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State of Washington

Section 1332 State Innovation Waiver
Actuarial and Economic Analysis

December 13, 2017

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Table of Contents

Appendices

Introduction

The individual health insurance market in the state of Washington (Washington) has shown symptoms of destabilization in recent years, including double-digit premium increases and threats of areas with no or very low issuer participation. In order to mitigate further potential destabilization, Washington is seeking to submit a Section 1332 State Innovation Waiver (1332 waiver or waiver). The Affordable Care Act (ACA) permits states to waive certain provisions of the ACA in order to increase access to affordable coverage. However, in order for both of the Secretaries of Health and Human Services (HHS) and Treasury to approve of the waiver, the state must complete an application in which it demonstrates that it has met the regulatory requirements.

Pursuant to 45 CFR 155.1308(f)(4)(i)-(iii), in order for Washington's 1332 waiver to be approved, the state must demonstrate that the waiver does not interfere with the four "guard rails". The four guard rails are defined as:

1) Coverage (there must be at least a comparable number of individuals with coverage under the waiver);

2) Affordability (the waiver must not increase out of pocket spending including premiums and cost sharing);

3) Comprehensiveness (the waiver should not decrease the number of individuals with coverage that meets the essential health benefits (EHB) benchmark); and

4) Deficit neutrality (the waiver should not increase the federal deficit).

The waiver, as proposed, would reduce premiums through the introduction of a state-based reinsurance program starting in 2019. The reinsurance program would operate similarly to the Transitional Reinsurance program under the ACA that existed from 2014 to 2016 in that it would reimburse carriers for a proportion (coinsurance amount) of high-cost enrollee claims between a lower bound (attachment point) and an upper bound (cap). For 2019, Washington has set the reinsurance cap at $500,000 and the attachment point at $95,000. This means, under the reinsurance program, issuers will be reimbursed for enrollees' claim costs that are between $95,000 and $500,000. We currently estimate that issuers would receive reimbursement of 80% of these costs (i.e., a coinsurance rate of 80%). However, these parameters, in particular the attachment point, may change as the program and funding mechanisms are finalized prior to 2019. If 2019 experience is worse than expected and the funding is not sufficient, the coinsurance level for all carriers will be decreased. If the 2019 experience is better than expected, Washington will hold the funds to apply to future years.

The reinsurance program will be funded through an assessment on all health insurers and, contingent on approval of the 1332 waiver, additional monies will be collected from federal funds. An assessment in the form of a premium tax increase of 2.5% will be charged on health premiums[1] in 2019 to fund the reinsurance program, effective in 2019. The calculated assessment is anticipated to cover the entire costs of the reinsurance program; federal funds collected upon approval of the waiver will be in addition to the estimated funding amount collected. Contingent on waiver approval, the federal pass-through funds could be used to reduce the assessment on health premiums such that anticipated costs of the reinsurance program will be funded through both the assessment and federal funds with no additional monies. The assessment will decrease each year as the funding amount will remain constant from 2019 in to the future years and the total amount of premiums for the fully insured market is expected to increase. **The assessment, as calculated for this report, does not include monies to cover the costs Washington will incur to operate the program. Future reports may include costs of operating the program.** This funding is anticipated to provide an estimated $196 million each year from 2019 through 2028 to reimburse individual market insurers for high-cost enrollees.

The goals of the reinsurance program are to remove the volatility of high cost claimants from being solely the risk of any one carrier as well as to lower premiums for the individual market in total (as the reinsurance funding will come mostly from sources outside the individual market). In doing so, the reinsurance program would incentivize enrollees to join or remain in the market, encourage issuer participation, and reduce overall instability. In addition to providing lower premiums to residents of Washington, the reinsurance program would also reduce federal outlays through lower Advance Premium Tax Credits (APTCs).

As part of its 1332 waiver, Washington is requesting federal funds as a way of offsetting some of the costs incurred by the reinsurance program. Washington's reinsurance program will reduce premiums below what they would have been absent a reinsurance program for those purchasing insurance coverage in the individual market. It will also reduce the amount of APTCs Washingtonians receive over the next ten years. APTCs are subsidies for eligible enrollees that can be used to reduce the cost of premiums for plans purchased on the Exchange. The amount of APTCs available for eligible consumers are benchmarked to the second lowest cost silver plan (SLCSP) available on the Exchange. If premiums are reduced (including the SLCSP), then the amount the Federal government will be required to pay in APTCs will also be reduced.

This report demonstrates that the savings of aggregate APTC amounts exceed lost federal revenue that may result from the reinsurance program. Furthermore, the reinsurance program will

[1] The premium tax was calculated based on expected health premiums to private health insurers (small group, large group, and individual) for Washington. Medicaid, CHIP, life and disability, and other exemptions apply.

not reduce but rather should improve Washingtonians' access to affordable and comprehensive coverage. The waiver requests that Washington receive the amount of federal savings from APTCs, net of other costs, as a result of the reinsurance program.

This document has been prepared for the sole use of the management of Washington. Wakely Consulting Group LLC (Wakely) understands that the report will be made public and used for potential legislation and the 1332 waiver application process. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

This actuarial report is intended to supplement Washington's 1332 waiver report, if they choose to submit a waiver application. It addresses section 45 CFR 155.1308(f)(4)(i)-(iii), including actuarial analyses and actuarial certifications, economic analyses, and data and assumptions. However, Wakely anticipates that additional updates will be made to this report prior to its submission as part of a 1332 waiver, upon obtaining legislative approval and further guidance. Other sections of the waiver will contain the non-actuarial portions of the 1332 waiver requirement. Reliance on this report should include a review of the full report by qualified individuals.

Analysis Results

As described previously, the four guard rails of an approved 1332 waiver application are: 1) Coverage Requirement; 2) Affordability Requirement; 3) Comprehensiveness Requirement; and 4) Deficit Neutrality.

Wakely's analysis estimated that the waiver meets each of the four guard rails not only in 2019 but in each subsequent year over the 10-year window. The high-level 2019 guard rail results are shown in Table 1. Additional information regarding the guard rail results is found in Appendix C.

Table 1: 2019 High-Level Guard Rail Results

Guardrail	Effect of Waiver
Coverage	Increase in enrollment
Affordability (2019)	Premiums reduced 8.1% relative to what they would have been without the reinsurance program
Comprehensiveness	No change to EHBs
Deficit Neutrality (2019)	Federal savings of $36.8 million in 2019
Deficit Neutrality (10-year window)	Federal savings each year of the 10-year window

Coverage, Affordability, and Comprehensiveness

The reinsurance program is expected to decrease premiums in the non-group market below what they would have been absent a reinsurance program. The reduction in premiums should increase overall coverage through increased enrollment. Existing research from Congressional Budget Office (CBO)[2] and the Council of Economic Advisors[3] has noted that premium decreases should result in enrollment increases. As the reinsurance program has no impact on other cost-sharing, the decrease to premiums also improves affordability for consumers. Similarly, the reinsurance program would have no effect on the comprehensiveness of coverage. EHB requirements will not be affected by the reinsurance program. Individuals purchasing coverage in the non-group market would have the same benefits with the reinsurance program as they would without it.

Deficit Impact

The following tables display the impact of the reinsurance program on Washington's individual ACA market both for 2019 and for the 10-year deficit window. Based on the best estimate assumptions, in 2019, the waiver reduces premiums by 8.1% compared to what they otherwise would have been (this reduction includes a 10% reduction due to reinsurance, a 2.5% increase due to the assessment, and 0.5% decrease due to a healthier risk pool). The waiver also increases non-group enrollment by 2.0% and creates $36.8 million in federal savings (which incorporates APTC savings net of other federal revenue). Results for 2019 are shown in Table 2 and results for years 2019-2028 are shown in Table 3. Further detailed results for the program over the 10-year window are shown in Appendix C.

Table 2: 2019 Impact of Reinsurance on Premiums, Enrollment, and Federal Deficit

	Premiums	Non-Group Enrollment	Federal Savings
Effect of Reinsurance	-8.1%	2.0%	$36.8 million

Table 3: 10-Year Deficit Impact of Reinsurance Program

Category of Impact	Impact to Federal Deficit Savings/Costs
Difference in APTCs	$405.6 million
Difference in Mandate Penalty	-$7.8 million
Difference in Exchange User Fees	N/A
Difference in Health Insurance Providers Fee	-$30.3 million
Total Savings over 10-Year Window	**$367.5 million**

[2] http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/87xx/doc8712/10-31-healthinsurmodel.pdf

[3] https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

Data and Methodology

The following steps were taken to estimate the impact of a state-based reinsurance program on Washington's individual ACA market both for 2019 and for the 10-year deficit window.

1. Wakely's model incorporates 2016 calendar year experience as base data, which was provided by Washington carriers via their EDGE XML data files. 2016 premiums, claims, and enrollment were summarized to create a baseline picture of Washington's market. The summarized amounts from the base year of 2016 to the projection year of 2019 are shown in Table 4.

Table 4: 2016 to 2019 Baseline Average Enrollment and Premium Data / Estimates

Baseline	2016	2017	2018	2019
Average Annual Enrollment				
Total Non-Group Enrollment	307,753	293,456	275,898	271,753
APTC Enrollment	113,429	110,115	110,115	110,115
Total Non-APTC Enrollment	194,324	183,341	165,782	161,638
Per Member Per Month (PMPM) Amounts				
Total Non-Group Premium PMPM	$370.41	$421.30	$562.86	$601.88
APTC PMPM	$237.31	$253.33	$354.69	$379.28
Total Annual Dollars				
Total Non-Group Premiums	$1,367,930,552	$1,483,596,083	$1,863,487,936	$1,962,762,279
Total APTCs	$323,014,032	$334,746,029	$468,682,944	$501,180,123

2. The 2019 enrollment, premium, and APTC amounts were calculated using the final 2018 rate filing increases as of October 30, 2017 as well as 2017 data, both provided by Washington. The 2018 filed premium rates reflect the assumption that cost share reduction subsidies (CSRs) will no longer be funded by the Federal government; silver metal level plans on Exchange have been increased to account for the liability being transferred from the Federal government to the issuer.

    a. The state average premium was based on the 2016 EDGE data and trended by observed premium increases in 2017 (to estimate 2017), estimated premium increases in 2018 based on the 2018 rate filings (to estimate 2018), and a publicly available study[4], including a shift in morbidity due to enrollment changes, equaling 6.9% (to estimate 2019). Note that although premium increases by carrier in years

[4] https://www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers.html

2017 and 2018 are known based on carrier rate filings, the market average premium increase will vary depending on the age of members who enroll in the market, their plan selections, and other factors. This means that although 2018 premium increases are final, the average increase of the state average premium will likely differ from the increases estimated by the 2018 carrier rate filing.

b. To estimate the average 2019 APTC amounts, Wakely used the 2017 APTC premium provided by CMS[5] and trended to 2018 based on SLCSP on Exchange premium trends from 2017 to 2018 by county, weighted by 2016 on Exchange enrollment. These premium trends included the impact of CSRs no longer being paid by the Federal government, as incorporated in the carrier rate filings. The impact of this adjustment was 40.0%. The premiums were adjusted from 2018 to 2019 using 6.9% trend, as described previously.

c. The 2019 individual market enrollment was estimated using 2017 data provided by the Washington State Office of the Insurance Commissioner (OIC) and Washington Health Benefit Exchange (HBE) and adjusted to account for changes in enrollment due to net attrition throughout 2017 and expected 2018 and 2019 premium changes. Subsidized enrollment is assumed to be flat from 2017 to 2019, with the enrollment decrease coming from the unsubsidized on and off Exchange populations. The increase in the silver metal level premiums on Exchange due to the defunding of CSRs is expected to increase metal level switching. The shift of members from silver metal level plans to gold and bronze metal levels plans has been accounted for, based on an external study. This is discussed further in Appendix A.

3. To estimate the effects of the reinsurance program:

a. Wakely assumed that $196 million dollars would be spent to reduce premiums in 2019, with the goal of initially decreasing premiums by 10% compared to what they would have been without the reinsurance program. All of the funds collected were assumed to cover claims costs; none of the funds collected were assumed to cover the costs Washington will incur to operate the program. Note, that monies to cover operating costs may be incorporated in future drafts of the report.

b. To calculate the assessment, Wakely received the health premiums to be assessed (less exclusions), based on calendar year 2016 volume, as well as the desired reduction in premiums of 10% (excluding assessment or changes in morbidity), due to the implementation of the reinsurance program in 2019, from Washington. Wakely trended the premiums to be assessed from 2016 to 2019

[5] https://downloads.cms.gov/files/effectuated-enrollment-snapshot-report-06-12-17.pdf

based on the expected increase in collected premiums, as provided by the OIC. The final assessment in 2019 was then calculated based on the revenue target of $196 million needed to reduce premiums by 10% in 2019 (excluding assessment or changes in morbidity) and the estimated 2019 health premiums to be assessed. The result is an assessment or premium tax of 2.5%. Any significant variations from these assumptions that lead to differences in the amount of premium dollars that receive assessment may have significant impact on the amount of funding collected for the reinsurance program. This should be monitored closely and adjusted as necessary. Note, this assessment is anticipated to cover the entire cost of the reinsurance program; federal funds collected upon approval of the waiver will be in excess of the estimated funding amount needed.

c. To calculate the amount that premiums would be reduced due to the implementation of the reinsurance program, Wakely first took the aggregate estimated premiums for the individual ACA market in 2019, reduced them by $196 million, and increased them by 2.5%, which is the amount of the assessment needed to fund the reinsurance program in 2019. Best estimate assumptions resulted in a reduction in premiums of 10.0% due to reinsurance payments, which less the assessment of 2.5% and no further adjustment for morbidity, would result in overall premium decreases of 7.7%, relative to what would have occurred without the reinsurance program.

4. Enrollment was re-estimated with the lower post-reinsurance premium, using an enrollment function (Appendix A contains additional information regarding the enrollment function), to calculate a final individual market average enrollment.

5. Given the enrollment with the reinsurance program is estimated to be higher than without the reinsurance program, Wakely estimated the impact to the morbidity of the market due to the implementation of the reinsurance program.

    a. A health reform study from Massachusetts[6] indicated that enrollees who leave the market have costs that are approximately 73% compared to those who remain. This relationship was applied to enrollees who remain in the market due to the lower premiums caused by the reinsurance program but would have left without the implementation of the reinsurance program.

[6]https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

b. The result is an additional 0.5% reduction in average costs due to the improved morbidity of the covered population from the lower premiums under the reinsurance program.

c. Applying the additional 0.5% reduction to the net 7.7% reduction in premiums (which is the 10% reduction in premiums due to reinsurance payments less the 2.5% assessment applicable to reinsurance) results in an overall premium reduction estimate of 8.1% (under the best estimate scenario) compared to what they otherwise would have been. The results of the best estimate can be seen in Table 5.

Table 5: Projected 2019 Premium Impacts, After Reinsurance

After Reinsurance	
Reinsurance Funding	$196,276,228
Reduction in Premiums (due to Reinsurance Payments)	-10.0%
Reinsurance Assessment	2.5%
Reduction in Premiums (Net Assessment, no Morbidity)	-7.7%
Reduction in Premiums (Improved Morbidity)	-0.5%
Reduction in Premiums (Total)	-8.1%

d. After reducing the premium impact by an additional 0.5%, Wakely again applied the enrollment function (described in item 4), which resulted in an additional 0.1% increase in enrollment, causing the total enrollment growth from the baseline to be 2.0%. No further iterations were done on the relationship between the change in enrollment and change in morbidity based on the negligible results of this iteration.

e. The estimated impact of the Washington reinsurance program in 2019 is an 8.1% reduction to premiums (compared to what they otherwise would have been without reinsurance) which includes the impact of removing $196 million from the market, the 2.5% premium tax assessment attributable to reinsurance, and the improvement in the morbidity of the market due to the reinsurance program.

6. These figures, along with other claims assumptions, were used to estimate the reinsurance parameters that would result in $196 million being removed from the individual market in 2019. Additional information on the reinsurance parameters is in Appendix B.

7. The following were the assumptions incorporated for the 10-year estimates:

a. Individual premiums were trended using National Health Expenditure (NHE) Data from CMS.7 The NHE projections are produced by the Office of the Actuary of CMS and are considered one of the better long-term projections of health expenditures and premium growth. The projections for premium growth include potential changes to network design and premium buy down which we feel best aligns with long-term premium levels.

b. The individual market enrollment was assumed to have reached a steady state in 2019. We have no assumed no change in enrollment figures, absent the waiver.

c. The reinsurance funding amounts in 2020 and beyond are set equal to the initial funding estimate in 2019 of $196 million, initially set to reduce premiums by 10%. The funding amount for years beyond 2019 are not trended to align with increases in premiums and underlying claims costs.

d. Premiums to which the assessment applies were trended through 2020 based on trend estimates provided by the OIC. Years after 2020 were also trended based on NHE Data.[8] Because the funding amount does not change as premiums increase, the assessment is expected to decrease over the ten-year length of the reinsurance program.

The results of these assumptions, such as enrollment (both in total and various distributions), changes to the SLCSP, and impact on the federal deficit are discussed in Appendix A and Appendix C.

Scenario Testing

Wakely performed scenario testing which involved changing the enrollment and premium assumptions for 2019. These two variables were chosen for scenario testing as they are significant drivers of the results of the analysis. The funding level was not changed from the base scenario and is equal to $196 million in all scenarios. We tested three different scenarios in which:

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[7] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/ - Table 17. Premiums were trended by spending per enrollee for direct purchase for each year. For years outside of the projection window, we estimated using the average of the years in the projection window used for the waiver.

[8] Premiums were trended by spending dollars for private health insurance (which includes direct purchase and employer-sponsored private health insurance) for each year. For years outside of the projection window, we estimated using the average of the years in the projection window used for the waiver.

1. Premiums are 10% higher than the best estimate. No changes were made to enrollment.
2. Premiums are 10% higher than the best estimate and total enrollment is 10% lower than the best estimate. The APTC enrollment did not change; the decrease is applied only to the unsubsidized population, which results in a 17% reduction for this population.
3. Premiums do not change; total enrollment is 10% higher than the best estimate. Both subsidized and unsubsidized enrollment increase equally by 10%.

Further detail regarding the scenario testing can be found in Appendix A and Appendix C.

The high-level results of the scenario testing are shown in Table 6, which accounts for the total reduction in premiums (including the morbidity impact and the assessment).

Table 6: High-Level Results of Scenario Testing

Scenario	Best Estimate	1	2	3
Enrollment - Total	No Change	No Change	10% Lower	10% Higher
Enrollment - APTC	No Change	No Change	No Change	10% Higher
Enrollment - Non- APTC	No Change	No Change	17% Lower	10% Higher
Premiums	No Change	10% Higher	10% Higher	No Change
Total Reduction in Premiums	-8.1%	-7.1%	-8.2%	-7.1%
Estimated Net Federal Savings	$36,760,491	$35,607,410	$41,315,260	$35,529,505

Although a variety of alternative scenarios were tested, the basic conclusions did not alter significantly from the best estimate scenario. These results imply that Washington's reinsurance program would reduce premiums, increase coverage, and provide federal savings, even if the projections vary from Wakely's best estimate.

Appendix A

Data and Methodology

2019 Baseline Enrollment and Premium Estimates

To create the baseline estimates, Wakely completed the following steps:

1. Wakely collected and summarized the 2016 EDGE premium, claims, and enrollment data from each Washington issuer, which was used as the base data.[9] The data was compared to Washington reports and supplemental data collected from Washington issuers to confirm consistency. Wakely also relied upon Washington (both the OIC and the HBE) for data that was not available in the EDGE files. Several key data points, such as APTC enrollment and dollar amounts, were verified using both data provided by the carriers and Washington.

2. Using publicly available data and data from Washington (see Reliances in Appendix E), estimates were made for 2017 average enrollment.

    a. The number of enrollees with APTCs in 2017 was measured based on an average of actual monthly enrollment from January through October 2017 and adjusted for the change in enrollment from January through October 2016 compared to January to December 2016 to produce a yearly 2017 average member count. This data was provided by Washington HBE.

    b. On Exchange enrollment for 2017 was measured using on Exchange 2017 enrollment provided by the Washington HBE and enrollment estimates completed for the Washington HBE by Wakely consultants in a separate actuarial engagement. We adjusted the results incorporated into this analysis based on variances in timing and data from the two data sources.

    c. Off Exchange enrollment for 2017 was measured using off Exchange 2017 enrollment provided by the OIC and adjusted to account for within year net attrition, based on 2016 average enrollment.

3. Overall enrollment in 2018 was estimated using a non-linear enrollment response function estimated by the Council of Economic Advisors (CEA take-up function).[10] The function computes expected enrollment change based on premium rate increases and portion of the market that is not receiving subsidies. Enrollees who are subsidy eligible are not expected to have attrition given that the APTC subsidy structure insulates them from

[9] A more thorough description of EDGE data requirements is found in Appendix E.

[10] https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

premium increases. Therefore, 2018 APTC enrollment was assumed to be consistent with 2017 enrollment. The result of these two assumptions is that enrollment changes would occur among the unsubsidized portion of the non-group market. The changes in enrollment were distributed pro rata between on Exchange and off Exchange by the share of unsubsidized enrollment that on Exchange enrollees represented.

4. Additionally, changes in enrollment, premiums, and metal level composition as a result of the Federal government no longer funding CSR subsidies was also estimated.

    a. We first estimated enrollment attrition due to the higher premiums from CSRs no longer being paid by the Federal government. In the case of Washington, this cost was only loaded to the on Exchange silver plans. The higher premium for the on Exchange silver plan was then input into the CEA take-up function, as described previously, and applied to those enrolled in only on Exchange silver plans. The impact was applied separately to subsidized and unsubsidized enrollees. This resulted in a 1.9% decrease in enrollment in silver plans on Exchange, which equates to a 1.2% decrease in the silver plans in total or a 0.5% decrease in total enrollment.

    b. In addition to attrition, we also estimated metal level switching. In particular, individuals with income between 200% Federal Poverty Level (FPL) and 400% FPL would have greater opportunities to change metal levels given the relative increase in affordability of bronze and gold premiums. We based metal level switching on an analysis conducted by Covered California.11 The analysis estimated the percent enrollment decrease in silver and the increase in enrollment in bronze and gold plans due to the defunding of CSR payments by the Federal government. Wakely used the same proportional decrease in silver plans estimated in the Covered California analysis and re-allocated that shift by the relative proportional shift estimated for gold and bronze plans, for on Exchange plans only. The new metal level allocation was multiplied by the average premium by metal level to create a new statewide average premium. This resulted in a further decrease in silver enrollment of 1.8% after accounting for estimated attrition.

    c. Overall, we estimate that 2018 individual market enrollment decreased 6.0% compared to 2017.

5. The 2019 enrollment was estimated similar to 2018 using the CEA take-up function based on the estimated premium rate increase from 2018 to 2019. This resulted in a decrease of the total individual market of 1.5% compared to 2018. Again, 2019 APTC enrollment

[11] https://www.coveredca.com/news/pdfs/Appendix-Consequences_of_Terminating_CSR.pdf

was assumed to be consistent with 2018 enrollment, as these enrollees would not experience a net premium change.

6. For 2019, premiums were estimated using the 2016 EDGE data trended forward using rate filing premium trend increases by carrier from 2016 to 2017, weighted by 2016 EDGE enrollment, and from 2017 to 2018 weighted by March 2017 enrollment. Note that although premium increases by plan in years 2017 and 2018 are known based on carrier rate filings, market average premiums will vary from projections based on the age of members who enroll in the market, their plan selections, and other reasons. The 2018 rate increase incorporates the impact of CSRs being defunded by the Federal government; this load is applied to silver metal level premium rates on Exchange. Premiums were trended from 2018 to 2019 based on the previously noted trend of 6.5% from a publicly available study and an additional increase of 0.4% to account for higher morbidity due to the initial rate increase. Wakely believes this trend from 2018 to 2019 is reasonable, but emerging experience and market information should continue to be monitored and any updates to reasonable premium trends should be incorporated into this analysis.

7. Average APTC amounts were estimated using 2017 premiums as reported by CMS (and verified by Washington HBE) and trended to 2019. The increase from 2017 to 2018 is based on the SLCSP premium trend from 2017 to 2018, based on 2017 and 2018 SLCSP premiums by county provided by the Washington HBE and weighted on 2016 on Exchange enrollment. The 2018 SLCSP premiums provided included the impact of CSRs being defunding by the Federal government. The total trend from 2017 to 2018 was calculated to be 40.0%, including the impact of CSRs being defunded. The premiums were adjusted from 2018 to 2019 using 6.9% trend as described previously. These assumptions, in totality, were used to generate baseline estimates as can be seen in Table 7.

Table 7: 2016 - 2019 Baseline Average Enrollment and Premium Data / Estimates

	2016	2017	2018	2019
Average Annual Enrollment				
Total Non-Group Enrollment	307,753	293,456	275,898	271,753
APTC Enrollment	113,429	110,115	110,115	110,115
Total Non-APTC Enrollment	194,324	183,341	165,782	161,638
PMPM Amounts				
Total Non-Group Premium PMPM	$370.41	$421.30	$562.86	$601.88
APTC PMPM	$237.31	$253.33	$354.69	$379.28
Total Annual Dollars				
Total Non-Group Premiums	$1,367,930,552	$1,483,596,083	$1,863,487,936	$1,962,762,279
Total APTCs	$323,014,032	$334,746,029	$468,682,944	$501,180,123

2019 Waiver Effects

The impact of the $196 million in reinsurance funding (discussed previously) was estimated based on a 10% reduction in the estimated 2019 baseline individual market premiums compared to what they otherwise would have been without reinsurance. In addition, an adjustment was made to account for younger, healthier members remaining covered due to the implementation of the reinsurance program. This reduced premiums another 0.5%. The decreases in premiums is partially offset by the 2.5% assessment for the program (as discussed previously) that will be charged in 2019. The premium adjustments due to reinsurance were made equally to APTC amounts, on Exchange premiums, and off Exchange premiums.

The decrease in premiums is expected to produce an increase in enrollment relative to what Washington would experience without the reinsurance program. Enrollment changes were estimated using the CEA take-up function (as discussed previously). APTC enrollment is assumed to stay the same in 2019 as 2017 since these members are generally unaffected by rate changes.[12] Consequently, the new enrollees are expected to be above 400% FPL. These new enrollees were allocated pro rata between on Exchange and off Exchange by the share of unsubsidized enrollment that on Exchange enrollees represented. It is likely that enrollees who stay in the market due to the implementation of reinsurance will be healthier and/or younger than the enrollees who will be in the market regardless of whether there is a reinsurance program.[13] These results were discussed previously and are shown in Table 8.

[12] This assumption does not preclude normal churn that occurs within the individual market. Normal churn, enrollees leaving for employer-sponsored insurance, or enrollees joining the individual market who previously had coverage in Medicaid, would continue. The assumption merely assumes in aggregate that a similar number of APTC enrollees would have coverage in 2018 and 2019 as had coverage in 2017.

[13] https://www.brookings.edu/blog/up-front/2017/02/08/new-data-on-sign-ups-through-the-acas-marketplaces-should-lay-death-spiral-claims-to-rest/

Table 8: Projected 2019 Average Enrollment and Premium Amounts, After Reinsurance

After Reinsurance	
Reinsurance Funding	$196,276,228
Reduction in Premiums (Reinsurance Funding)	-10.0%
Reinsurance Assessment	2.5%
Reduction in Premiums (Improved Morbidity)	-0.5%
Reduction in Premiums (Total)	-8.1%
Total Non-Group Premium PMPM	$553.01
APTC PMPM	$348.49
Change in Total Non-Group Enrollment	2.0%
Total Non-Group Enrollment	277,288
APTC Enrollment	110,115
Total Premiums	$1,840,117,752
Total APTCs	$460,484,028

As shown in Table 9, the effect of the proposed waiver will have minimal impact on distribution of enrollment by FPL. Wakely used September 2017 data from Washington on the FPL distribution of Exchange enrollees and January 2016 through October 2017 data from the Washington HBE to estimate on Exchange enrollment. All off Exchange enrollees were assumed to be above 400% FPL. We assumed that only a negligible number of enrollees off Exchange were below 400% FPL. We also estimated that additional enrollees gaining coverage as a result of the lower premiums due to the 1332 waiver would have income above 400% FPL as this group would be most impacted by changes in gross premium. For additional information on the distribution of enrollment by FPL for the 10-year window, see Appendix D. Given the assumption that overall enrollment was in steady state after 2019, we assumed that the general distribution of enrollment was similarly constant.

Table 9: 2017-2019 Average Enrollment (Baseline and After Reinsurance) by FPL

	2017	2018	2019	
FPL Level	Baseline	Baseline	Baseline	Reinsurance
Total Non-Group Enrollment	293,456	275,898	271,753	277,288
Total Non-Group APTC Eligible	110,115	110,115	110,115	110,115
<100% of FPL	7,976	7,679	7,609	7,609
≥100% to ≤150% of FPL	16,196	15,593	15,450	15,450
>150% to ≤200% of FPL	40,768	39,250	38,891	38,891
>200% to ≤250% of FPL	26,387	25,404	25,173	25,173
>250% to ≤300% of FPL	17,454	16,804	16,650	16,650
>300% to ≤400% of FPL	21,747	20,937	20,746	20,746
>400% of FPL	162,929	150,230	147,233	152,768

Metal level enrollment was based on the metal level distribution within the 2019 baseline results, which used the 2016 EDGE server data and incorporated some adjustments. The distribution reflects expected metal level switching from silver metal level plans to gold and bronze metal level plans due to CSRs being defunded by the Federal government. The post-waiver metal level distribution was estimated by adjusting the baseline estimates from the results of the reinsurance parameters analysis.[14] As Table 10 shows, the 1332 waiver produces a minimal shift in metal level distribution between the baseline estimates and the after reinsurance estimates; however, slight increases are seen in catastrophic and bronze and slight decreases in silver and gold metal levels, as would be expected due to reinsurance. It is likely that the enrollees who would maintain coverage due to the reinsurance program, but would leave the market without the reinsurance program, are younger and healthier, and therefore attracted to lower actuarial value plans. For additional information on the distribution of enrollment by metal for the 10-year window, see Appendix D.

Table 10: Average Enrollment (Baseline and After Reinsurance) by Metal Tier

	2016	2019	
Metal Level	**Baseline**	**Baseline**	**Reinsurance**
Total Non-Group Enrollment	307,753	271,753	277,288
Catastrophic	1,314	1,129	1,174
Bronze	126,236	113,331	115,703
Silver	132,091	114,736	117,018
Gold	48,111	42,557	43,392
Platinum	1	-	-

The 2017 and 2018 SLCSP by rating area were identified from the 2017 and 2018 issuer rate filings, respectively. When rates differed at the county level, we selected the largest county by enrollment within each rating area, based on 2016 on Exchange enrollment. The 2019 SCLSP was trended based on the 6.9% rate discussed previously. While rates are ultimately developed at a service area level, the data was aggregated to align with rating area, which may cause slight variations from actual SLCSP rate changes year over year. Weighted by 2016 on Exchange individual market enrollment at the county level, Wakely estimates that the SLCSP premium rates will increase by 49% from 2017 to 2019 (excluding the effects of reinsurance, including the impact of CSR defunding). The SLCSP rates after reinsurance were calculated by taking the associated base line rates and reducing them by the reduction in premium due to reinsurance, net of the assessment and impact of morbidity (or approximately 8.1%). The resulting SLCSP premium PMPMs are shown in Table 11. For future years, SLCSP was trended at the same rate as

[14] See Appendix B for further details

premiums based on NHE data. [15] For additional information on the SLCSP by rating area for the 10-year window, see Appendix D.

Table 11: 2017-2019 Second Lowest Silver Premium PMPMs By Rating Area (21 Year Old, Non-Tobacco)

Rating Area	2017 Baseline	2018 Baseline	2019 Baseline	2019 Waiver	Baseline Change by Rating Area
1	$186	$265	$283	$260	51%
2	$189	$257	$275	$252	46%
3	$242	$326	$348	$320	44%
4	$175	$242	$259	$238	48%
5	$185	$255	$273	$250	47%

Alternative Scenarios

Wakely estimated three additional 2019 scenarios, including a combination of enrollment and premium variances. The following were the scenarios that were modeled:

1. Scenario 1 increases premiums by 10%. Enrollment was assumed to be the same as the best estimate scenario.
2. Scenario 2 increases premiums by 10% and decreases total enrollment by 10%, as compared to the best estimate scenario. The APTC enrollment did not change; the decrease is applied only to the unsubsidized population, which results in an increase of 17% to that population.
3. Scenario 3 keeps premiums constant and increases total enrollment by 10%, as compared to the best estimate scenario. Both subsidized and unsubsidized enrollment are increased by 10% in this scenario.

For each of the scenarios, the same reinsurance methodology was applied as was used in the baseline scenario: $196 million in reinsurance funding was applied to the individual market, the 2.5% assessment was applied, and enrollment was re-estimated using the CEA take-up function, resulting in an improvement to the morbidity of the market. Each scenario produced a decrease

[15] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/ Table 17. Premiums were trended by spending per enrollee for direct purchase.

in the state average premiums PMPM in 2019 between 7.1% and 8.2% (net of the assessment and impact of improved morbidity). In each scenario, the changed variables resulted in more enrollees in the individual market. The detailed results of the scenario testing is shown in table 12. The best estimate scenario was used for the 10-year economic analysis.

Table 12: Summary of Alternative Scenario Results for 2019

Scenario	Best Estimate	1	2	3
Enrollment - Total	**No Change**	**No Change**	**10% Lower**	**10% Higher**
Enrollment - APTC	**No Change**	**No Change**	**No Change**	**10% Higher**
Enrollment - Non- APTC	**No Change**	**No Change**	**17% Lower**	**10% Higher**
Premiums	**No Change**	**10% Higher**	**10% Higher**	**No Change**
Baseline				
Total Non-Group Enrollment	271,753	271,753	244,578	298,928
APTC Enrollment	110,115	110,115	110,115	121,127
Non-APTC Enrollment	161,638	161,638	134,462	177,802
Total Non-Group Premium PMPM	$601.88	$662.07	$662.07	$601.88
APTC PMPM	$379.28	$417.21	$417.21	$379.28
Total Non-Group Premiums	$1,962,762,279	$2,159,038,507	$1,943,134,657	$2,159,038,507
Total APTCs	$501,180,123	$551,298,135	$551,298,135	$551,298,135
After Reinsurance				
Reinsurance Funding	$196,276,228	$196,276,228	$196,276,228	$196,276,228
Reduction in Premiums (Reinsurance Funding)	-10.0%	-9.1%	-10.1%	-9.1%
Reinsurance Assessment	2.5%	2.5%	2.5%	2.5%
Reduction in Premiums (Improved Morbidity)	-0.5%	-0.4%	-0.5%	-0.4%
Total Premium Impact	-8.1%	-7.1%	-8.2%	-7.1%
Total Non-Group Premium PMPM	$553.01	$614.85	$607.82	$558.95
APTC PMPM	$348.49	$387.45	$383.03	$352.23
Percent Change in Total Enrollment	2.0%	1.8%	1.9%	1.8%
Total Non-Group Enrollment	277,288	276,583	249,223	304,241
APTC Enrollment	110,115	110,115	110,115	121,127
Total Premiums	$1,840,117,752	$2,040,675,648	$1,817,795,212	$2,040,675,648
Total APTCs	$460,484,028	$511,975,090	$506,123,914	$511,975,090
Savings				
Estimated APTC Savings	$40,696,095	$39,323,045	$45,174,221	$39,323,045
Estimated Net Federal Savings	$36,760,491	$35,607,410	$41,315,260	$35,529,505

Beyond 2019

For years beyond 2019, Wakely made the following assumptions:

- Baseline premiums (both total non-group and on Exchange) as well as APTC amounts were trended by the Office of the Actuaries' NHE spending for each year of the 10 year window.[16] The NHE projections are produced by the Office of the Actuary of CMS and are considered one of the better long-term projections of health expenditures and premium growth. The projections for premium growth include potential changes to network design and premium buy down which we feel best aligns with long-term premium levels.
- Enrollment was assumed to be constant starting in 2019 throughout future years absent the waiver. This is generally in line with CBO projections and HHS publications that the non-group market will generally be at "steady-state" in the 10-year timeframe.[17]
- While reinsurance funding is not legislatively approved in the out years, for purposes of the analysis, it is assumed that the reinsurance program will continue. It is expected to be funded at $196 million for years 2020 through 2028. The funding amount is held constant beginning in 2019 and not increased at the rate of premium growth.
- Premiums to which the assessment applies were trended in 2020 based on a trend estimate provided by the OIC. Years after 2020 were also trended based on NHE Data.[18] The reinsurance assessment decreases from 2019 through 2028, based on a set funding amount each year and increasing premiums, and is estimated to be 2.5% in 2019 to 1.6% in 2028.

For each year, the same methodology of applying reinsurance, calculating the change in premiums and APTC amounts as a result of reinsurance, and calculating the change in enrollment as a result of lower premium was used consistently to that described for 2019. This results in a

[16] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/ Table 17. Premiums were trended by spending per enrollee for direct purchase.

[17] https://aspe.hhs.gov/system/files/pdf/77161/ib_Targets.pdf ; https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-01-healthinsurance.pdf

[18] Premiums were trended by spending dollars for private health insurance (which includes direct purchase and employer-sponsored private health insurance) for each year.

net reduction in premiums of 8.1% to 5.3% (compared to premium levels without reinsurance) each year between 2019 and 2028. The detailed results are shown in table 13.

Table 13: Baseline Data and Detailed Results after Reinsurance, by Year[19]

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline										
Total Non-Group Enrollment	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753
APTC Enrollment	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
Total Non-Group Premium PMPM	$601.88	$630.17	$661.05	$694.10	$728.11	$763.79	$800.45	$839.56	$880.58	$923.60
APTC PMPM	$379.28	$397.11	$416.57	$437.40	$458.83	$481.31	$504.42	$529.06	$554.91	$582.02
Total Premiums	$1,962,762,279	$2,055,012,106	$2,155,707,700	$2,263,493,085	$2,374,404,246	$2,490,750,054	$2,610,306,056	$2,737,838,152	$2,871,601,102	$3,011,899,327
Total APTCs	$501,180,123	$524,735,589	$550,447,632	$577,970,014	$606,290,545	$635,998,781	$666,526,723	$699,091,314	$733,246,919	$769,071,268
After Reinsurance										
Reinsurance Funding	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228	$196,276,228
Reduction in Premiums (Reinsurance Funding)	-10.0%	-9.6%	-9.1%	-8.7%	-8.3%	-7.9%	-7.5%	-7.2%	-6.8%	-6.5%
Reinsurance Assessment	2.5%	2.4%	2.3%	2.2%	2.1%	2.0%	1.9%	1.8%	1.7%	1.6%
Reduction in Premiums (Improved Morbidity)	-0.5%	-0.5%	-0.5%	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%	-0.3%	-0.3%
Total Non- Group Premium PMPM	$553.01	$581.37	$612.27	$645.35	$679.39	$715.10	$751.80	$790.93	$831.96	$874.99
APTC PMPM	$348.49	$366.36	$385.83	$406.68	$428.13	$450.63	$473.76	$498.41	$524.27	$551.39
Change in Total Non-Group Enrollment	2.0%	1.9%	1.8%	1.7%	1.7%	1.6%	1.5%	1.4%	1.4%	1.3%
Total Non-Group Enrollment	277,288	277,019	276,759	276,506	276,271	276,048	275,840	275,641	275,452	275,273
APTC Enrollment	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
Total Premiums	$1,840,117,752	$1,932,596,018	$2,033,398,450	$2,141,322,008	$2,252,359,143	$2,368,822,737	$2,488,523,195	$2,616,136,434	$2,749,973,590	$2,890,339,450
Total APTCs	$460,484,028	$484,096,499	$509,825,801	$537,376,354	$565,722,272	$595,454,032	$626,015,379	$658,592,961	$692,759,955	$728,594,177

[19] Please see page C-4 for total federal savings, net of federal losses, under the reinsurance program.

Appendix B

Reinsurance Parameters

Reinsurance Parameters

To estimate the reinsurance parameters, Wakely first had to estimate the 2019 individual market data. To do this, Wakely completed the following steps:

1. Wakely collected 2016 EDGE data from each Washington carrier in the individual market.
2. The data was adjusted to 2019 using trend amounts from the 2017 and 2018 rate filings (weighted by 2016 EDGE data enrollment for 2017 and March 2017 for 2018) and a 6.9% increase in 2019 based on a public study and an increase due to morbidity. These impacts include changes in CSR liability for issuers.
3. In addition to trending the data, Wakely applied a change to the enrollment and morbidity (estimated by a change in paid claims) from 2016 to 2019. Wakely determined the most appropriate methodology was to remove members from the 2016 data, aligning with the overall estimated enrollment decrease from 2016 to 2019. The enrollment was removed assuming the healthier and younger members would be more likely to drop coverage between 2016 and 2019.

In order to remove enrollment while targeting an increase in morbidity (i.e. claims PMPM) from 2016 to 2019, Wakely assigned probabilities to members based on their health (estimated by annual paid claims) and age status. Members were grouped by decile of annual paid claim amounts and age bands (with a separate age band for children and thereafter 10-year age bands). Using these two indicators, Wakely assigned a factor of likelihood that a member would leave the market. For example, a member with between the ages of 19-29 that is in the 30th percentile of claims will be more likely to leave the market than a member that is between the ages of 40-49 that is within the 80th percentile of claims. Each individual's probability of remaining in or leaving the market was then multiplied by a random factor to select a random population upon each time of running the model. Several iterations were performed to ensure that a consistent impact to the market was occurring for each set of parameters used.

The resulting 2019 data was used to determine the reinsurance parameters. In general, the methodology used to apply the reinsurance parameters parallels the methodology used for the Federal Transitional Reinsurance program under the ACA. For example, members are grouped by carrier but are allowed to accumulate claims if they change plans or rating areas within a carrier.

Using this methodology, Wakely determined the reinsurance parameters as a $500,000 cap amount, a $95,000 attachment point, and an estimated 80% coinsurance rate. Further iterations of this report may result in different estimated parameters for 2019**. In operations, the extent to which the actual calculations (and underlying data) differ from current estimates (and underlying data) may result in a different coinsurance rate.**

Appendix C

Federal 1332 Waiver Guard Rail Requirements

Scope of Coverage Requirement

In order for a 1332 waiver to be accepted, the waiver must demonstrate that the changes will provide coverage to at least a comparable number of residents compared to how many would have been covered without the waiver. We expect enrollment to increase at a high of 2.0% in 2019 and a low of 1.3% in 2028 relative to what would have occurred if the reinsurance program were not in place in each year of the waiver. Our analysis estimates that the reinsurance program, and resulting lower premiums, would provide for at least a comparable (and more likely a greater number) of enrollees covered.

Affordability Requirement

In order for a 1332 waiver to be accepted, the waiver must demonstrate that the changes will provide coverage, premiums, and cost-sharing protections that keep care at least as affordable as would be provided absent the waiver. Generally, we expect premiums to be approximately 8.1% lower in 2019 than they would have been without the waiver. We expect premiums to be lower, relative to baseline, each year because of the waiver. The year with the smallest reduction in premiums (2028) still has premiums 5.3% lower than they otherwise would have been. Cost sharing requirements for plans will remain within the current federal requirements and should therefore not impact affordability. Our analysis estimates that the reinsurance program, and resulting lower premiums, would provide for at least as affordable coverage for residents (and most likely greater affordability for residents).

Comprehensiveness of Coverage Requirement

In order for a 1332 waiver to be accepted, the waiver must demonstrate that it will provide coverage that is at least as comprehensive as would be provided absent the waiver. This waiver will not result in any changes to the EHB benchmark or actuarial value requirements and, as such, will not have any impact on the comprehensive of coverage for residents.

Deficit Neutrality

APTCs

Since APTCs are benchmarked to the SLCSP, the decrease in premiums (specifically the SLCSP) will result in lower per person APTC amounts in 2019. Since enrollees who have APTCs are generally unaffected by changes in gross premiums, due to the subsidies shielding them from premium increases, the introduction of reinsurance is not expected to decrease the number of enrollees with APTCs. Due to the combination of a non-decreasing number of enrollees with APTCs and a decrease in premiums, which is connected to APTC amounts, Wakely's analysis

estimates that the overall aggregate amount of APTCs will be lower in each year of the 10-year window, when the reinsurance program is in effect. Wakely further estimates that the total federal savings of APTC expenditures will be in excess of $40 million per year, for the 10 years of the reinsurance program, and APTC savings net of other Federal losses will be in excess of $36 million per year. These results are shown in table 14.

Table 14: Detailed Results of Federal Savings, by Year

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline										
Total Non-Group Enrollment	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753
APTC Enrollment	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
Total Non-Group Premium PMPM	$601.88	$630.17	$661.05	$694.10	$728.11	$763.79	$800.45	$839.56	$880.58	$923.60
APTC PMPM	$379.28	$397.11	$416.57	$437.40	$458.83	$481.31	$504.42	$529.06	$554.91	$582.02
After Reinsurance										
Total Non-Group Enrollment	277,288	277,019	276,759	276,506	276,271	276,048	275,840	275,641	275,452	275,273
APTC Enrollment	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
Total Non-Group Premium PMPM	$553.01	$581.37	$612.27	$645.35	$679.39	$715.10	$751.80	$790.93	$831.96	$874.99
APTC PMPM	$348.49	$366.36	$385.83	$406.68	$428.13	$450.63	$473.76	$498.41	$524.27	$551.39
Federal Savings Calculations										
CBO Mandate Annual Penalty	$161	$161	$161	$161	$161	$194	$194	$194	$194	$194
Provider Tax	2.48%	2.48%	2.48%	2.48%	2.48%	2.48%	2.48%	2.48%	2.48%	2.48%
Difference in APTCs	$40,696,095	$40,639,089	$40,621,832	$40,593,661	$40,568,273	$40,544,749	$40,511,344	$40,498,353	$40,486,963	$40,477,091
Difference in Mandate Penalty	($892,788)	($849,361)	($807,359)	($766,546)	($728,663)	($831,315)	($791,024)	($752,512)	($715,972)	($681,293)
Difference in Health Insurance Providers Fees	($3,042,815)	($3,037,148)	($3,034,497)	($3,031,069)	($3,027,944)	($3,025,021)	($3,021,438)	($3,019,424)	($3,017,583)	($3,015,905)
Estimated Net Federal Savings	**$36,760,491**	**$36,752,580**	**$36,779,976**	**$36,796,045**	**$36,811,666**	**$36,688,413**	**$36,698,882**	**$36,726,417**	**$36,753,408**	**$36,779,893**

Offsets to APTC Savings

Individual Responsibility Requirement

As part of the ACA, individuals that can afford insurance but forgo insurance are generally required to pay a fee. Since a greater number of individuals would be purchasing insurance, rather than being uninsured, as a result of the reinsurance program, the Federal government would be losing some revenue as a result of the program. The lost penalties from the mandate were estimated by multiplying the average mandate penalty paid by uninsured individuals (which was calculated using CBO estimates of mandate penalties for the uninsured, or approximately $161 in 2019)[20] by the total increase in enrollment as a result of the reinsurance program. We have assumed the mandate penalties within the CBO report are estimated based on the year they are incurred instead of the year they are collected. This methodology avoids the necessity for estimating exactly the number of people that may seek exemptions from the mandate as that data would be already accounted for in CBO's penalty average. Wakely assumed enforcement of the mandate in 2019 and future years based on current law as of the date of this report.

Exchange User Fee

As Washington operates its own State-Based Exchange, changes to premiums will not affect Federal user fee collections.

Health Insurance Providers Fee

The reinsurance program would also impact the health insurance providers fee (also known as the insurer fee). Section 9010 of the ACA requires that a tax on health insurance providers be set at an amount totaling $14.3 billion in 2018 and increasing thereafter generally at the rate of premium increase. We estimate that Washington's reinsurance program will have minimal impact on national premium growth rate. To estimate the decrease in collected provider fees, Wakely first estimated the baseline collection for 2019 using the 2018 rate filing information. Rate filing analysis yielded an estimated 2.48% provider fee on premiums. This amount was held constant over the 10-year window to align the fee with overall premium growth. To calculate the impact of the waiver, Wakely estimated the total provider fees (defined as total premiums multiplied by 2.48%) for the baseline and the waiver scenario to arrive at the federal costs due to the provider fee for the implementation of the waiver. These estimates are conservative as these losses on Washingtonian issuers may be partially or fully captured by taxes on non-Washington health

[20] https://www.cbo.gov/sites/default/files/recurringdata/51298-2017-09-healthinsurance.pdf

insurance providers given that statutory construction of the fee. The results are shown in table 14.

Other Federal Impacts

Wakely did not directly estimate the impact of the proposed waiver on the collections related to the Cadillac tax, small business tax credit, or income taxes. It is unlikely that any of these would have a significant impact on the overall savings.[21]

Employer Markets

A detailed analysis of the group markets was not completed. It is not expected that the reinsurance program will have an impact on the small group, large group, federal employee health benefits program, and other health programs in the state. In particular, we do not expect enrollment migration from the group market to the non-group market as a result of the reinsurance program.

Deficit Neutrality in Alternative Scenarios

In addition, Wakely calculated the impact of the federal savings under the alternative 2019 scenarios discussed previously. Wakely estimated potential effects of the reinsurance program in the event that enrollment and premiums differed from the best estimate. The methodologies for the enrollment and premium scenarios can be found in Appendix A. As can be seen in table 15, there was no 2019 scenario in which net federal savings, as a result of the reinsurance program, was less than $35 million.

Table 15: Estimated 2018 Federal Savings in Alternative Scenarios

Scenario	Best Estimate	1	2	3
Enrollment - Total	**No Change**	**No Change**	**10% Lower**	**10% Higher**
Enrollment - APTC	**No Change**	**No Change**	**No Change**	**10% Higher**
Enrollment - Non- APTC	**No Change**	**No Change**	**17% Lower**	**10% Higher**
Premiums	**No Change**	**10% Higher**	**10% Higher**	**No Change**
Difference in APTCs	$40,696,095	$39,323,045	$45,174,221	$39,323,045
Difference in Mandate Penalty	($892,788)	($779,048)	($749,285)	($856,953)
Difference in Insurer Fees	($3,042,815)	($2,936,587)	($3,109,676)	($2,936,587)
Estimated Net Federal Savings	**$36,760,491**	**$35,607,410**	**$41,315,260**	**$35,529,505**

[21] http://mn.gov/commerce-stat/pdfs/mn-1332-actuarial-analysis.pdf

Appendix D

Results for 5-Year and 10-Year Windows

Tables 16, 17 and 18 show various information over the 10-year deficit period, as required under the CMS checklist.

Table 16: Second Lowest Cost Silver Plan Premium PMPM, with and without Reinsurance, by Rating Area and Year

Rating Area	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline											
1	$265	$283	$297	$311	$327	$343	$360	$377	$395	$415	$435
2	$257	$275	$288	$302	$317	$332	$348	$365	$383	$402	$421
3	$326	$348	$364	$382	$401	$421	$442	$463	$486	$509	$534
4	$242	$259	$271	$285	$299	$314	$329	$345	$362	$379	$398
5	$255	$273	$285	$299	$314	$330	$346	$363	$380	$399	$418
After Reinsurance											
1		$260	$274	$288	$304	$320	$337	$354	$372	$392	$412
2		$252	$265	$279	$294	$310	$326	$343	$361	$380	$399
3		$320	$336	$354	$373	$393	$414	$435	$457	$481	$506
4		$238	$250	$264	$278	$293	$308	$324	$341	$358	$377
5		$250	$263	$277	$292	$308	$324	$341	$358	$377	$396

Table 17: Estimated Enrollment by FPL, with and without Reinsurance, by Year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline											
Total Non-Group Enrollment	275,898	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753
Total Non-Group APTC Eligible	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
<100% of FPL	7,679	7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609
≥100% to ≤150% of FPL	15,593	15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450
>150% to ≤200% of FPL	39,250	38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891
>200% to ≤250% of FPL	25,404	25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173
>250% to ≤300% of FPL	16,804	16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650
>300% to ≤400% of FPL	20,937	20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746
>400% of FPL	150,230	147,233	147,233	147,233	147,233	147,233	147,233	147,233	147,233	147,233	147,233
After Reinsurance											
Total Non-Group Enrollment		277,288	277,019	276,759	276,506	276,271	276,048	275,840	275,641	275,452	275,273
Total Non-Group APTC Eligible		110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115	110,115
<100% of FPL		7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609	7,609
≥100% to ≤150% of FPL		15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450	15,450
>150% to ≤200% of FPL		38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891	38,891
>200% to ≤250% of FPL		25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173	25,173
>250% to ≤300% of FPL		16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650	16,650
>300% to ≤400% of FPL		20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746	20,746
>400% of FPL		152,768	152,499	152,238	151,985	151,751	151,528	151,320	151,121	150,932	150,753

Table 18: Estimated Enrollment by Metal Level with and without Reinsurance, by Year

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline											
Total Non-Group Enrollment	275,898	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753	271,753
Catastrophic	1,147	1,129	1,129	1,129	1,129	1,129	1,129	1,129	1,129	1,129	1,129
Bronze	115,060	113,331	113,331	113,331	113,331	113,331	113,331	113,331	113,331	113,331	113,331
Silver	116,486	114,736	114,736	114,736	114,736	114,736	114,736	114,736	114,736	114,736	114,736
Gold	43,206	42,557	42,557	42,557	42,557	42,557	42,557	42,557	42,557	42,557	42,557
Platinum	0	0	0	0	0	0	0	0	0	0	0
After Reinsurance											
Total Non-Group Enrollment		277,288	277,019	276,759	276,506	276,271	276,048	275,840	275,641	275,452	275,273
Catastrophic		1,174	1,173	1,172	1,171	1,170	1,169	1,168	1,167	1,167	1,166
Bronze		115,703	115,591	115,482	115,377	115,279	115,186	115,099	115,016	114,937	114,862
Silver		117,018	116,905	116,795	116,688	116,589	116,495	116,407	116,323	116,244	116,168
Gold		43,392	43,350	43,309	43,270	43,233	43,198	43,165	43,134	43,105	43,077
Platinum		0	0	0	0	0	0	0	0	0	0

Appendix E

Reliances and Caveats

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

- Wakely collected a complete set of 2015 and 2016 EDGE Server XML data and supplemental data from each individual market carrier, with one exception noted below. This data collected from the other individual market carriers includes:
    - The inbound enrollment, medical, pharmacy, and supplement files that were submitted by each carrier to the EDGE Server.
    - The corresponding response files that apply an accept/reject status to the claims in the inbound files.
    - The final outbound files that were produced in May 2016 for 2015 data and May 2017 for 2016 data. These files include the risk adjustment, reinsurance, and enrollee claims detail/enrollee claims summary reports.
    - Supplemental information was collected to provide administrative expense, CSR information, and member level county information that is not available in the EDGE data.

  Note, Wakely was not able to collect the complete detailed EDGE data for one small issuer in the 2016 market. Due to the issuer's size, Wakely was able to manually incorporate the data using what the issuer had provided. Wakely does not anticipate this will have a significant impact on the analysis.

- Data provided by the Washington HBE, including the 2017 and 2018 SLCSP for on Exchange premiums by county (including the impact of the CSRs being defunded by the Federal government), monthly APTC enrollment figures from January 2016 through October 2017, and enrollment by metal level and FPL. Some of the information incorporated was also found in publicly available studies. In addition, Wakely performs some enrollment estimates for the Washington HBE (as part of a separate contractual engagement). We reviewed and incorporated some 2017 on Exchange enrollment information from those studies in this analysis.

- Data provided by the OIC, including 2017 off Exchange enrollment data by county and the 2018 issuer rate submission documents (including 2018 carrier rate filings, Unified Rate Review Templates (URRTs), and other related public information) supplied as of 10/30/2017. Wakely understands that on Exchange rate filings were final as of this date, but the off Exchange rate filings were still under review. Any large changes in any of the rate filing data may have an impact on the results of this analysis. Wakely understands that there were no significant changes in the rate filings as of the writing of this report.

- In addition, the OIC supplied total premiums in 2016 that would eligible for the assessment and expected total premium increases from 2016 to 2020. The extent to which these

amounts differ from the true premiums to be assessed will impact the funding collected for the reinsurance program.

- The paper "Evaluating the Potential Consequences of Terminating Direct Federal Cost-Sharing Reduction (CSR) Funding" conducted by Wesley Yin and Richard Domurat for Covered California was used to estimate shifts in metal level due to premium increases due to CSRs no longer being paid by the Federal government.

Wakely made some assumptions in working with the available data. These assumptions may impact the results of the analyses and were reviewed by Washington for reasonability.

Enrollment, medical, pharmacy, and supplemental records that were rejected by the EDGE server were removed from the analyses. Wakely utilizes independent logic per the guidance of the EDGE Server Business Rules to identify records that are accepted but not valid for use in the EDGE Server. Medical, pharmacy, and supplemental records that were orphaned, voided, or replaced were removed from the analyses. The extent to which Washington would implement a program that differs from EDGE specifications, the results may differ as well. For example, historically, claim costs in medical-loss ratios reporting exceeds that in EDGE files

The enrollment (including premiums) and paid claim PMPM information provided in the EDGE Server was assumed to be accurate and complete for all Washington issuers. Wakely was not able to collect the complete detailed EDGE data for one small issuer in the 2016 market. Due to the issuer's size, Wakely was able to manually incorporate the data using what the issuer had provided. In doing this, Wakely assumed that the claims of the enrollees in that issuer were weighted evenly on enrollment for those members that switched plans. Due to the infrequency in which members switched plans and the size of the issuer, Wakely does not anticipate this will have a significant impact on the analysis.

Any impact due to private commercial reinsurance was not reflected in the analyses.

The following are additional reliances and caveats that could have an impact on results:

- Political Uncertainty. There is significant policy uncertainty. This paper was submitted to Washington on December 8, 2017. Potential future federal actions in regards to mandate enforcement could dramatically change premiums and enrollment in 2018 or future years. Other changes in legislation related to CSR funding, reinsurance, health insurance provider tax, etc. would also have implications. Potential regulatory changes that influence the individual market (including short-term duration plans, association plans, etc.), and other large changes that impact the structure of the ACA may have a material impact on results. Other changes, such as a non-funding of the CHIP program, introduction of SEP verification, and other regulatory changes could influence premiums, claims cost, enrollment and morbidity.

- Additional Rate Filings Adjustments. Any change to current rate filings in the form of premium changes or issuer participation may change premium, claims, or enrollment projections.

- Enrollment Uncertainty. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual enrollee responses to these changes also has uncertainty. All of these uncertainties result in limitations in providing point estimates on reinsurance parameters and impacts of a 1332 waiver.

- Reinsurance Operations. The EDGE data appeared to be accurate and complete with the exception of the one small issuer who was unable to submit data in this format. Discrepancies between the EDGE data and the data reported in the issuer's rate filings are not expected to materially impact results. However, there could be underlying differences that were not discovered during Wakely's review of the data, which may impact the results.

- As part of the 1332 waiver requirement, the waiver application to be submitted to the Federal government cannot assume the pass-through amount is included in the funding. Consequently, for purposes of this report, Wakely assumes that all funding for the reinsurance program is collected by Washington and does not account for how approval of the waiver and any potential Federal pass-through funding could decrease the funding Washington needs to collect.

In addition, the EDGE data is currently being used to calculate the reinsurance parameters. If actual operations of the reinsurance program differ from the EDGE data configurations, Wakely's analysis would need to be adjusted to match actual reinsurance data requirements. For example, if the reinsurance program includes claims with discharge dates in 2020, Wakely's results may currently underestimate reinsurance payments. Conversely, if the reinsurance program excludes claims with start dates before 2019, Wakely's current process may be overestimating the reinsurance payments. Changes to assumed data requirements, actual data requirements, and data submission quality for reinsurance operations may impact the results.

Appendix F

Disclosures and Limitations

Responsible Actuary. Danielle Hilson is the actuary responsible for this communication. Al Bingham and Julie Peper provided support and peer review. They are all 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. Michelle Anderson, an Associate of the Society of Actuaries and Member of the American Academy of Actuaries, and Michael Cohen, a policy consultant and Ph.D., managed much of the modeling and analyses and assisted in creating this communication.

Intended Users. This information has been prepared for the sole use of the management of Washington. Wakely understands that the report will be made public and used in the legislative process and for the 1332 waiver process. Distribution to such parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results. This information is proprietary.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. 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. Wakely does not warrant or guarantee that Washington will attain the estimated values included in the report. It is the responsibility of those 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 Washington.

Data and Reliance. We have relied on others for data and assumptions used in the assignment. 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. The information included in the 'Data and Methodology' and 'Reliances and Caveats' sections identifies the key data and assumptions.

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 based assumptions on the laws in effect as of the date of this report, although there is much uncertainty regarding the enforcement of the individual mandate, funding of CSR subsidies, future of the health insurance provider tax, potential regulatory changes that influence the individual market (short-term duration plans, association plans, etc.), and other changes that impact the structure of the ACA. Material changes in these programs, or other state or federal laws regarding health benefit plans, may have a material impact on the results included in this report. Changes in the carrier assumptions as well as 2018 enrollment and experience could impact the results.

Contents of Actuarial Report. This document (the report, including appendices) constitutes the entirety of actuarial report and supersede 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