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to: **Lesley Cummings**

date: **June 15, 2009**

from: **Sandi Hunt & Pete Davidson**

subject: **MRMIP Enrollment Recommendation**

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for fiscal year 2009-2010. Our recommendation is to maintain the MRMIP enrollment target at 7,100. In developing the recommendations, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our recommendation is supported by continuing efforts by MRMIB and health plan staff to clean up and validate the underlying data; however issues with timeliness and accuracy of reported claims data, in particular data for the Guaranteed Issue Pilot Program (GIP), continue to complicate the development of accurate projections.

MRMIP and GIP share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each fiscal year. Strict conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and healthplans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained positive year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

Several healthplan settlements, including settlements attributable to as far back as the 2003 contract year, are anticipated during fiscal years 2008-2009 and 2009-2010. For MRMIP, the most recent estimates result in recoveries due from healthplans. While we believe reasonable estimates were performed based on the available data, past experience indicates that when requests for payment are made to the healthplans the plans become motivated to clean up the data they provided, often resulting in substantial reductions in amounts owed compared to initial estimates. The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in healthplan reporting of claims experience, premium revenue, and enrollment. For example, 2008 claims experience is only available for one of the plans. Barring significant legislative changes impacting GIP, we expect GIP settlement activities to be an issue for several more years. In addition to outdated data, small populations lead to highly variable estimates. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.

For the purpose of developing the enrollment target for fiscal year 2009-2010, we projected cash flows for the remainder of fiscal year 2008-2009 and for fiscal year 2009-2010. These projections were developed with the assistance of MRMIB staff, with the specific goal of understanding the timing and amount of anticipated settlements and their impact on fund balances during the period. At this time, sufficient analysis of prospective plan settlement amounts has not been performed to carry cash flow projections beyond fiscal year 2009-2010.

The following list summarizes the primary assumptions underlying the projections:

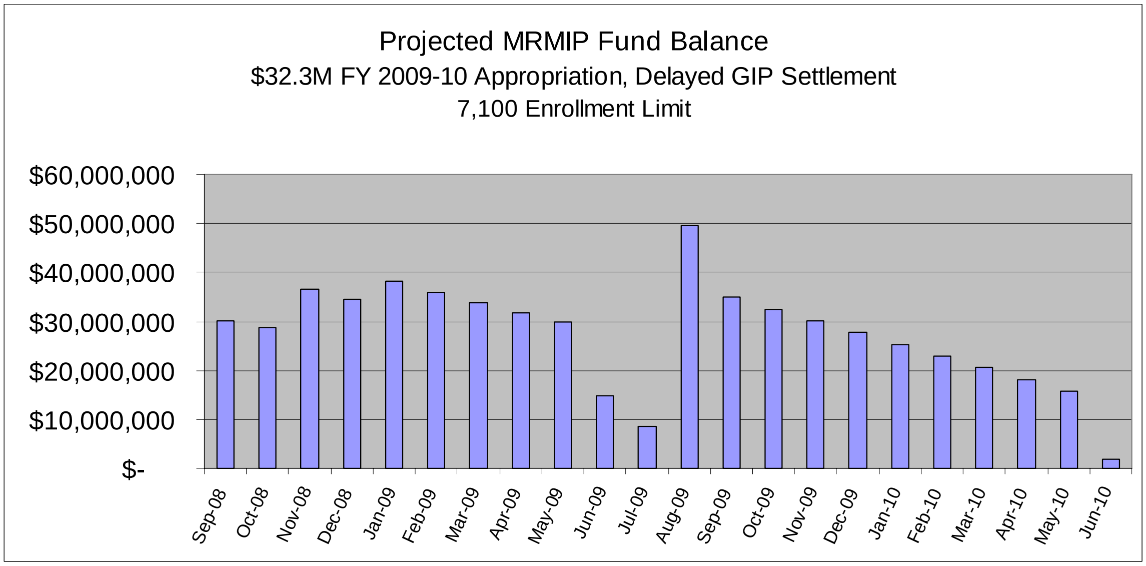
- In November 2008, we recommended and the Board approved a MRMIP enrollment target of 7,100 members for calendar year 2009.
- MRMIP enrollment as of May 2009 was 6,719 members.

- Our current estimate of the annual subsidy for MRMIP enrollees for fiscal year 2009-2010 is approximately $3,458 per member. The attached Exhibit 1 summarizes the development of this figure.
- Budget appropriations
  - FY 2008-2009 appropriation for local assistance of $37.7 million was received September 2008. Additionally, $1.2 million was budgeted for State Operations expenses. (State Operations is approximately 3 percent of the amount available for MRMIP/GIP).
  - A one-time appropriation of $10 million related to SB1379 was received in FY 2008-2009.
  - FY 2009-2010 appropriation expected to be $32.3 million, received August 2009.
  - An additional appropriation of $774,000 from DMHC fines (SB1379) is expected September 2009.
- MRMIP settlements
  - $12.1 million estimated due from plans during July 2009 and August 2009.
- GIP settlements
  - $12.5 million estimated due to plans in June 2009.
  - $5.0 million estimated due to plans in July 2009.
  - $13.0 million estimated due to plans in September 2009.
  - $14.8 million estimated due to plans in June 2010; $11.5 million would be paid in June 2010 with the remainder paid during fiscal year 2010-2011.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2009-2010. We modeled various MRMIP enrollment targets with a goal of positive but not excessive fund balances at the end of fiscal years 2008-2009 and 2009-2010. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets will have to be decreased. Actual results could vary significantly if actual timing and amount of settlements is different from that assumed.

The following charts show the projected monthly fund balances over the projection period:

Chart 1



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

California Major Risk Medical Insurance Program

Exhibit 1

Projection of Fiscal Year 2009-2010 Average Costs

1. Summary of expected state costs

Average base period claim costs per person per year	$8,094
Trend adjustment from base period to projection period	1.292
Projected claim costs per person per year	$10,455
Benefit factor	0.938
Adjusted Claims costs	$9,804
Average plan admin cost per person per year	$270
Total cost per person per year for the projection period	$10,075
Current average premium -- all plans	$5,957
Adjustment to average expected premium level for July 2009 - June 2010	11.1%
Average expected premium July 2009 - June 2010	$6,616
Benefit factor	1.000
Adjusted Premium	$6,616
Average state subsidy for current enrollees	***$3,458***
Base period loss ratio	144%
Projected loss ratio	148%