LEIF ASSOCIATES, INC.

New Hampshire Market Stabilization Program

2022 Reinsurance Parameter Development

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Introduction

Leif Associates was engaged by the New Hampshire Health Plan (NHHP) to develop reinsurance parameters for the New Hampshire Market Stabilization Program for calendar year 2022. The purpose of this document is to present the proposed 2022 reinsurance parameters and detailed information regarding the data, methodology, and assumptions used to develop the parameters.

Executive Summary

Based on assumptions that are documented in this report, our projections show that funding and reinsurance claims in 2022 will be as follows:

Category	Low Estimate	High Estimate
Federal Funding	$28.7 million	$30.5 million
State Funding	$12.4 million	$12.4 million
Total Funding	$41.1 million	$42.9 million

The projections show that reinsurance claims will match the projected funding if the reinsurance parameters are set with a floor of $60,000, a cap of $400,000, and a coinsurance percentage in a range from 69.7% to 72.7% between the floor and the cap.

The NH Market Stabilization Program

The state of New Hampshire operates the New Hampshire Market Stabilization Program in accordance with a State Innovation Waiver under section 1332 of the Patient Protection and Affordable care Act (PPACA). The program operates like a traditional, claims-based attachment point reinsurance program by reimbursing qualifying individual health insurers for a percentage of an enrollee’s claims costs exceeding a specified threshold up to a specified ceiling. The program was approved by the U.S. Department of Health and Human Services and the U.S. Department of the Treasury for up to five years, beginning with plan year 2021. The initial reinsurance formula used in 2021 was 74% of claims between $60,000 and $400,000.

The New Hampshire 1332 waiver reinsurance program works in the following manner:

- The program provides payments to health insurers in the individual market to help offset the costs of enrollees with large medical claims, based on a reinsurance formula structured with a coinsurance percentage between a predetermined floor and cap of claim dollars.
- The insurers pass the subsidy on to consumers, resulting in an overall reduction in premiums.
- Individuals with income below a certain threshold purchasing health insurance coverage receive premium tax credits that cap the amount they must pay for coverage at a percentage of their income.

- The federal government covers the cost of the tax credit. Thus, when the premiums are reduced because of the reinsurance program, it is the federal government that benefits from the lower premium for persons eligible for tax credits.
- The 1332 Waiver program allows the state to recapture the savings that would otherwise go to the federal government. The state is able to receive “pass-through” payments equal to the amount of the savings.
- The amount of the pass-through funding represents the amount of premium tax credits the federal government would have provided to the state’s residents if the reinsurance program did not exist, minus the actual reduced federal tax credits with the reinsurance program in place.
- The state uses the pass-through payments to help fund the reinsurance payments to insurers.
- Additional funding for the program comes from an assessment on writers of health insurance calculated as 0.6% of the prior plan year second lowest cost silver plan premiums for a 40-year-old nonsmoker purchasing on the New Hampshire Marketplace. This equated to $2.43 per member per month for calendar year 2021.

Development of 2022 Reinsurance Parameters

The concept behind the combined amount of projected funding from the federal pass-through dollars and the carrier assessment must be enough to cover the amount of projected reinsurance claim reimbursements plus the program’s projected administrative costs.

Data Sources

Three insurance carriers participated in the New Hampshire individual insurance market in 2019 and 2020: Anthem, Centene, and Harvard Pilgrim. Leif Associates requested the following data from the carriers:

- Data request #1: Membership and claim data for all members in ACA-compliant individual plans covered at any time during the period 1/1/2019 through 12/31/2020. Due to the timing of the project, we were unable to secure any data for claims incurred in this period that were paid after 12/31/2020. We requested test data by 12/1/2020 and final data by 1/15/2021.
- Data request #2: Membership and premium data for the period 1/1/2020 through 12/31/2020 that included the HIOS ID, plan variant codes, and rating demographic information to allow identification of a member’s premium before and after the application of Advance Premium Tax Credit (APTC). The due date for this data was 2/28/2021.

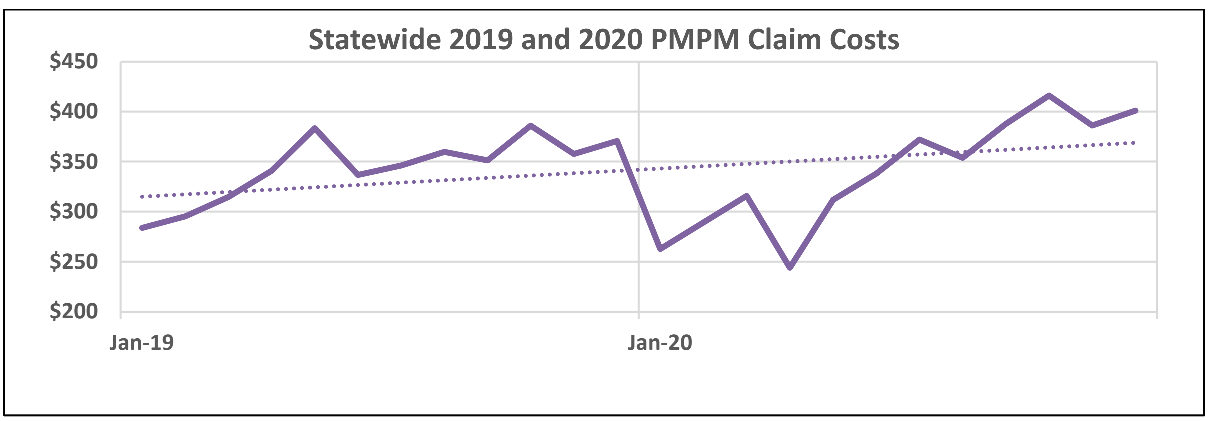
All data was received from the carriers as requested, analyzed separately for reasonableness and completeness. All questions about the interpretation and comparability of the carrier data were successfully resolved. The data was then combined to create a statewide summary of membership and claims in the New Hampshire individual insurance market in 2019 and 2020.

Year	Member Months	Unadjusted Claim Dollars
2019	536,759	$187.7 million
2020	563,437	$174.4 million
Combined	1.1 million	$362.1 million

Claim Adjustments

There were three specific adjustments that were considered in evaluating the appropriateness of using the historical claim experience for projection to 2022:

- Incomplete claims. Because of the timing of the study, we were unable to examine any claims incurred during 2019 or 2020 that were paid after 12/31/2020. To provide an estimate of claims that were outstanding as of 12/31/2020, we developed lag charts for each carrier separately for ambulatory, hospital, and pharmacy claims. Based on these lag charts, we developed completion factors for each carrier and service type and then combined the data to provide an estimate of ultimate incurred claims.
- July claim cutoff. The Program's Plan of Operation specifies that claims incurred in a particular plan year must be submitted no later than seven months after the end of the year in which the claims were incurred. We used the 2019 claim runout to model the impact of 2020 claim cutoff at 7/31/2021. We found that the impact was small, reducing incurred claims by 0.4% for ambulatory claims and 1.6% for hospital claims. There was no impact on pharmacy claims.
- Impact of COVID-19. In analyzing the per member per month incurred claims in the 2019 and 2020 time period, we observed a definite dip in the claims in the first half of 2020. This led us to conclude that the COVID pandemic had caused a distortion in the 2020 claims that would cause it to not be a reliable basis for projections. We dealt with this by basing our projections on the 2019 data, using typical trend factors that excluded the distortions present in the 2020 data.



Trend Assumptions

Trends for claims and enrollment were chosen based on observed historical trends adjusted for known external changes.

- Claim trends. As noted above, the first half of 2020 experienced unusual claim patterns due to the COVID pandemic. We observed the trends in time periods outside of the first half of 2020 to observe a more typical claim. We found that the annual trend for these periods (fourth quarter 2020 and second half 2020) were in the range of 7.7% to 8.8%. Recognizing that these periods might be somewhat inflated due to the impact of deferred services, we chose a somewhat lower annual trend of 7% for the two subsequent years.
- Enrollment trends. Enrollment in individual plans shows an unusual pattern of being highest in January and then dropping throughout the year, increasing again at the following January. We replicated this pattern in the projections and assumed a 5% trend from 2020 to 2021 and 3% from 2021 to 2022. The higher assumption for enrollment growth in 2021 is due to premium reductions, COVID-19, and expanded open enrollment.

The table below summarizes the observed trends and the trends chosen for the 2022 projections.

Trend Category	Observed Trends	2022 Trend Assumptions
Claims	• 4^{th} Quarter 2019 to 4^{th} Quarter 2020 = 8.8% • 2^{nd} Half 2019 to 2^{nd} Half 2020 = 7.7%	• 7% annual trend 2019 to 2021 • 7% annual trend 2021 to 2022
Enrollment	• Downward trend from 1/19 to 12/19 = -10% • Downward trend from 1/20 to 12/20 =-5% • January 2019 to January 2020 = +2.5% • Enrollment bump in mid-2020 likely due to COVID and unemployment • Member months 2019 to 2020 = +5%	• 5% annual trend 2020 to 2021 • 3% annual trend 2021 to 2022

Aggregate 2021 and 2022 Claim and Enrollment Projections

Based on the assumptions described above, we projected 2021 and 2022 claim and enrollment projections. The table below provides a summary of the adjusted 2021 and 2022 data and the projections.

	Year	Member Months	Incurred Claim Dollars	Incurred Claims PMPM
Historical	2019	536,759	$186.5 million	$347.39
	2020	563,437	$194.5 million	$345.13
Projected	2021	591,609	$245.4 million	$414.79
	2022	609,357	$269.8 million	$442.71

Continuance Table Development

Continuance tables are commonly used in health insurance calculations to show the probability that a claim for an individual will reach a certain dollar amount in the plan year. In evaluating the impact of various reinsurance formulas, continuance tables are the tool used to determine the amount of reinsurance claims that will be reimbursable under a specific formula.

We developed a continuance table based on the 2019 aggregate claims with seven months of runout. The table was projected to 2022 using factors to increase the total claims and member months to the projected amounts. The projected continuance table shows that if the 2021 reinsurance formula (74% of claims between $60,000 and $400,000) were used in 2022, the reinsurance claims would total $43.7 million.

Funding Estimates – State Funding

State funding comes from an assessment on writers of health insurance calculated as 0.6% of the prior plan year second lowest cost silver plan premiums for a 40-year-old nonsmoker purchasing on the New Hampshire Marketplace on a per member per month basis. The funding available to the reinsurance program is equal to the assessment amount, reduced by an amount for contingency and an amount for administrative expenses. The projected state funding available for the reinsurance program in 2021 and 2022 is shown in the table below. The estimated life estimate, contingency, and expense estimates were provided by NHHP.

	Projected 2021	Projected 2022
Second lowest silver premium	$404.60	$370.44
60 basis points	.006	.006
Assessment per member per month	$2.43	$2.223
Estimated life estimate	490,000	490,000
Gross assessment	$14,288,400	$13,071,240
Less contingency	($200,000)	($260,000)
Less expenses	($500,000)	($400,000)
State funding	**$13,588,400**	**$12,411,240**

How Federal Pass-Through Funding is Calculated

The calculation of the amount of pass-through federal funding is based on a formula established by CMS that requires the following pieces of information:

- The number of individuals who are eligible to receive Advance Premium Tax Credits (APTC) with the waiver in place.
- The number of individuals who would have been eligible to receive APTC if the waiver were not in place.

- The average premium the APTC-eligible individuals would have paid if they weren't eligible for APTC, both with and without the waiver.
- The average premium the APTC-eligible individuals actually paid after application of the APTC, both with and without the waiver.

The formula then calculates the aggregate difference between the amount of APTC with and without the waiver, and this represents the gross federal savings from the program. Two adjustments are made to the savings amount:

- The ratio of Premium Tax Credits (PTC) to APTC. The IRS calculates actual premium tax credits at the end of the year, which in the aggregate has typically been somewhat less than the APTC. The ratio is used to reduce the state's pass-through funding. amount
- Exchange fee losses. The federal government collects exchange fees based on a percentage of premium. When the premium is reduced due to the waiver, they lose an amount equal to the exchange fee percentage on the savings. This amount is reduced from the state's pass-through funding amount.

The Impact of the American Rescue Plan Act of 2021

The American Rescue Plan Act of 2021 was passed by Congress and signed by President Biden on March 11, 2021. This new legislation impacts the calculation of the federal pass-through funding in two ways:

1. The Act expands the income criteria for APTC eligibility for 2021 and 2022. This means that more individuals will be eligible for APTC and the APTC amounts will be larger. The table below compares the original 2021 eligibility criteria with the expanded 2021 and 2022 criteria.

	Maximum Premium as % of Income	
Income as a % of FPL	Original 2021	Revised 2021 and 2022
Less than 133%	2.07%	0.00%
133% up to 150%	3.10% - 4.14%	0.00%
150% up to 200%	4.14% - 6.52%	0.00% - 2.00%
200% up to 250%	6.52% - 8.33%	2.00% - 4.00%
250% up to 300%	8.33% - 9.83%	4.00% - 6.00%
300% up to 400%	9.83%	6.00% - 8.50%
400% and above	Not available	8.50%

2. The Act eliminates the reconciliation of APTC to PTC. The wording in the Act regarding the years to which this change applies is ambiguous. It may be applied only to a taxable year beginning in 2020, or it may apply to taxable years beginning after 12/31/2019. Clarification of the ambiguity has not yet been made.

In calculating the projected federal pass-through funding, we have based estimates of the number of APTC-eligible individuals on the revised 2022 income criteria. With regard to the reconciliation of APTC to PTC, we have projected a range of outcomes depending on whether or not the reconciliation change applies to plan year 2022.

Estimate of Federal Pass-Through Funding for 2022

With the premium information provided by the carriers in the second data request, we created a distribution of insured individuals by age and income. This allowed us to estimate the number of individuals who would be eligible for APTC at various premium levels and ages. It also allowed us to modify the distributions to reflect the impact of the change in eligibility from the American Rescue Plan.

In order to perform these calculations, we needed to make an assumption regarding how the premium would change from 2021 to 2022. Because we used a 7% trend assumption for the claims, we made a similar 7% increase assumption with regard to premium levels, based on the theory that rate changes would closely follow claim trend. Because the 2022 reinsurance parameters were not expected to vary significantly from the 2021 parameters, we did not assume that the difference in carrier rates between with and without waiver scenarios would change in any significant amount. We applied the 7% trend assumption to both with and without waiver 2021 premiums.

The PTC Ratio used in the calculations is 94.17% for 2022, assuming that reconciliation will occur. This percentage was provided by CMS, based on the actual PTC ratio in 2018. If reconciliation does not occur, the percentage is 100%.

The table below shows the 2022 federal pass-through funding projection.

Item		Without Waiver	With Waiver (PTC Ratio = 94.17%)	With Waiver (PTC Ratio = 100%)
Enrollment	Receiving APTC	31,308	30,359	
Average Premium PMPM	Without APTC	$631.79	$544.02	
	With APTC	$197.92	$182.26	
	Difference = APTC	$433.86	$361.76	
Annual Premium	Without APTC	$237.4 million	$198.2 million	
	With APTC	$74.4 million	$66.4 million	
	Difference = APTC	$163.0 million	$131.8 million	
Projected APTC Savings			$31.2 million	$31.2 million
PTC Ratio			94.17%	100.0%
Total PTC Savings			$29.4 million	$31.2 million
Exchange Fee Loss (2.25%)			($661,309)	($702,250)
Net Federal Funding			**$28.7 million**	**$30.5 million**

Sensitivity Testing

As part of our analysis, we performed sensitivity testing on the rate change, claim trend, and rate differential between with and without the waiver. We tested the rate change in a range of ± 2% from the chosen assumption of 7%. We tested the claim trend in the range of ± 2% from the chosen assumption of 7%. We also tested the rate differential between with and without waiver in the range of 13.0% through 14.8%.

We tested 72 combinations of these assumption variations. We found that federal funding could vary by as much as plus or minus $700,000 over the rate change range, and plus or minus $1.9 million over the with/without waiver rate impact range. We also found the impact to the reinsurance coinsurance percentage of all sensitivity parameters combined to be between 1% and 3% in either direction.

Proposed Reinsurance Program Parameters 2022

Based on the assumptions and calculations described above, total funding for the reinsurance program is projected to be in the range of $41.1 million to $42.9 million.

If the 2021 reinsurance parameters (74% of claims between $60,000 and $400,000) were used for 2022, approximately $43.7 million in reinsurance claims would be expected, exceeding the available funding.

Holding the floor and ceiling at $60,000 and $400,000 for 2022, the coinsurance percentage would need to be reduced to 69.7% to 72.7% to match the available funding.

Category	With Waiver (PTC Ratio = 94.17%)	With Waiver (PTC Ratio = 100%)
Federal Funding	$28.7 million	$30.5 million
State Funding	$12.4 million	$12.4 million
Total Funding	$41.1 million	$42.9 million
Reinsurance Claims Using 2021 Parameters: 74% between $60,000 and $400,000	$43.7 million	$43.7 million
Reimbursement % Needed to Match Funding	69.7%	72.7%

Actuarial Work Group

An actuarial work group was formed to provide advice and assistance during the development of the 2022 reinsurance parameters. It consisted of actuarial representatives from Anthem, Centene, and Harvard Pilgrim, as well as David Sky from the New Hampshire Insurance Department, representatives from NHHP, and the Leif Associates actuaries.

The group held several meetings:

- November 10, 2020. The group discussed project timing, data requests, and confidentiality agreements.
- February 9, 2021. Leif Associates presented feedback on the data collection and aggregation, discussed trend assumptions, special adjustments, and the aggregate claim and enrollment projections. The group was asked for input, which included a suggestion of smoothing the enrollment projections, which was applied in the next set of projections.
- March 16, 2021. The recent release of estimates of the 2021 federal pass-through funding was discussed, and Leif Associates shared their insight into the reasons why the amount was lower than anticipated. Leif Associates reviewed the impact of the American Rescue Plan and presented the proposed 2022 reinsurance parameters. The group was polled on whether they were in support of presenting the proposed formula with the coinsurance percentage ranging from 70% to 72%. All three carriers supported the recommendation.

About This Study

This study was performed by Leif Associates actuaries Elizabeth Leif and Nicholas Ramey. Both Elizabeth and Nicholas are members of the American Academy of Actuaries and meet the qualification standards of that organization to conduct the study that is documented in this report.

We would like to acknowledge the cooperation and responsiveness of Anthem, Centene, and Harvard Pilgrim in providing the data we requested and for their participation in the Actuarial Work Group during the project. Their contributions were essential to the completion of the project.

This study includes projections of future results that are based on numerous assumptions that we believe are reasonable but may ultimately be influenced by factors of which we are unaware. As such, they represent our best estimates at this time.

In performing this study, we relied upon enrollment, revenue and claim data provided by Anthem, Centene, and Harvard Pilgrim Health Care. We evaluated the data for reasonableness and consistency but did not perform audits to confirm its accuracy.

Leif Associates has no relationship with the New Hampshire Reinsurance Program, Anthem, Centene, Harvard Pilgrim Health Care, or any person or company associated with the Program that would have impaired the objectivity of our work.