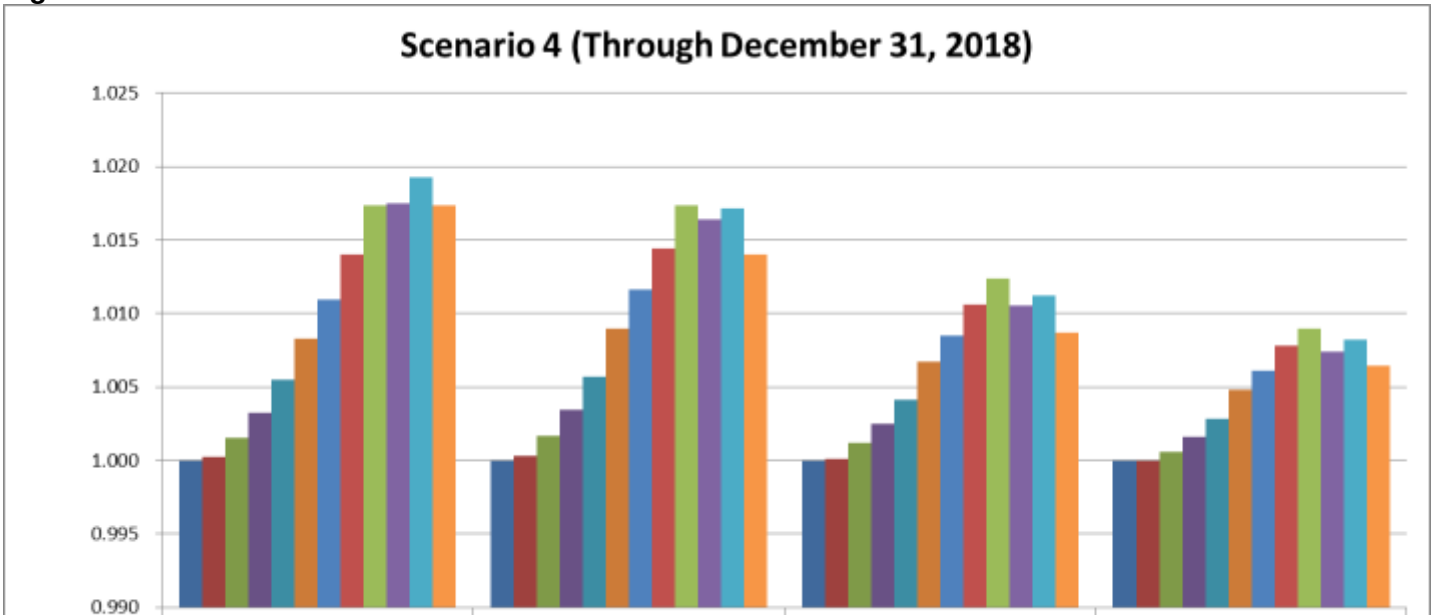
The results of the cost sharing analysis are shown below. The values in the charts represent the ratio of the member cost sharing for the scenario shown to the member cost sharing of the rolling enrollment scenario for the same number of months of coverage (i.e., the status quo). For example, scenario 2 represents the 12 months of coverage following the 2017 renewal where the 2017 cost sharing is prorated for the number of months of coverage. Since scenario 1 is the 12 month scenario for rolling enrollment the value shown in scenario 2 is the cost sharing of scenario 2 divided by the cost sharing of scenario 1. Similarly, the value shown in scenario 4 is the cost sharing of scenario 4 divided by the cost sharing of scenario 3, since both represent months of coverage from the 2017 enrollment date through December 31, 2018 and scenario 4 is the rolling enrollment scenario.

Figure 2



	Platinum	Gold	Silver	Bronze
January	1.000	1.000	1.000	1.000
February	1.177	1.148	1.106	1.085
March	1.255	1.233	1.174	1.141
April	1.305	1.291	1.224	1.185
May	1.332	1.325	1.254	1.211
June	1.347	1.344	1.273	1.228
July	1.351	1.349	1.277	1.232
August	1.346	1.342	1.271	1.226
September	1.329	1.322	1.252	1.209
October	1.301	1.287	1.220	1.181
November	1.254	1.231	1.172	1.140
December	1.171	1.142	1.102	1.082

Figure 3



	Platinum	Gold	Silver	Bronze
January	1.000	1.000	1.000	1.000
February	1.000	1.000	1.000	1.000
March	1.002	1.002	1.001	1.001
April	1.003	1.003	1.002	1.002
May	1.005	1.006	1.004	1.003
June	1.008	1.009	1.007	1.005
July	1.011	1.012	1.008	1.006
August	1.014	1.014	1.011	1.008
September	1.017	1.017	1.012	1.009
October	1.018	1.016	1.011	1.007
November	1.019	1.017	1.011	1.008
December	1.017	1.014	1.009	1.006

The average factor across all renewal months and metal levels is 1.231 for scenario 2 and 1.007 for scenario 4.

The analysis shows that the cost sharing in the 12 months following the enrollment date of the shortened plan exceeds that of rolling enrollment on average by about 23%. This is due to the resetting of the cost sharing, which results in higher maximum out of pocket costs for consumers. Over a longer period of time, through the end of 2018, the cost sharing exceeds the rolling enrollment scenario by less than 1%. Therefore, if Massachusetts moves to calendar year rating on January 1, 2018 consumers would be expected to see increased costs as a result of the shortened 2017 policy year. While not included in our modeling, there would also likely be increased cost sharing starting January 1 related to cost sharing increases that would likely be needed to maintain compliance with the actuarial value ranges for the metal levels. The same would be true of rolling enrollment; however, the shortened plan year accelerates the implementation of the higher cost sharing levels using the 2018 actuarial value calculator.

If a Section 1332 waiver is granted that allows Massachusetts to maintain rolling enrollments, there would be no reduction in affordability related to cost sharing as it would continue the current practice as well as avoid potentially higher cost sharing related to a shortened 2017 plan year.

Premium Analysis

Using the methodology described in the Data and Methodology section, we estimated the average number of months of trend used in setting rates for a January 1 effective date to be 23.35. Most carriers use an experience period 2 full years prior to the rating period. For example, for rates effective starting January 1, 2017 many carriers would use an experience period of calendar year 2015, requiring 24 months of trend to project the experience to calendar year 2017. Not all carriers used the same period, resulting in an average number of months of trend of 23.35. The January effective filing has the greatest number of months of trend, due to the earlier due date associated with the additional time needed to have rates finalized prior to the open enrollment period for individuals and other marketplace implementation needs.

When rates are permitted to change on a quarterly basis, the average number of months across all effective dates is estimated to be 21.39, 2 months fewer than would be experienced if all groups renewed on January 1. Setting rates closer to the effective date on average means that carriers have more recent information to use in the rate development. The more recent information could result in higher or lower costs depending upon the new information that is available. However, the additional two months of trend represents additional uncertainty in how the claims for the period being priced will emerge. Issuers include a risk charge or contribution to surplus in rates for uncertainty in rating. This charge would likely be higher if all groups renew in January due to the additional two months of trending. Therefore, if Massachusetts were to obtain a Section 1332 waiver to maintain quarterly rating with rolling enrollment, affordability would not be harmed and would likely improve due to the reduced uncertainty in rating. The magnitude depends upon the additional risk charge issuers put in the rates, and provided the rates are approved. The table below shows the assumed fee-for-service trends from the rate filings analyzed.

Table 3

Claim Trend 2015 Filings	Q1	Q2	Q3	Q4
Blue Cross and Blue Shield of Massachusetts HMO Blue, Inc	8.12%	8.28%	8.42%	8.18%
Blue Cross and Blue Shield of Massachusetts, Inc	8.12%	8.28%	8.42%	8.18%
BMCHP	8.33%	8.27%	8.22%	12.45%
CeltiCare Health Plan	n/a	n/a	n/a	n/a
Connecticare of Massachusetts, Inc.	10.42%	10.20%	10.21%	10.08%
Fallon Community Health Plan (FCHP)	6.90%	4.70%	7.60%	8.28%
Fallon Community Health Plan (FHLAC)	6.90%	4.70%	7.60%	8.28%
Harvard Pilgrim Health Care, Inc.	7.09%	7.18%	7.11%	7.67%
HPHC Insurance Company, Inc.	7.09%	7.18%	7.11%	7.67%
HNE	6.26%	6.26%	6.26%	6.26%
Minuteman Health, Inc.	0.00%	0.00%	0.00%	0.00%
Neighborhood Health Plan	-1.46%	-0.92%	-0.06%	0.42%
Tufts Associated Health Maintenance Organization	7.34%	7.44%	6.87%	6.81%
Tufts Insurance Company	9.52%	9.72%	7.76%	8.75%
Tufts Public Health Plans	9.86%	10.55%	11.51%	9.39%
United Healthcare	5.20%	6.19%	6.51%	6.51%

Some of the trends, such as Neighborhood Health Plan's negative trends are likely due to special circumstances which could include renegotiation of a significant contract, etc. Therefore, we ignored some of the trends that appeared to be outliers or represent possible data reporting errors. With trends, ignoring outliers, ranging from 4.70% to 10.42%, there appears to be about a 3% range plus or minus around the midpoint trend. The amount of additional risk charge included in the rates will vary depending upon the judgment of each issuer's pricing actuaries. As a rough estimate of the risk charge, 2 months of an additional 3% annual trend would result in an additional risk charge of 0.5% if all groups renewed in January. We estimate that the amount of additional risk charge would likely vary in a range from 0.1% to 1.0%.

Other Markets

If a Section 1332 waiver were granted to maintain quarterly rating and rolling enrollment for small group, there would be no direct impact to other markets such as MassHealth, individual, etc. It is also not expected that the changes would be significant enough to have any indirect impact on other markets. It would simply preserve the level of affordability currently in the small group market.

Vulnerable Residents

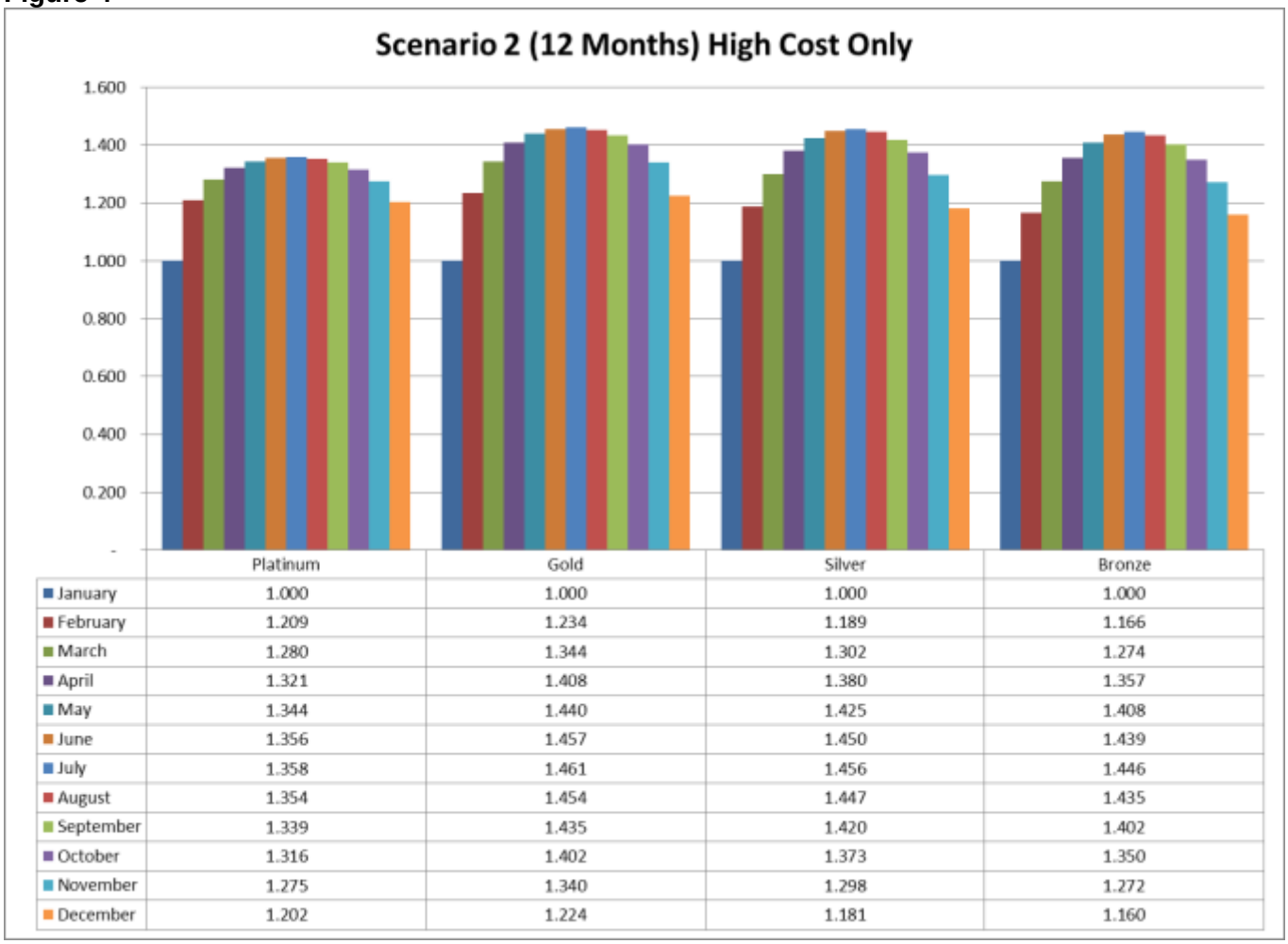
Waiver proposals are expected to take into account the effects on different groups of residents including vulnerable residents.[1] Vulnerable residents include low-income individuals, elderly

[1] 45 CFR Part 155

individuals, and those with serious health issues or who have a greater risk of developing serious health issues.

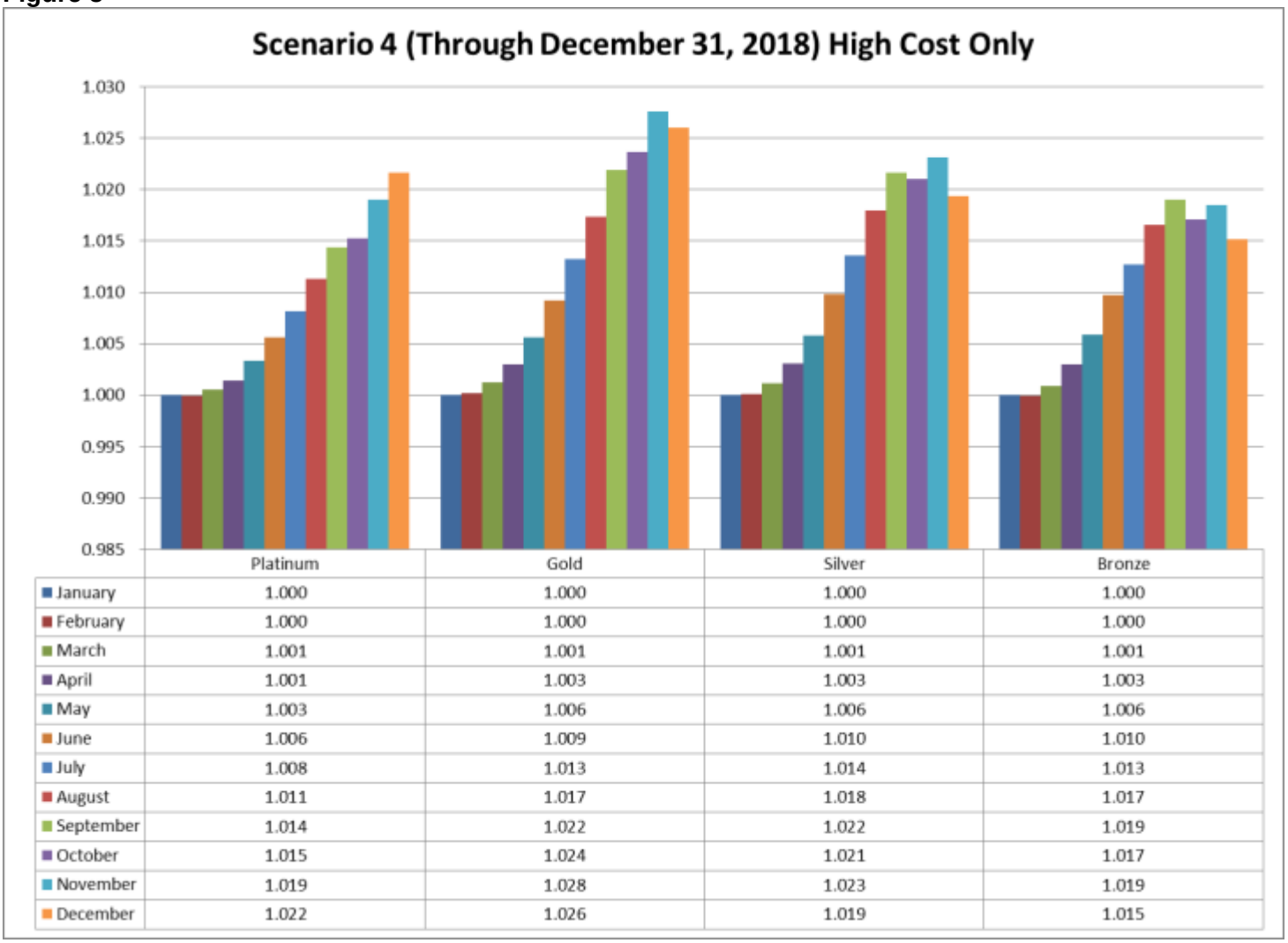
The cost sharing is higher for the elderly and those with serious health issues with the presence of a shortened plan year (scenarios 2 and 4), since they seek services more frequently and would therefore be more likely to be subject to the full deductible or OOPM. This was confirmed by re-running the cost sharing analysis using only those 20% of claimants with the highest claim costs across the two years of data that were analyzed. The result was cost sharing 32% higher during the 12 month period following the 2017 renewal for the shortened plan year scenario as compared to rolling enrollments, versus the 23% higher costs for the same scenario when all enrollees were included in the analysis. When looking at claim costs through the end of December 31, 2018 the high cost claimants had cost sharing 1% higher as compared to rolling enrollments, versus 0.7% when all enrollees were included in the analysis. The charts showing additional detail for these results follow.

Figure 4



	Platinum	Gold	Silver	Bronze
January	1.000	1.000	1.000	1.000
February	1.209	1.234	1.189	1.166
March	1.280	1.344	1.302	1.274
April	1.321	1.408	1.380	1.357
May	1.344	1.440	1.425	1.408
June	1.356	1.457	1.450	1.439
July	1.358	1.461	1.456	1.446
August	1.354	1.454	1.447	1.435
September	1.339	1.435	1.420	1.402
October	1.316	1.402	1.373	1.350
November	1.275	1.340	1.298	1.272
December	1.202	1.224	1.181	1.160

Figure 5



	Platinum	Gold	Silver	Bronze
January	1.000	1.000	1.000	1.000
February	1.000	1.000	1.000	1.000
March	1.001	1.001	1.001	1.001
April	1.001	1.003	1.003	1.003
May	1.003	1.006	1.006	1.006
June	1.006	1.009	1.010	1.010
July	1.008	1.013	1.014	1.013
August	1.011	1.017	1.018	1.017
September	1.014	1.022	1.022	1.019
October	1.015	1.024	1.021	1.017
November	1.019	1.028	1.023	1.019
December	1.022	1.026	1.019	1.015

The premium impact would be expected to be applied as a consistent percentage of premium across all small groups. Therefore, any increase in premium would be the same on a percentage basis for all residents with small group coverage. Since elderly individuals are charged higher premiums than non-elderly, the dollar impact of increased premiums under calendar year rating would be greater for the elderly. To the extent those with serious health issues select richer benefit plans, they too would see greater dollar premium increase due to the higher premium of richer benefit plans. Such selection might occur if the decision maker of the company is aware of health issues within the group or if more than one plan is offered to the employees. Since low-income individuals receive subsidies to offset the portion of the premium that is unaffordable, there would be no impact on low-income individuals. Therefore, a waiver to maintain quarterly rating with rolling enrollment would not negatively impact vulnerable residents and would be expected to disproportionately help those that are elderly or have serious health issues as compared to moving to calendar year rating.

Conclusion

In my opinion, maintaining quarterly rating and rolling enrollment in the small group market would not harm affordability or negatively impact vulnerable residents, as compared to moving to calendar year rating and enrollment. I am a member of the American Academy of Actuaries and am qualified to render this opinion.

Limitations

For our analysis, we relied on data and information from publicly available rate filings without independent audit. Though we have reviewed the data for reasonableness and consistency and made adjustments where needed, we have not audited or otherwise verified this data. It should also be noted that our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions may need to be revised.

If you have any questions about our findings, please feel free to contact me at 414-277-4657.

Sincerely,

Dianna K. Welch, FSA, MAAA
Principal and Consulting Actuary