Ryan Schultz

Oliver Wyman
411 East Wisconsin Avenue, Suite 1300
Milwaukee, WI 53202-4419
414-277-4608
Ryan.Schultz@OliverWyman.com

Ms. Mila Kofman
Executive Director
DC Health Benefit Exchange Authority
1225 Eye Street, NW, 4th floor
Washington, DC 20005

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Potential Impact of ACA Enrollees Moving from Other States to the District of Columbia

Dear Mila:

In this letter, we provide estimates regarding the potential impact to average claim costs in the District of Columbia's (the District's) Individual market, specifically for those enrollees covered under Affordable Care Act (ACA) plans, which could occur if significant changes are made related to consumer protections under the ACA (e.g., coverage no longer being available to individuals on a guaranteed issue basis, the elimination of community rating, increased availability of alternative low-cost plans in separate risk pools from the ACA) in other states, causing higher cost individuals from those states to migrate to the District. Please note that the estimates included in this letter are not based on robust actuarial micro-simulation modeling specific to the District. However, the unique characteristics of the District's Individual ACA market have been taken into consideration, including but not limited to the current volume of enrollees, the distribution of enrollees by household income, and the estimated cost levels.

In our opinion, the estimates we have developed provide the District with a reasonable starting point for discussions related to the potential impact that significant changes to consumer protections under the ACA in other states could have on claim costs in the District's individual ACA market.

Results

The impact that higher cost individuals moving to the District (i.e., if significant changes are made to ACA related consumer protections in their states) could have on average claim costs would likely vary significantly depending on a number of factors, including but not limited to the following: the significance of the ACA related changes being made by other states, the specific states in which those changes are made, the availability of alternative health insurance options to all higher cost individuals in those states that are both comprehensive and affordable, the desire of individuals in those states to have access to facilities of the same caliber as those which exist in the District, the ability of individuals to afford to reside in the District, and the willingness of individuals to change their residence in order to be able to have access to the same level of consumer protections as are currently available to them under the ACA.

For this analysis, we have developed estimates for three separate scenarios, taking into consideration the items listed above and making assumptions which we believe are reasonable. For the three scenarios we modeled, the expected increase in average claim costs in the District's Individual ACA market was equal to +24.4%, +16.0%, and +8.9%.

A summary of our results and the scenarios that were modeled is provided in Exhibit 1. Further, a detailed description of the assumptions and methodology which were utilized to develop these estimates is provided in the following section of this letter.

Methodology
In conducting our analysis, we made a number of key assumptions which we believe are reasonable under the circumstances being considered. Those key assumptions are as follows:

- **States:** The states which are most likely to make significant changes to ACA related consumer protections are the twenty who are currently involved in the lawsuit[1] challenging the constitutionality of the ACA, taking place in a federal court in Texas. Those twenty states are Alabama, Arizona, Arkansas, Florida, Georgia, Indiana, Kansas, Louisiana, Maine, Mississippi, Missouri, Nebraska, North Dakota, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia, and Wisconsin.

- **Definition of Higher Cost Individuals:** For the purposes of this analysis, higher cost individuals are defined as those individuals who have average allowed claim costs per member per month (PMPM) which are in the upper 5th percentile of all ACA enrollees in their respective market.

- **Average Cost Levels**: We have assumed that the upper 5th percentile of all ACA enrollees incur 50% of total claim costs, with the top 1% of enrollees incurring 25% of total claim costs.

- **Availability of Coverage for Higher Cost Individuals:** We have assumed that alternative plan options comparable to ACA plans in price and coverage will not be made available to higher cost individuals in the twenty states, and the ACA related changes which are made in those states will be significant enough such that higher cost individuals who are currently enrolled in Individual ACA plans will consider moving to another state or the District in order to maintain access to affordable, comprehensive health insurance coverage.

- **Household Income of Individuals Moving to the District:** Only those enrollees with household incomes equal to 400%+ FPL would potentially move to the District and impact the District's Individual ACA single risk pool. This is because any enrollees with household incomes below 215% FPL who would move to the District would be eligible for Medicaid. Additionally, it is being assumed that, due to affordability considerations, any individuals with household incomes less than 400% FPL would be unlikely to move to the District.

[1] https://tonic.vice.com/en_us/article/d3e74w/states-suing-over-obamacare-preexisting-conditions-rates

- **Dependents:** For each higher cost claimant who moves to the District, on average, 0.5 dependents (e.g., spouse, child) will move to the District with them. For those dependents, it is assumed that they will not be higher cost individuals (i.e., the dependents will not have average allowed claim costs PMPM which are in the upper 5th percentile of all ACA enrollees).

For each of the twenty states listed, we first estimated the volume of current Individual ACA market enrollees who reside in households with incomes equal to 400%+ FPL. To develop those estimates, we utilized a combination of the CMS Marketplace Effectuated Enrollment reports, the CMS Open Enrollment Public Use Files, and the CMS annual risk adjustment reports. Some of the key assumptions made in developing those estimates include that non-billable[2] ACA enrollees make up approximately 0.5% of total ACA enrollees and that, for each state, the change in total off-Exchange enrollees from 2017 to 2018 was equal to the change in non-APTC on-Exchange enrollees from 2017 to 2018.

Next, we developed estimates of the 2018 average allowed claim costs PMPM for the 400%+ FPL Individual ACA market enrollees in each state. To develop those claim estimates, we took into consideration actual on-Exchange non-APTC premium PMPM from the CMS 2018 Open Enrollment Public Use File, carriers' average target loss ratios for each state based on the filed 2018 Unified Rate Review Templates, the approved 2019 average rate changes for each state, and our knowledge of how actual average paid-to-allowed ratios have compared to metal AVs in the Individual ACA market in recent years.

After developing the 400%+ enrollee volumes and claim cost estimates, we segmented the estimated 400%+ FPL Individual ACA market enrollees into groupings based on whether they reside in a state which we determined to be either Most Likely, Somewhat Likely, or Least Likely for individuals to move to the District. To develop the state groupings, we took into consideration the location of each state relative to the District as well as the proximity of other available state options (e.g., other states where the ACA is being assumed to remain intact) the individuals could alternatively move to. Then, we assumed those individuals were in one of three claims percentile groupings (i.e., top 1%, top 2-5%, remaining 95%) and assigned an average allowed claims PMPM to each member based on their grouping.

Finally, to develop the estimated impact to average claim costs PMPM in the District's Individual ACA market, we applied plausible assumptions for the percentage of enrollees in each of the previously described groupings that would move to the District if significant changes were made related to consumer protections under the ACA in their states. The assumptions which were used in each of the three scenarios take into consideration population and the volume of inpatient stays in the District relative to other surrounding state options for the Individual ACA market enrollees, among other items. We then compared the average allowed claim costs in the District's current Individual ACA market (2018 basis) to the average estimated allowed claim costs which would result if those enrollees were included in the District's Individual ACA single risk pool. For the three scenarios we modeled, the increase in average claim costs in the

[2] For families, only parents and up to the three oldest children are billable under the ACA; the CMS annual risk adjustment reports only provide enrollment volumes associated with billable enrollees

District's Individual ACA market was equal to +24.4%, +16.0%, and +8.9%. A summary of the scenarios that were modeled and our results is provided in Exhibit 1.

Limitations and Considerations
Additional limitations and considerations associated with our analysis include the following:

- We did not look at the impact on employer coverage or the Medicaid program and, therefore, these estimates do not include any increase in costs in the District's employer market or to the District's Medicaid program
- Estimates are not based on robust microsimulation modeling and therefore may not fully recognize all interactions specific to the District's ACA markets that might exist.
- Values are based on estimates of future events; therefore, actual results will vary
- Actual results are expected to vary on a carrier specific basis

Distribution and Use
This report was sponsored by DCHBX with the purpose of providing a reasonable starting point for discussions related to the potential impact that significant changes to consumer protections under the ACA in other states could have on claim costs in the District's individual ACA market. Oliver Wyman's consent to any distribution of this report (whether herein or in the written agreement pursuant to which this report has been issued) to other parties does not constitute advice by Oliver Wyman to any such third parties and shall be solely for informational purposes and not for purposes of reliance by any such third parties. Oliver Wyman assumes no liability related to third party use of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein. This report should not replace the due diligence on behalf of any such third party.

Please let me know if you have any questions related to this letter.

Thank you.

Sincerely,

Ryan Schultz, FSA, MAAA

Copy: MaryBeth Senkewicz, DCHBX
Purvee Kempf, DCHBX
Jennifer Libster, DCHBX
Tammy Tomczyk, Oliver Wyman

Exhibit 1 - Estimated Impact of High Cost ACA Enrollees Moving to the District Due to Significant ACA Changes in Their Own State

State Segment[1]	States Included
Most Likely	WV
Somewhat Likely	AL, FL, GA, IN, MS, SC, TN
Least Likely	AR, AZ, KS, LA, ME, MO, ND, NE, SD, TX, UT, WI

Scenario 1

	Probability of Moving to the District by Enrollee Claims Percentile[2,3] and State Segment; 400%+ FPL Only		
State Segment	**1%**	**2-5%**	**6-100%**
Most Likely	2.0%	2.0%	0.0%
Somewhat Likely	1.0%	1.0%	0.0%
Least Likely	0.5%	0.5%	0.0%

Total ACA Enrollees Moving to the District[4]	814
Impact on DC Individual Average Claim Cost PMPM	24.4%

Scenario 2

	Probability of Moving to the District by Enrollee Claims Percentile[2,3] and State Segment; 400%+ FPL Only		
State Segment	**1%**	**2-5%**	**6-100%**
Most Likely	2.0%	2.0%	0.0%
Somewhat Likely	1.0%	1.0%	0.0%
Least Likely	0.0%	0.0%	0.0%

Total ACA Enrollees Moving to the District[4]	510
Impact on DC Individual Average Claim Cost PMPM	16.0%

Scenario 3

	Probability of Moving to the District by Enrollee Claims Percentile[2,3] and State Segment; 400%+ FPL Only		
State Segment	**1%**	**2-5%**	**6-100%**
Most Likely	2.0%	0.0%	0.0%
Somewhat Likely	1.0%	0.0%	0.0%
Least Likely	0.0%	0.0%	0.0%

Total ACA Enrollees Moving to the District[4]	102
Impact on DC Individual Average Claim Cost PMPM	8.9%

[1]The 20 states involved in the Texas ACA lawsuit were grouped into those Most Likely to move to the District, Somewhat Likely, and Least Likely; Groupings were determined based on location of each state relative to the District as well as the proximity of other available options (e.g., other states where the ACA is assumed to remain intact) to each state

[2]Enrollees in the 1% claims percentile are assumed to have the highest average claim costs PMPM while those in the 6-100% claims percentile have the lowest claims

[3]It is assumed that the top 1% of claimants incur 25% of total claims, the next 4% of claimants (i.e., 2-5% in the table above) incur 25% of total claims, and the remaining 95% of claimants (i.e., 6-100% in the table above) incur 50% of total claims

[4]Includes 0.5 dependents for each higher cost enrollee moving to the District