

TDI
InsurED

2022

Virtual
Compliance
Conference

Affordable Care Act rate review

April 28, 2022

Rating Area Realignment

- Increased 26 rating areas to 27.
- TDI was instructed by Senate Bill (SB) 1296 to revise geographic rating areas.
- Public health regions (PHRs), developed by the Texas Health and Human Services Commission (HHSC), and TDI's regulatory rules allow provider networks to develop service areas using PHRs.
- The proposed geographic rating areas coordinate PHRs with Metropolitan Statistical Areas (MSAs).

ACA rate filing review

Effective rate for calendar year 2023.

Cost Sharing Reduction (CSR) defunding adjustment

New rules and guidance.

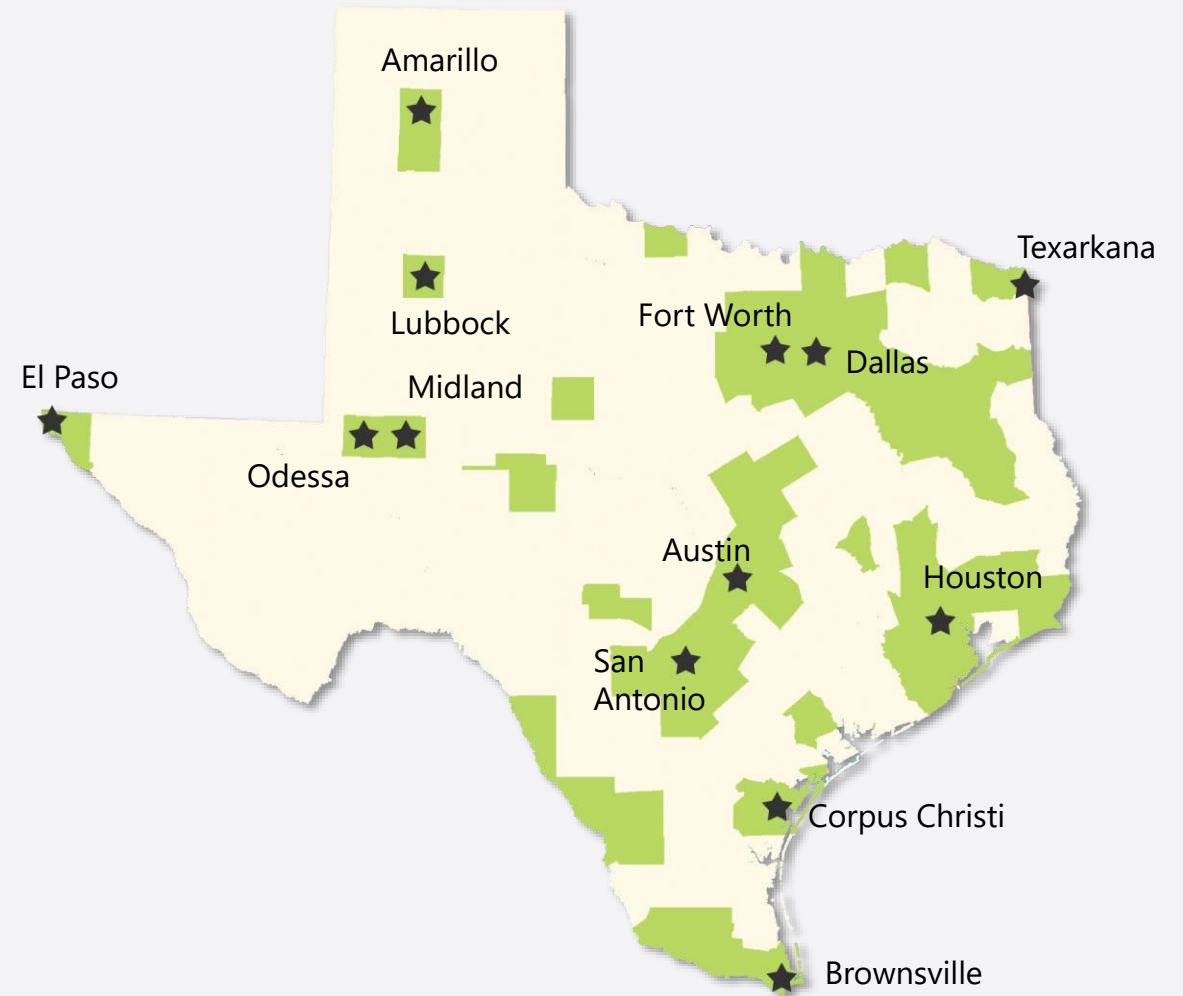
TDI | Realignment objectives

- Create rating areas that better correspond to hospital, specialty, and tertiary networks with the major urban areas.
- Assign rural counties to the most appropriate urban area to ensure that premiums more closely reflect claims costs in their geographic area.
- Increase competition by creating rating areas that encourage insurers to expand coverage to all counties in the rating area.
- Eliminate large claims cost differences within rating areas.
- Expand choice in rural counties, giving residents greater access to affordable health care coverage.
- Highlight high-cost rating areas to encourage provider expansion into these areas and increase competition.

TDI | Multiple definition of rural

- Rating Area 26, which is a collection of 177 counties that are not part of a MSA, is spread across the entire state.
- For Rating Area 26 counties, which covers much of the state of Texas (801 miles x 772 miles), the medical costs in each are largely driven by the closest metropolitan area to the county.
- Only 68 Texas counties (27%) had a population over 50,000 in 2020.

Texas counties with over 50,000 people

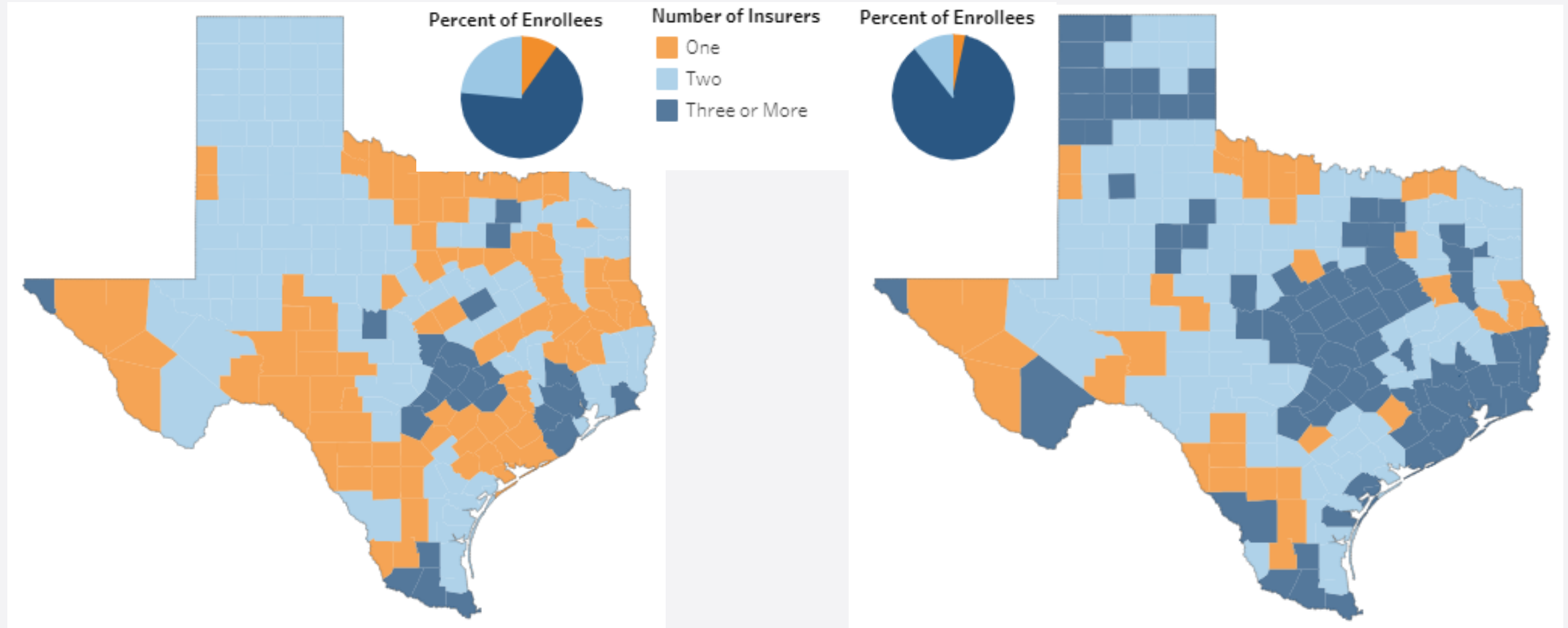


TDI | Is there less competition in rural areas?

In the individual market: Yes, but the counties with only ONE carrier is shrinking

2019

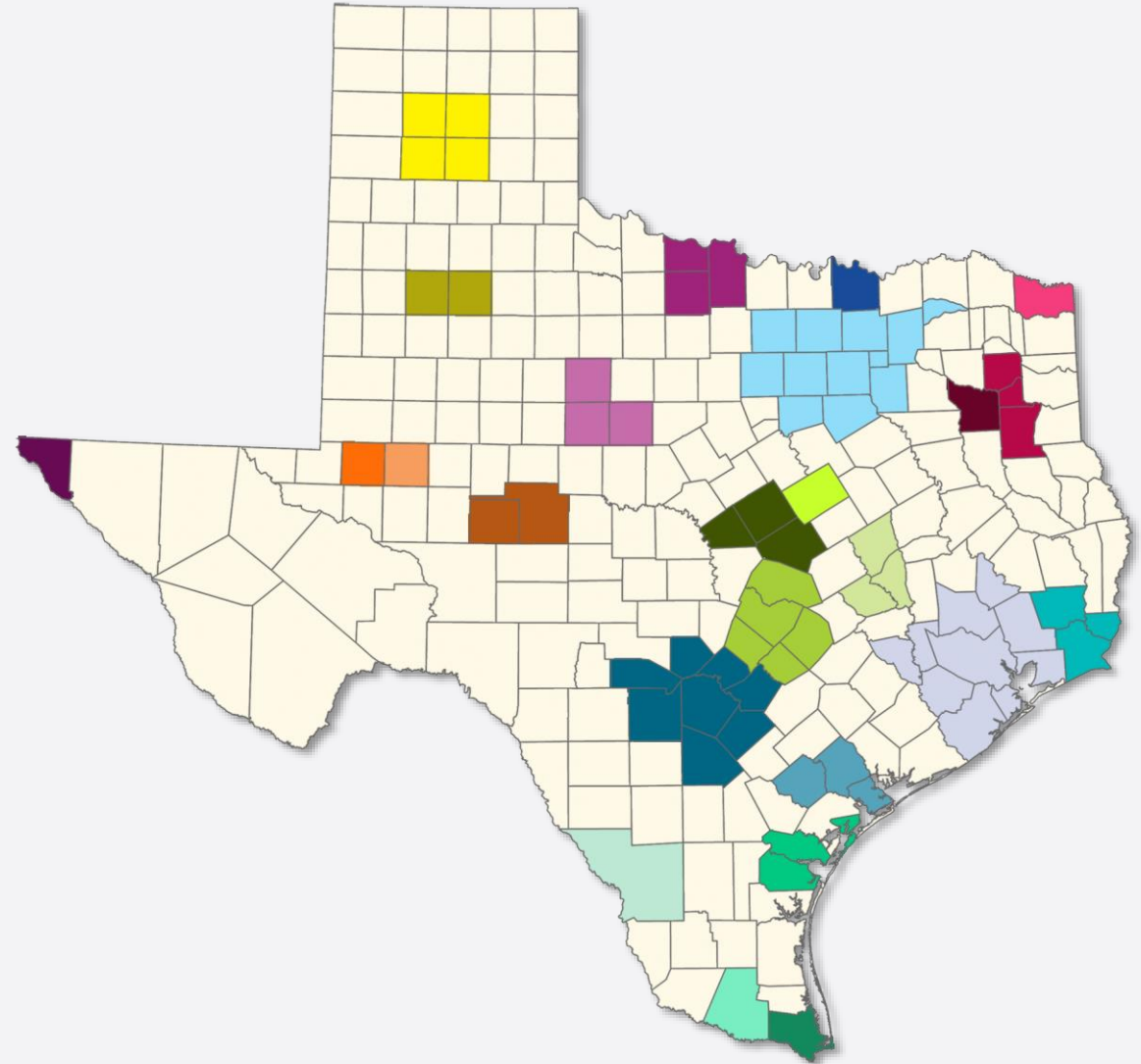
2021



TDI | ACA metropolitan statistical areas

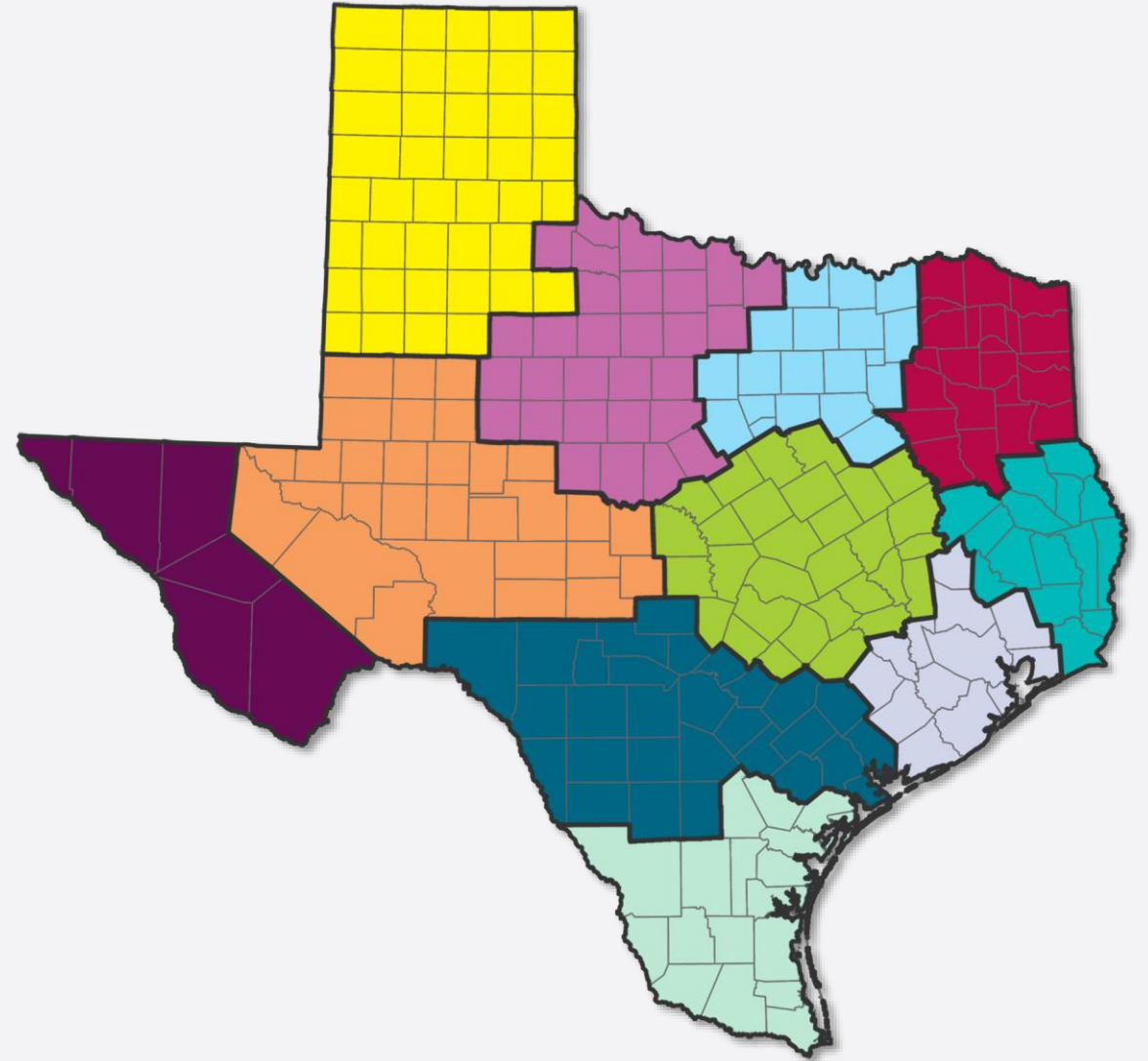
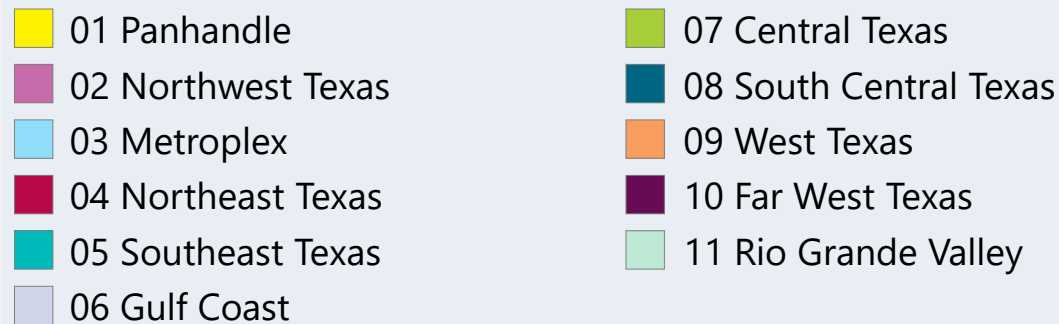
- Major medical premium rates within a state under the ACA may vary only by plan design (metal tier), age, and rating area.
- The default rating area alignment at the inception of the ACA was MSAs. There are 25 MSAs in Texas. The remaining 177 rural counties are aggregated in Rating Area 26.

| | | |
|--------------------|-------------------|------------------|
| 01 Abilene | 10 Houston | 19 San Antonio |
| 02 Amarillo | 11 Killeen-Temple | 20 Sherman |
| 03 Austin | 12 Laredo | 21 Texarkana |
| 04 Beaumont | 13 Longview | 22 Tyler |
| 05 Brownsville | 14 Lubbock | 23 Victoria |
| 06 College Station | 15 McAllen | 24 Waco |
| 07 Corpus Christi | 16 Midland | 25 Wichita Falls |
| 08 DFW | 17 Odessa | 26 Rural |
| 09 El Paso | 18 San Angelo | |



TDI | Public health regions

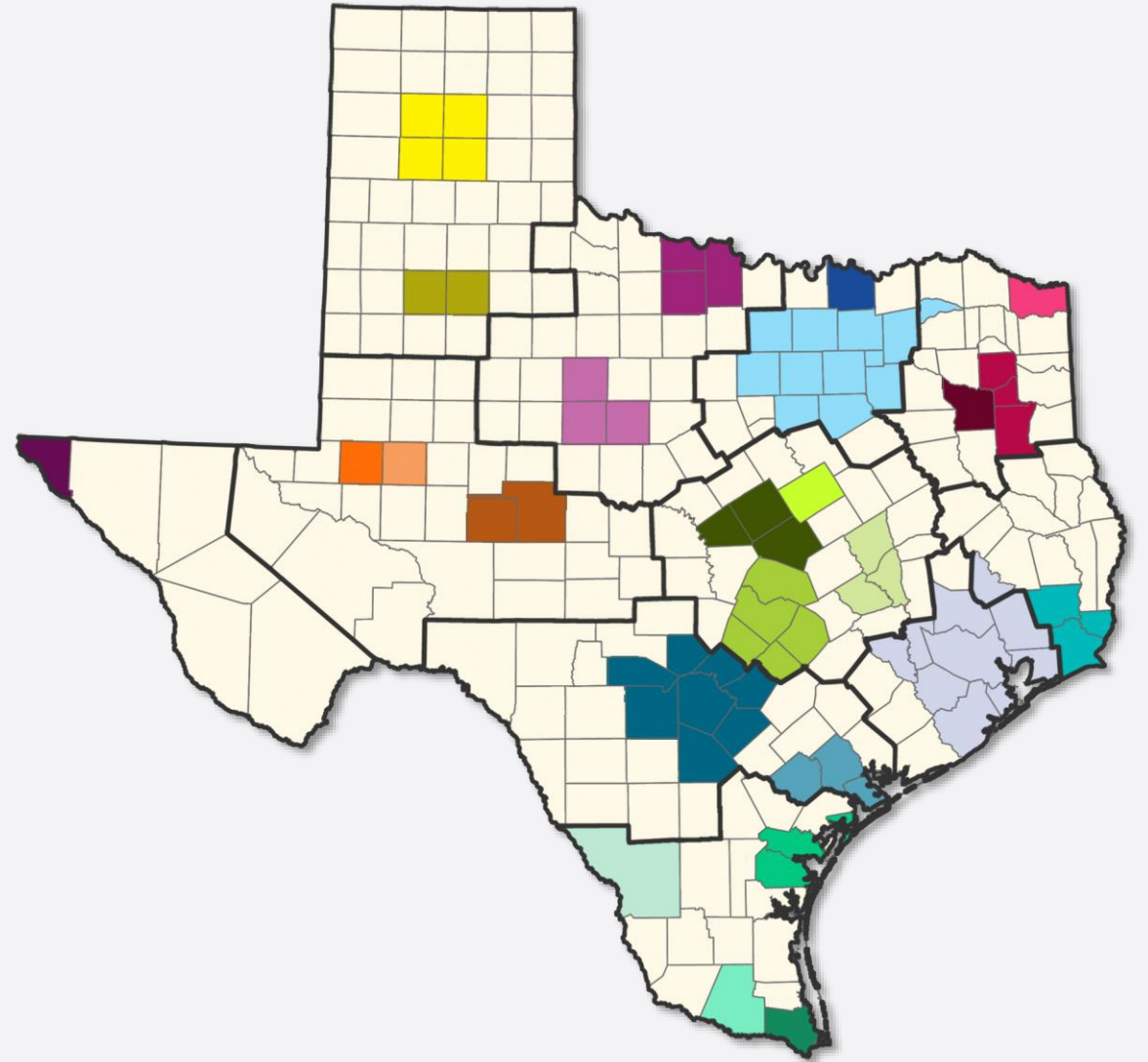
- The most logical common framework to develop geographic rating areas are the 11 Public Health Regions (PHRs).
- TDI uses PHRs to assess PPO network adequacy.



TDI | MSAs with PHRs

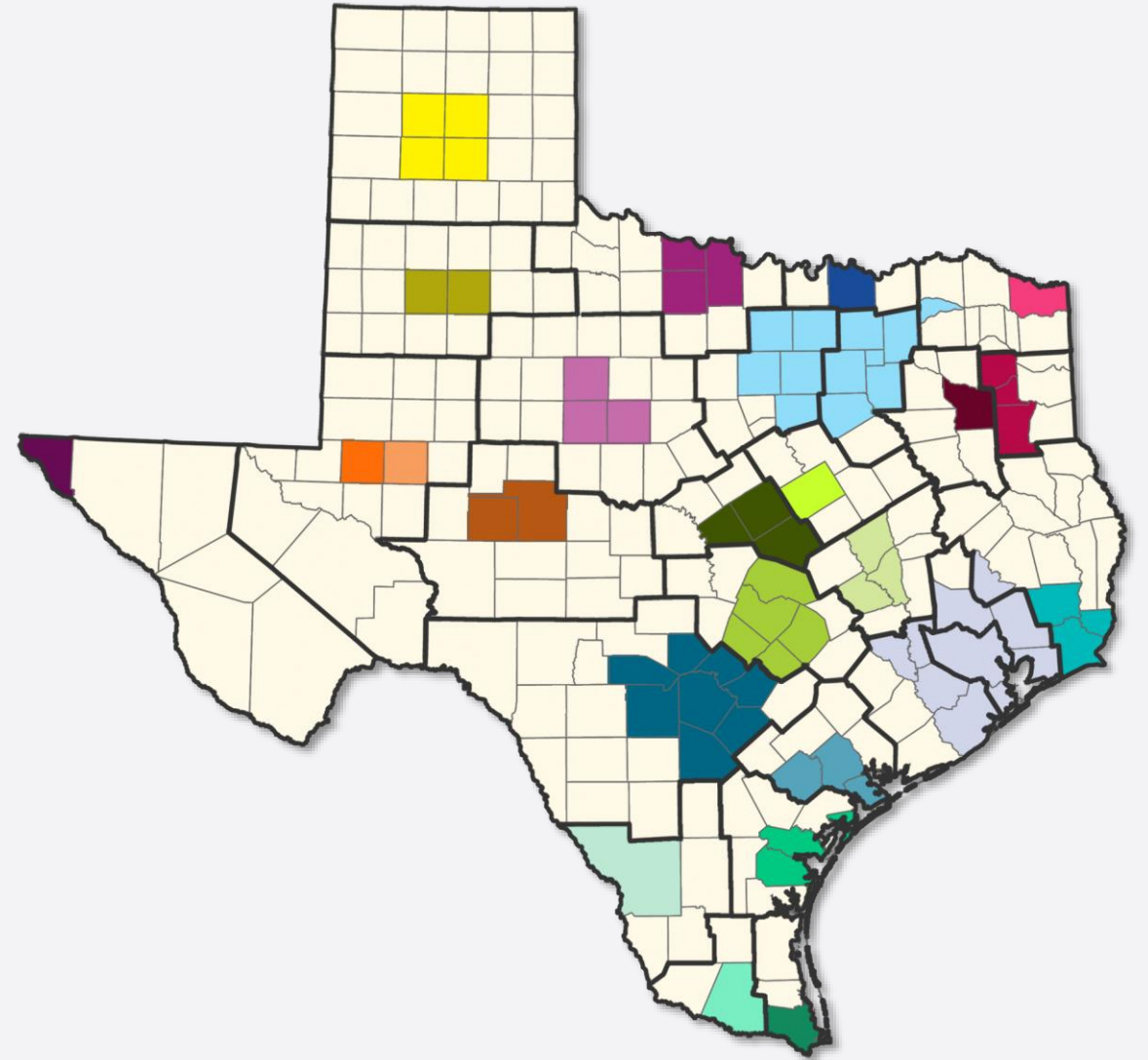
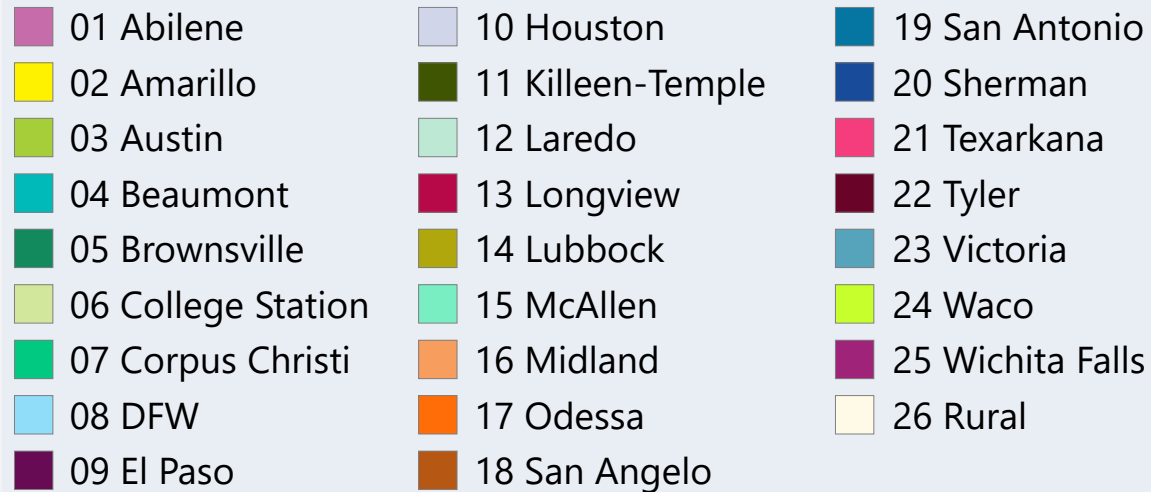
A more appropriate design for geographic rating areas:

- Assign rural counties to the most appropriate MSA by using PHRs and MSAs.
- Divide rating areas in Dallas-Fort Worth and Houston.



TDI | MSAs with revised rating areas

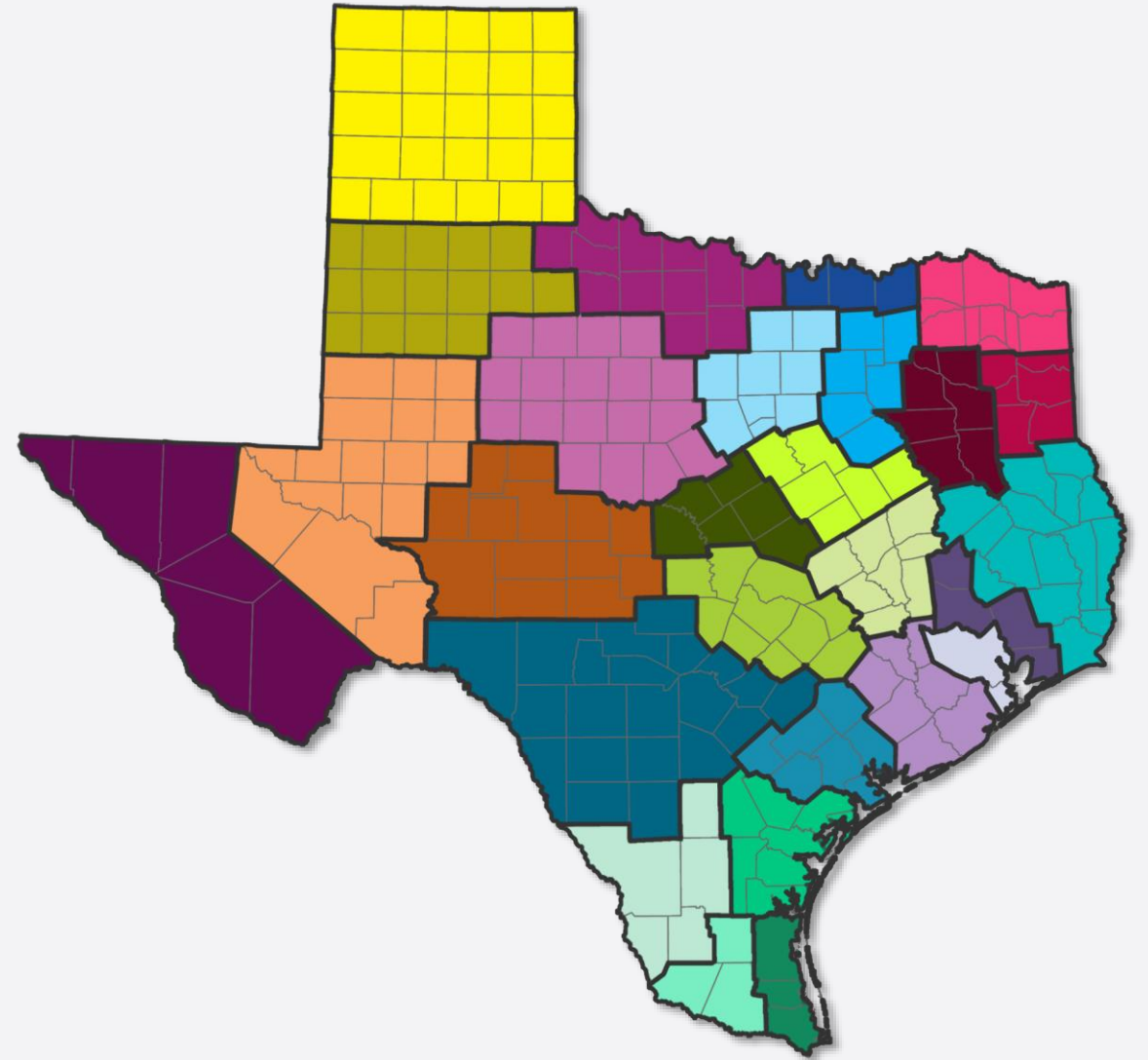
- More competition in the individual market.
- Fewer 5-year bans from Texas.



TDI | Proposed PHR realignment

- Encourage large carriers back into the Texas individual and small group ACA market.
- Encourage carriers to expand into rural counties.

| | | |
|--------------------|-------------------|------------------|
| 01 Abilene | 10 Houston | 19 Sherman |
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| 05 Brownsville | 14 Lubbock | 23 Waco |
| 06 College Station | 15 McAllen | 24 Wichita Falls |
| 07 Corpus Christi | 16 Midland-Odessa | 25 Fort Worth |
| 08 Dallas | 17 San Angelo | 26 Houston SW |
| 09 El Paso | 18 San Antonio | 27 Houston NE |



TDI | Drivers of rate variation by rating regions

Rating variations driven by:

- Lower utilization, especially Rx drugs, in south Texas.
- Higher prices, especially for hospital (single hospital markets).
- Morbidity? Hard to tell (more analysis would be needed).

Are prices higher, utilization different, in rural areas?

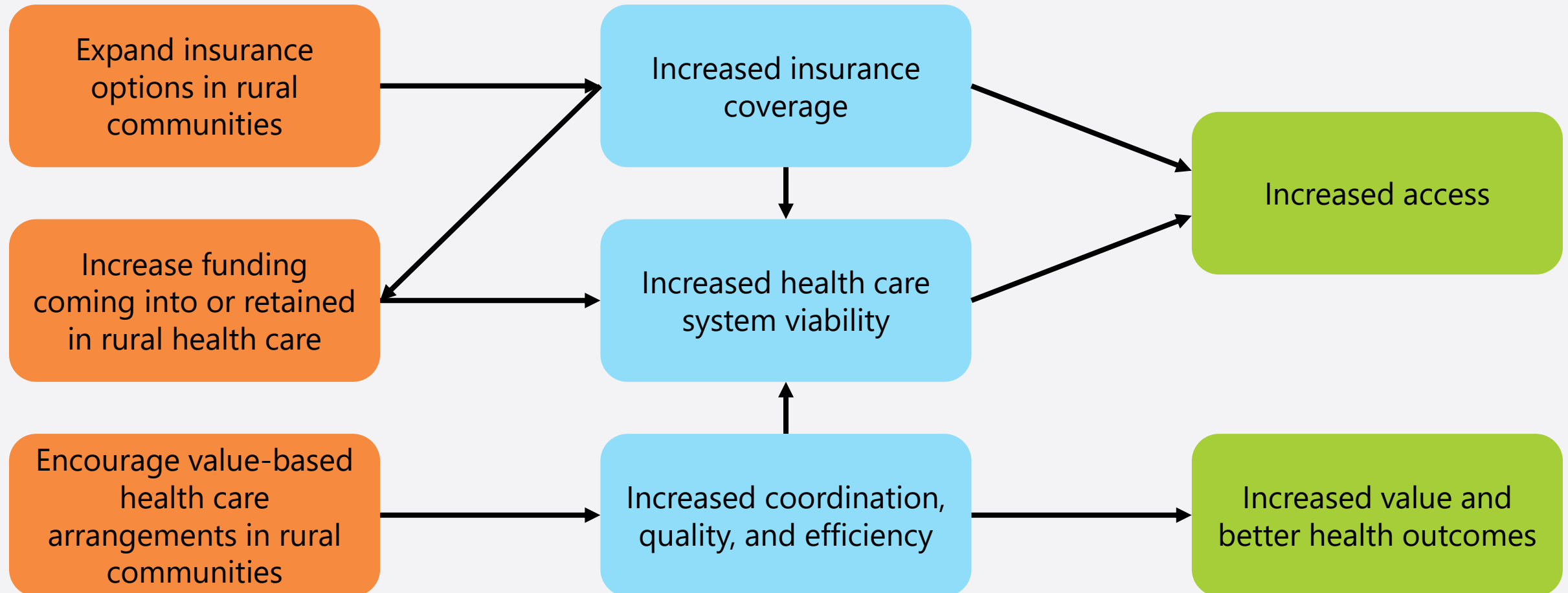
- Healthcare costs in rural areas logically driven by costs for specialty and tertiary services in most proximate urban area.
- Rating area 26, not surprisingly, is a composite of costs for the whole state (i.e. premiums are not higher or lower).

Recommendations: Premiums should be set more on a regional basis:

- Reflective of prices.
- Encourage providers to work within region to improve outcomes, control costs.

TDI | Benefits of realignment for rural counties

Amplified voice of rural providers



TDI | 2023 ACA filing key dates

Subchapter F. Rate review for health benefit plans

28 TAC §§3.501 - 3.506

- Annual ACA rate filings.
- Must be submitted by June 15th for rates with January 1st as effective date.
- Small group quarterly rate filings.
- Filings with effective dates April 1, July 1, or October 1 must be submitted at least 105 days before the effective date.
- TDI may request additional information as necessary upon initial review of the filing. The issuer must provide the requested information within 10 business days.
- CMS deadline for approved rates:
 - For the exchange August 17, 2022.
 - Not on the exchange October 17, 2022.

TDI | Items to include with the rate filing

- The Unified Rate Review Template (URRT Part I).
- You must include a written justification (Part II) for a rate increase of 15% or more.
- Rate Filing Actuarial Memorandum (Part III).
- Rate Table Template (RTT).
- Enrollment spreadsheet (TX template) shows data as of March 31, 2022.
- Actuarial Value and Cost Share Reduction Factor (CSR) Design Template (TX template):
 - Pricing Actuarial Value.
 - Induced Demand Factor (IDF).
 - Cost Sharing Reduction Factor (CSR).

TDI | IDF background

When the state payment transfer formula was developed in 2014, the determination was that we should account for induced demand associated with two separate sources:

- The plan generosity differences between metal levels and
- Enrollee receipt for CSRs, which result in greater generosity of CSR plan variations relative to standard plans.
- As such, CSR IDF (that is used in payment transfer formula) were introduced by Centers for Medicare and Medicaid Services.

| Metal level | IDF |
|--------------|------|
| Catastrophic | 1.00 |
| Bronze | 1.00 |
| Silver | 1.03 |
| Gold | 1.08 |
| Platinum | 1.15 |

Actuarial value and cost share factor design template

Example: AV & cost sharing design of plan (3.3) components

Component factors of 3.3

| Plan ID (1.4) | Metal (1.5) | Plan type (1.8) | Exchange (1.9) | AV & CS (3.3) | AV | IDF | CSR |
|----------------|--------------|-----------------|----------------|---------------|------|------|------|
| 12345TX1234567 | Bronze | PPO | Yes | 0.60 | 0.60 | 1.00 | 1.00 |
| 12345TX123468 | Silver | PPO | Yes | 0.9734 | 0.70 | 1.03 | 1.35 |
| 12345TX1234569 | Gold | PPO | Yes | 0.8640 | 0.80 | 1.08 | 1.00 |
| 12345TX1234570 | Platinum | PPO | Yes | 1.0350 | 0.90 | 1.15 | 1.00 |
| 12345TX1234571 | Catastrophic | PPO | Yes | 0.6000 | 0.60 | 1.00 | 1.00 |

TDI | CSR defunding adjustment background

- In October 2017, the federal government ceased funding of CSR forcing insurers to assume financial responsibility for CSR. Centers for Medicare and Medicaid Services permitted insurers to recoup these costs in their premium by adjusting a factor in plan pricing.
- To account for CSR payments not being reimbursed, a CSR defunding adjustment of 1.35 should be applied to on-exchange silver plans.
- CSR calculation is developed based on the weighted AV of the silver plans (including all CSR plans) in Texas and the weighted IDF factors based on generosity of the silver plans.
- QHPs are permitted and encouraged to map individuals who will otherwise be enrolled into non-CSR silver plans and CSR 73 plans into a gold plan, if the gold plan:
 1. has a net premium equal to or less than what would be paid for the member's current silver plan in plan year 2023 or the silver plan in which the member would otherwise be enrolled if their plan is being discontinued, and
 2. has the same network of providers as the member's current plan.

TDI | CSR subfactor calculation

| CSRs eligibility – income as % of FPL | AV of silver plans | TDI's adjusted IDF | Texans enrolled during 2021 open enrollment | % Texans | |
|---------------------------------------|--|--------------------|---|----------|---|
| Range | 0.70 | 1.03 | 45,459 | 0.6 | |
| 201% 250% | 0.73 | 1.03 | 45,459 | 0.6 | |
| 151% 200% | 0.87 | 1.08 | 128,801 | 0.17 | |
| 100% 150% | 0.94 | 1.09 | 537,933 | 0.71 | |
| AIAN | 1.00 | 1.15 | - | - | |
| | Weighted average | 0.90 | Total: | 757,652 | 1 |
| | CSR load, relative to 70% | 1.287 | | | |
| | CSR factor adjusted for induced demand | 1.35 | | | |

<https://www.cms.gov/files/zip/2021-oep-state-metal-level-and-enrollment-status-public-use-file.zip>

<https://www.cms.gov/files/document/2021-public-use-files-definitions.pdf>

TDI | Review of rate filings from Texas

In reviewing rates filed under this subchapter, TDI will examine:

1. the reasonableness of the assumptions used by the issuer to develop the rates and the validity of the historical data underlying the assumptions;
2. the issuer's data related to past projections and actual experience;
3. the reasonableness of assumptions used by the issuer to estimate the rate impact of the reinsurance and risk adjustment programs under 42 U.S.C. §18061 and §18063; and
4. the issuer's data related to implementation and ongoing utilization of a market-wide single risk pool, essential health benefits, actuarial values, and other market reform rules as required by the ACA.

TDI | Rate filing reasonableness

TDI will determine that a rate filing is unreasonable if, based on the criteria identified in this subsection, the rate is excessive, unjustified, or unfairly discriminatory.

1. A rate filing is excessive if it causes the premium charged for the health insurance coverage to be unreasonably high in relation to the benefits provided under the coverage. In determining whether the rate filing causes the premium charged to be unreasonably high in relationship to the benefits provided, TDI will consider:
 - whether the rate filing results in a projected medical loss ratio below the federal medical loss ratio standard in the applicable market to which the rate filing applies, after accounting for any adjustments allowable under federal law;
 - whether one or more of the assumptions on which the rate filing is based is not supported by substantial evidence; and
 - whether the choice of assumptions or combination of assumptions on which the rate increase is based is unreasonable.

TDI | Rate filing reasonableness

TDI will determine that a rate filing is unreasonable if, based on the criteria identified in this subsection, the rate is excessive, unjustified, or unfairly discriminatory.

2. A rate filing is unjustified if the issuer provides data or documentation that is incomplete, inadequate, or otherwise does not provide a basis upon which the reasonableness of an increase may be determined.
3. A rate filing is unfairly discriminatory if the filing results in premium differences between insureds within similar risk categories that:
 - are not permissible; or
 - do not reasonably correspond to differences in expected costs.

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