



to: **Janette Casillas** date: **May 23, 2011**  
from: **Pete Davidson** subject: **MRMIP Enrollment  
Recommendation**

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for fiscal year 2011-2012. Our recommendation is to increase the MRMIP enrollment target to 8,000. Alternatively or combined with this action, it may be appropriate to consider changes to the MRMIP program, such as bringing benefits and premiums closer to that offered under the California Pre-existing Condition Plan (PCIP), the temporary federal high risk pool created under the Affordable Care Act. The PCIP program offers more generous benefits and lower premiums than MRMIP.

In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our analysis was supported by continuing efforts by MRMIB staff to clean up and validate the underlying data and reconciliation settlements for prior years; however issues with willingness of healthplans to agree to settlements for prior years continue to add significant uncertainty around the amount of available funds in future periods.

### **Background**

MRMIP and Guaranteed Issue Pilot Program (GIP) share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each fiscal year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage



or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained positive year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

Several healthplan settlements, including settlements attributable to as far back as the 2003 contract year, are anticipated. For MRMIP, calculated settlements generally result in recoveries due from healthplans. While we believe reasonable estimates were performed based on the available data, past experience indicates that when requests for payment are made to the healthplans the plans become motivated to clean up the data they provided, often resulting in substantial reductions in amounts owed compared to initial estimates as well as delays in completing the transaction.

The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience, premium revenue, and enrollment. For example, the most recent available GIP claims experience covers calendar year 2009. Due to the end of disenrollments from MRMIP after 36 months, no new GIP enrollees have been added since September 2007. The most recent available GIP enrollment data indicates that enrollment is declining by an average of approximately 1.9% per month so we expect GIP settlement activities to be an issue for several more years barring legislative changes impacting GIP. Implementation of the Pre-existing Condition Insurance Plan (PCIP) in late October 2010 may affect the rate of disenrollment, but since PCIP applicants must have been uninsured for 6 months to be eligible the impact is expected to be minor over the short term. At this time it is unclear whether MRMIB will continue to have liability for GIP enrollees after the PCIP terminates operation at the end of 2013 and other Federal Health Reform measures such as guarantee issue in the Individual market go into effect.

### **Analysis**

For the purpose of developing the enrollment target for fiscal year 2011, we projected cash flows for the remainder of fiscal year 2010-2011 and for fiscal years 2011-2012 and 2012-2013. These projections were developed with the assistance of MRMIB staff, who developed the assumptions related to the timing and amount of anticipated settlements based on analysis of invoices submitted by the participating health plans. Note that there are some significant differences in the assumed settlements compared to the assumptions applied in the development of the November 2010 enrollment target. The differences are primarily due to the assumed timing of settlements though amounts have been revised as well. Consistent with the estimate supporting the November 2010 enrollment target, large calculated receivables due from plans for past MRMIP coverage periods have been excluded due to difficulties in accurately predicting the timing and amount of payments from these plans. GIP settlements (net payments to plans) are expected to be approximately \$12-\$13 million for calendar year 2009 coverage, dropping to approximately \$10-\$11 million for calendar year 2010 and \$8.5-\$9 million for calendar year 2011 coverage.



The following list summarizes the primary assumptions underlying the projections:

- In November 2010, we recommended and the Board approved a MRMIP enrollment target of 7,800 members for calendar year 2011.
- MRMIP enrollment as of February 2011 was 6,679 members.
- Our current estimate of the annual subsidy for MRMIP enrollees for fiscal year 2011-2012 is approximately \$3,275 per member. The attached Exhibit 1 summarizes the development of this figure.
- The MRMIP fund balance was approximately \$36.7 million as of February 28, 2011.
- Budget appropriations
  - FY 2010-2011 appropriation for local assistance of \$32.3 million was received August 2010.
  - Fines and penalties of approximately \$3.7 million were received October 2010.
  - FY 2011-2012 and FY 2012-2013 appropriations are expected to be \$30.6 million and received August 2011 and August 2012, respectively.
  - Fines and penalties of approximately \$2.4 million are expected in October 2011 and October 2012.
- MRMIP settlements -- note that due to consistent problems finalizing and recovering MRMIP settlement receivables the majority of these amounts have been excluded from the cash flow projection
  - Included in cash flow projection
    - \$0.1 million due to plans in September 2011 through December 2011 related to services provided between fiscal years 2006-2007 and 2009-2010.
  - Not included in cash flow projection
    - \$43.1 million estimated due from plans
- GIP settlements
  - A net of \$33.3 million estimated due to plans during FY 2010-2011, FY 2011-2012, and FY 2012-2013.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2011-2012. We modeled various MRMIP enrollment scenarios with a goal of positive but not excessive fund balances at the end of fiscal years 2010-2011 and 2011-2012. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets may have to be decreased. However, in recent months MRMIP enrollment has declined and is currently more than 1,000 members below the 7,800 target. Substantial increases in enrollment appear to be necessary to expend the available funds on a cash basis. Assuming enrollment could increase by 500 members per month, a target of 15,500 would be expected to nearly exhaust the fund balance by the end of Fiscal Year 2011-2012.



The following table summarizes the results of cash flow projections:

**Table 1**

Projected MRMIP Fund balance		
MRMIP Membership Target	June 30, 2011	June 30, 2012
7,800	\$20.6 million	\$14.2 million
15,500	\$19.9 million	\$0.8 million

Note that actual results could vary significantly from those displayed in Table 1 depending on timing and amount of settlements. The following chart shows the projected monthly fund balances over the projection period under the current enrollment target of 7,800 individuals:

**Chart 1**

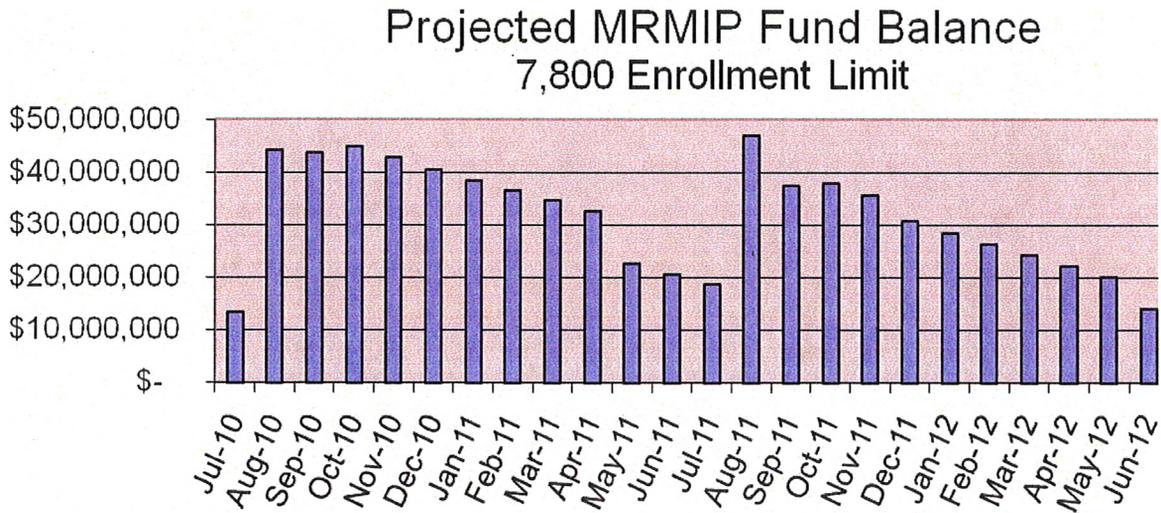
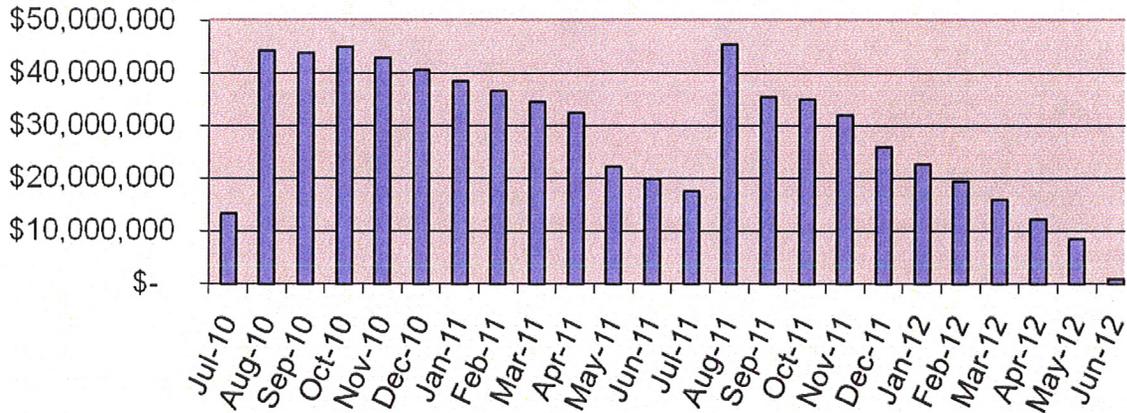




Chart 2

### Projected MRMIP Fund Balance 15,500 Enrollment Limit



We also evaluated the number of MRMIP enrollees that could be covered during fiscal year 2011-2012 on an accrual basis. The results of that analysis are shown below:

Fiscal Year 2011-2012 local assistance appropriations	\$32,934,000
less Estimated GIP settlements attributable to FY 2011-2012 enrollees	<u>\$7,400,000</u>
Estimated Funds available for MRMIP enrollees	\$25,534,000
divided by estimated Fiscal Year 2011-2012 MRMIP subsidy per person	<u>\$3,275</u>
Estimated number of MRMIP enrollees covered by available funding	7,797

We believe it is appropriate to consider both the cash and accrual estimates in reaching a decision regarding the recommended enrollment limit. The cash-based estimate indicates that significantly higher numbers of enrollees could be covered within the available budget, and the accrual estimates indicates that the current enrollment target of 7,800 is appropriate when all liabilities are considered. We are recommending an increase in the enrollment target to 8,000. Alternatively or combined with this action, it may also be appropriate to consider changes to the MRMIP program, such as bringing benefits and premiums closer to that offered under PCIP, which offers more generous benefits and lower premiums than MRMIP.

We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting enrollment targets is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections twice a year).

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Please contact Pete Davidson at 415-498-5636 if there are any questions.

**California Major Risk Medical Insurance Program  
 Projection of Fiscal Year 2011-2012 Average Costs**

**Exhibit 1**

Summary of expected state costs	
Average base period claim costs per person per year	\$9,023
Trend adjustment from base period to projection period	1.161
Projected claim costs per person per year	\$10,472
Average plan admin cost per person per year	\$275
Total cost per person per year for July 2011 - June 2012	\$10,747
Summary of expected premiums	
Current average premium	\$7,116
Adjustment to average expected premium level for July 2011 - June 2012	5.0%
Average expected premium July 2011 - June 2012	\$7,472
Expected average state subsidy	<b>\$3,275</b>
Base period loss ratio	135%
Projected loss ratio	140%