

ACTUARIAL REVIEW OF DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE FINANCING FORMULA

The District of Columbia Health Benefit Exchange (DC HBX) contracted with Mercer Government Human Services Consulting (Mercer) to perform an actuarial review of the proposed plan to calculate an annual assessment to support DC HBX financial sustainability. An actuarial review of the plan is required by the District of Columbia (District) code for the operation of the Health Benefit Exchange (Exchange) codified in §31-3171.16(b). This section of the code requires the plan to be certified by an independent actuary.

Actuarial soundness typically relates to the actuarial soundness of the results of a mathematical calculation and certification that the projected financing will provide for reasonable and appropriate expected costs. For the DC HBX financing plan review, the results of the assessment calculations are not yet developed as neither the prior year premiums nor the annual budget for DC HBX are known at this time. Therefore, the actuarial certification is limited to a certification that the plan for the future assessment calculations outlined by DC HBX is actuarially sound. This opinion is limited to the proposed calculation process and provides no statement on projected results.

DC HBX provided Mercer a report detailing the proposed plan and implied formula, which will be used to calculate the annual assessment of certain health insurance entities operating in the District. Mercer reviewed the report entitled *Report to the Mayor and Council of the District of Columbia on Financial Sustainability from the District of Columbia Health Benefit Exchange Authority*, dated December 10, 2013. Mercer's review was limited to a review of how the calculation will be performed and not the projected results. As such, Mercer's review focused on the section entitled "Operationalizing the Assessment."

Mercer certifies that the assessment formula that supports the financing plan complies with applicable Actuarial Standards of Practice and Statements of Principles. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to issue this actuarial opinion. The formula is dependent on the projection of annual DC HBX expenses and summation of prior year annual premiums, neither of which is known at this time. Mercer has not reviewed any assumptions or projections resulting from the plan financing formula and disclaims any responsibility for any projections or actual calculations.

While the formula complies with applicable Actuarial Standards of Practice and Statements of Principles, users of any projection analysis should recognize that projections involve estimates of future events, and are subject to economic, statistical and other unforeseen variances from projected values. Any projection of expenses is dependent upon a number of assumptions regarding the future economic environment, cost inflation rates, contingencies for unanticipated business expenses, and a number of other factors. DC HBX will be developing assumptions to project the annual budget and the Department of Insurance, Securities and Banking (DISB) will summarize the prior year annual premiums to use in the proposed assessment formula. To the

extent that future conditions are at variance with the assumptions used in the annual assessment calculation, the actual revenue generated from the assessment will vary and the variance may be substantial.

The report does not indicate the actual formula for the calculation of the assessment, but rather stipulates that the annual operating expenses of DC HBX will be assessed to the health insurance entities operating in the District with premiums of at least \$50,000 through an allocation based on each entity's market share of health insurance premiums. The assessment of the broader health insurance marketplace in lieu of specific assessment of the qualified health plans offered through the Exchange provides a more stable premium base for which to calculate the assessment.

The plan outlined by DC HBX stipulates that the annual assessment will be calculated by DC HBX and the assessment will be collected by the DISB consistent with the process for other assessments that DISB collects. This creates consistency in the assessment process and the calculation of assessments for health insurance entities in the District. Mercer has not reviewed the DISB work steps for collecting the assessment nor determining the premiums subject to the assessment and thus this opinion is qualified in that it does not opine on the soundness of the DISB process.

Furthermore, Mercer has not reviewed the process for the establishment of the annual budget for DC HBX. This is a critical aspect to the establishment of the annual assessment for the health insurance entities. The financial sustainability plan stipulates that the budget will be established annually and used to calculate the annual assessment for the funding of the DC HBX. As the budgeting and assessment process will be revisited annually, this eliminates the projections of premiums and expenses that would be required if a flat percentage was to be developed prospectively. The process of translating the budget into the assessment is consistent with actuarial principles, although this opinion is qualified and does not opine on the actuarial soundness of the establishment of the DC HBX annual budget nor the determination of the premium base for calculating the actual assessment.

Lastly, the District understands that Mercer is not engaged in the practice of law and this certification, which may include commenting on legal issues or regulations, does not constitute and is not a substitute for legal advice. Accordingly, Mercer recommends that the District secures the advice of competent legal counsel with respect to any legal matters related to this plan or otherwise.



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