Essential Plan Fact Sheet

Background:

- The Essential Plan (EP) covers approximately 710,000 individuals with incomes ranging from 0-200% of the Federal Poverty Level (FPL).
- The EP has two primary funding sources that finance premiums: 1) Advanced Premium Tax Credit (APTC) which equates to approximately 75%; and 2) Cost Share Reductions (CSR) which are approximately 25%. These funds are deposited into the Essential Plan Trust Fund.
    - ✓ The level of these payments is set by the market at 95% of the second lowest Silver Plan (within a region).
    - ✓ Program expenses that exceed the Trust Fund must be funded by the Global Cap.
- On November 21, 2017, CMS informed the Department of Health that they would not be depositing CSR funds for the January-March 2018 quarter – impacting the Trust Fund by approximately $266 million which grows to $1.1 billion in State Fiscal Year (SFY) 2018-19 and $1.2 billion in SFY 2019-20.

Federal Pressures:

- On December 21, 2017, the Department of Health received an email from CMS describing the 2018 Q1 Trust Fund payment. CMS identified the CSR component of the payment ($266M) but did not forward this payment to the State. It's unclear whether the CSR payments will be restored via future Federal Budget actions.
- As a result, the SFY 2018-19 Budget assumes CSR payments are eliminated.
- In addition to these actions, the Federal Tax Cuts and Jobs Act eliminates the individual responsibility payment, known as the Individual Mandate, beginning in 2019.
    - ✓ The Federal government took this action regardless of CBO estimates that indicated that there would ultimately be a cost to the Federal treasury as a result of lower cost individuals leaving the Insurance Market thereby increasing premiums and tax subsidy costs.

Executive Multiyear Plan to Absorb Lost CSR Funding:

- The impact of the above Federal actions will be absorbed in SFY 2017-18 and 2018-19 without any major changes to EP program eligibility, individual copays or managed care organization (MCO) premiums through various actions which include:

    1) <u>Accelerating use of Trust Fund</u> – Under current accrual practice, CMS advances Trust Fund dollars at the beginning of the quarter for the upcoming three-month period (i.e. in March the State receives dollars for April-June). The acceleration approach will convert the process to a cash basis and allow the State to utilize funding immediately (i.e. five quarters of cash over SFY 2018-19).

2) <u>Growth in Tax Credits and Silver Plan "Catch Up"</u> – The actions taken by the Federal government have the consequence of Insurance Market uncertainty. As a result, the Urban Institute estimates that Silver Plan rates will increase and generate an additional 22.4% increase in revenue for the Trust Fund in CY 2019, 12.5% in CY 2020 and an additional 6% thereafter. Furthermore, based on receiving $70M in additional Trust Fund revenue in CY 2018 Quarter 1 (as compared to Mercer's initial projection), the Department has revised its estimates on a prospective basis to assume these dollars recur.

3) <u>Recouping Medical Loss Ratio (MLR) Funds from MCOs</u> - Federal regulations require that states calculate an MLR for MCOs participating in the Health Exchange (including EP) on an annual basis. The Department has set forth a policy requiring MCOs to remit funds back to the State for MLRs less than 85%. Based on certified MCO responses, the Department will be receiving $286M from 12 MCOs in SFY 2017-18 which will be utilized to offset prior State contributions. Additionally, the plan assumes that $220M (based on industry estimates) will be available in SFY 2018-19 to assist in the Trust Fund solution.

4) <u>Rebalancing EP Rates Prospectively</u> – Based on the value of the MLR, the Department is recommending reducing future EP premiums by 4.4% ($165M) effective April 1, 2018.

Essential Plan Annual Trust Fund Estimates

($ in Millions)

	2017-18 (4th qtr)	**2018-19**	**2019-20**
Opening Balance	***$14***	***$280***	***$0***
BASE:			
Federal Subsidy (Base w/ CSRs - CY 2018 13.5%; 11% thereafter)	*$956*	*$4,350*	*$4,848*
Elimination of CSRs	*($266)*	*($1,124)*	*($1,241)*
EP Costs	<u>($1,393)</u>	<u>($3,812)</u>	<u>($3,819)</u>
SUBTOTAL	***($689)***	***($306)***	***($212)***
SOLUTIONS:			
Growth in Tax Credits (CY 2018 Catch Up; 22.4% in Jan 2019; 12.5% in Jan 2020	$138	$484	$763
EP MLR (CY 2016 through CY 2018)	$286	$220	$41
EP Rate Reduction (4.4%) - Effective 4/1/18	$0	$165	$165
Accelerate use of Trust Fund deposits	<u>$830</u>	<u>$0</u>	<u>$0</u>
SUBTOTAL	***$1,255***	***$869***	***$969***
MEDICAID ACTIONS:			
MA Offload of previous EP State Contributions (utilizing CY 2016 EP MLR)	($286)	$0	$0
*Convert VBP-QIP / Other Supplemental Programs**	<u>*$0*</u>	<u>*($563)*</u>	<u>*($758)*</u>
SUBTOTAL	***($286)***	***($563)***	***($758)***
TRUST FUND BALANCE	**$280**	**$0**	**$0**

** Converts VBP-QIP/Other Supplemental programs from Medicaid to EP thereby freeing up GC resources of $281.5M in 18/19 and $379M in 19/20.*

Global Cap Impact:

- As a result of the State actions (outlined in the chart above) taken to solve the loss of Federal Trust Fund dollars, a balance of $563M will be available in SFY 2018-19 and $758M in SFY 2019-20 to convert VBP-QIP and other Supplemental programs (i.e. Equity Infrastructure & Performance) into EP.
  - ✓ Moving programs from the Global Cap into the Essential Plan provides the opportunity to save the State share (or half) of these programs.
- Accordingly, utilizing the available Trust Fund balance will save the Global Cap $281.5M State share in SFY 2018-19 and $379M State share in SFY 2019-20 which will be utilized as part of the Scorecard solution.