AB 1810 Stakeholder Workgroup
2021 State Subsidy Program Design

May 19, 2020

STATE SUBSIDY PROGRAM DESIGN FOR 2021

Isaac Menashe
Policy, Eligibility & Research

COVERED CALIFORNIA

BACKGROUND

In 2020, California implemented a new state advanced premium subsidy and implemented a state mandate penalty. The new state subsidies followed the framework set by the Affordable Care Act and provided more support to those consumers who earn under 400% of the Federal Poverty Level (FPL), and new support to between 400% and 600% of FPL.

While the legislation identified the amount of funding available for the new program and the share of the funding that is meant to go to those above and below 400% of FPL, the legislation delegated authority to Covered California's Board to set the exact eligibility requirements for the new subsidies.

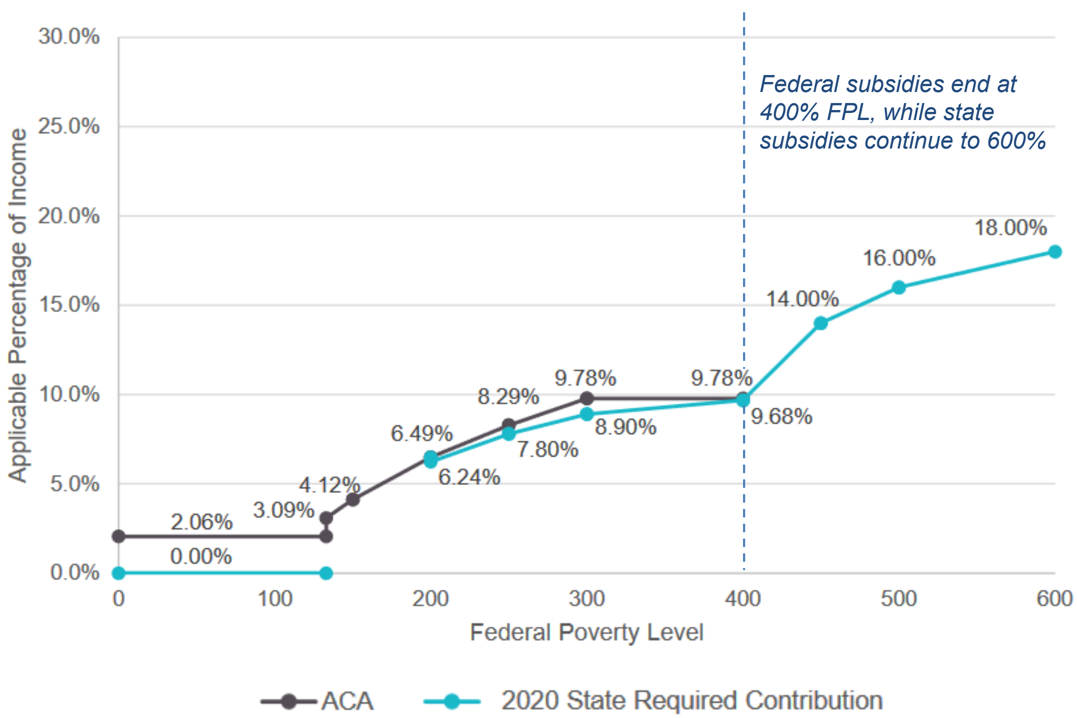
For the 2020 program year, Covered California adopted a program design regulation that included key program design elements, including the eligibility definitions for the program, the "required contribution" curve that determines the benefit amounts under the program, and the caps on reconciliation of state subsidies upon filing of final tax returns with the Franchise Tax Board.

ANNUAL SUBSIDY PROGRAM DESIGN CYCLE

- March to May: Covered California provides technical assistance to Department of Finance to identify the projected costs of the state subsidy program.
- June: The adopted state budget provides for: (1) required use(s) of funding, (2) subsidy spending target for budget year, (3) allocation of funding above and below 400 percent FPL.
- June: The Covered California Board to adopt annual program design in accordance with budget targets set by the appropriation.
- Director of the Department of Finance to provide approval of the program design following notification to the Joint Legislative Budget Committee.

NEW STATE SUBSIDIES FOLLOW ACA IN LIMITING PREMIUMS AS A SHARE OF INCOME

Figure 3: Required Contribution for Benchmark Silver Plan as a Percentage of Income Under ACA and California State Subsidy Program (2020)



Under the ACA, financial assistance is provided to limit the share of income a consumer must spend on premiums for the benchmark second-lowest silver plan (grey line). For example, the ACA caps premiums for a consumer earning 300% of FPL to 9.78% of income.

California's new state subsidies offer new help to two groups (blue line):

1) Many consumers below 400% of FPL see their required contribution reduced (for example, the consumer at 300% of FPL will receive a state credit to reduce the share of income spent on premiums from 9.78% to 8.90% of income.

2) For consumers from 400 to 600% of FPL, which saw no financial protection under the ACA, new state caps limit premiums to the percentages shown in Figure 3, so that a consumer at 450% of FPL spends no more than 14% of their income on premiums.

COVERED CALIFORNIA 2020 ENROLLMENT: HUGE REBOUND DUE TO MANDATE AND NEW SUBSIDIES

Table 1: Preliminary Analysis of Covered California 2020 Net Plan Selections

Category	2018	2019	Percent Change	2020	Percent Change
New Enrollment*	388,344	295,980	-23.8	418,052	41.2
Renewals	1,133,180	1,217,903	7.5	1,120,767	-8.0
Total	1,521,524	1,513,883	-0.5	1,538,819	1.6

* The new enrollment number includes consumers who had coverage off-exchange switched to on-exchange coverage to benefit from new subsidies. Even after subtracting the entire newly-enrolled 400 to 600 percent FPL population, Covered California's new sign-ups in 2020 would still be 36 percent higher than in 2019 and still the highest total since 2016.

- Overall enrollment is higher in 2020 than the past two years — driven by a huge increase in new-enrollments — as California replaced the federal penalty and made new state subsidies available.
- New enrollment in 2020 increased by more than 122,000 — over 41 percent higher – compared to 2019 and at its highest level since 2016.
- In 2020, renewals are down slightly compared to 2019, due primarily to the significant drop in new enrollment during 2019 open enrollment which meant fewer new enrollees eligible to keep coverage for 2020.

2020 OPEN ENROLLMENT RESULTS

Considering the take-up of new state subsidies during Open Enrollment for 2020, several key observations include:

- Hundreds of thousands of consumers are benefitting from state subsidies
  - Nearly 600,000 consumers below 400% of FPL gaining increased affordability from new state subsidies, on top of federal assistance.
  - Nearly 32,000 consumers are benefitting from new middle-class subsidies for those earning between 400% and 600% of FPL.
- However, not all consumers within each income group are eligible for state subsidies
  - Some consumers below 400% FPL have chosen a plan that is fully paid for by the federal credits alone.
  - *Over half* of consumers in the 400 to 600% FPL range already can purchase a Silver benchmark plan for less than the "required contribution" curve set in the 2020 Program Design.

2020 OPEN ENROLLMENT RESULTS

The table below shows 2020 open enrollment results by FPL.

Enrollment by FPL, Showing Receipt of State Subsidies and Average Amounts

	Enrollees	Enrollees (col %)	Enrollees Receiving State Subsidies	Percentage in Group Receiving State Subsidies	State Subsidy Amount Per Month - Among Those Receiving (Household, avg)	State Subsidy Amount Per Month - Among Those Receiving (Individual, avg)	Average State Subsidy Amount Per Month - All Enrollees in Group (individual)
138% FPL or less	47,762	3%	9,554	20%	$55	$40	$8
138% FPL to 200% FPL	623,684	41%	0	0%			$0
200% FPL to 400% FPL	691,133	45%	576,601	83%	$25	$16	$14
400% FPL to 600% FPL	68,238	4%	31,944	47%	$504	$291	$136
600% FPL+ or Unsub App	98,358	6%	0	0%			$0
FPL Unavailable	9,644	1%	7,553	78%	$61	$37	$29
Grand Total	1,538,819	100%	625,652	41%	$48	$31	$13

Note: These data are “net” plan selections through February 7, per CMS reporting requirements. FPL Unavailable is related to a reporting issue in in the data used for statistical reporting these are cases that are *correctly* receiving state subsidy.

STATE SUBSIDIES FOR THE 400% TO 600% FPL GROUP

Two key trends about the 400% to 600% FPL group have emerged so far this year:

1) **Take-up of on-exchange members was high, but off-exchange consumers did not switch.** Estimates indicate there may be 140,000 off-exchange consumers earning in this income range, many of whom would likely “switch” to possibly receive new financial assistance. Yet, *new* sign-ups with Covered California for this income bracket were just over 25,000.*

2) **Average financial support among those receiving has been *much* greater than anticipated.** Those receiving subsidies in this group are receiving an average of $500 per household per month, but the number of enrollees receiving the support is much lower than expected (~32,000). Before the program launched, we anticipated roughly $160 per household per month.

* Survey data suggest that an even larger number of off-exchange enrollees may be eligible for Federal APTC, and as a result, Covered California was developing plans for an initiative during the new special enrollment period in March and April that would have combined marketing and new collaboration with carriers and agents to reach these off-exchange populations who may still be able to benefit from reduced premiums. This effort was put on hold due to the COVID-19 pandemic.

2020 OPEN ENROLLMENT RESULTS

The table below shows that “switching” from the off-exchange – which should present as “Open Enrollment” 400 to 600% FPL enrollment – did not materialize as expected, with less than a one quarter of the expected volume.

Enrollment by FPL and Renewal Cohort, Showing Receipt of State Subsidies (Enrollees)

	Enrollees		Enrollees (col %)		Enrollees Receiving State Subsidies		Enrollees	Enrollees (col %)	Enrollees Receiving State Subsidies
	Open Enrollment	Renewal	Open Enrollment	Renewal	Open Enrollment	Renewal	Total	Total	Total
138% FPL or less	7,532	40,230	2%	4%	2,482	7,072	47,762	3%	9,554
138% FPL to 200% FPL	163,139	460,545	39%	41%	0	0	623,684	41%	0
200% FPL to 400% FPL	192,811	498,322	46%	44%	166,512	410,089	691,133	45%	576,601
400% FPL to 600% FPL	25,183	43,055	6%	4%	14,260	17,684	68,238	4%	31,944
600% FPL+ or Unsub App	26,311	72,047	6%	6%	0	0	98,358	6%	0
FPL Unavailable	3,076	6,568	1%	1%	1,997	5,556	9,644	1%	7,553
Grand Total	418,052	1,120,767	100%	100%	185,251	440,401	1,538,819	100%	625,652

Note: These data are “net” plan selections through February 7, per CMS reporting requirements. FPL Unavailable is related to a reporting issue in in the data used for statistical reporting these are cases that are *correctly* receiving state subsidy.

ESTIMATING 2020 STATE SUBSIDY TOTALS AND 2021 & 2022 ENROLLMENT AND PREMIUMS

The preceding slides covered the results of “net plan selections” from the 2020 plan year renewal and open enrollment period as reported publicly following the close of this year’s open enrollment, but do not yet factor in effectuations and the ongoing special enrollment periods.

To prepare for the 2021 State Subsidy Program Design, we first estimate how the remaining SEP in 2020 may impact total effectuated enrollment in the State Subsidies for 2020. Then, enrollment assumptions and premium increase assumptions are needed for 2021 and 2022.

A high level summary of the assumptions and methods used for 2021 State Subsidy Program Design technical assistance are described in the appendix below.

FUNDING AVAILABLE PER 2019 BUDGET PROCESS

- In the discussions for the 2020 program design, an original 3 year program was envisioned using only the anticipated revenue from the new mandate penalty – estimated to bring in approximately $1 billion over the three years. The table below provides the original 2019 revenue estimates from the May Revise.
- However, following input from the legislature, the 2020 program enacted was designed to enhance affordability with additional funds beyond the penalty revenue, to create a proposed 3 year program total of $1.5 billion. The table below provides the original estimates from last year's budget process.

Plan Year	Penalty Revenue Estimate from 2019 May Revise	Estimated Cost for a $1.0 Billion Program – 2019 Budget Act Estimate	Estimated Cost for a $1.5 Billion Program – 2019 Budget Act Estimate
2020	$317,200,000	$295,300,000	$428,629,000
2021	$335,900,000	$330,400,000	$479,762,000
2022	$352,800,000	$379,900,000	$547,195,000

ESTIMATE OF 3-YEAR PROGRAM COSTS

As detailed in the modeling appendix that follows, we currently estimate that 2020 State Subsidy program design, coupled with observed and anticipated enrollment for 2020, will lead to total spending to be well below what was planned for the program.

Plan Year	Estimated Cost for a $1.5 Billion Program – 2019 Budget Act	Anticipated Advanced State Subsidy Spending Under Baseline Program Design – 2020 May Revise	Variance
2020	$428,629,000	$217,006,000	$211,623,000
2021	$479,762,000	$348,939,000	$130,823,000
2022	$547,195,000	$372,451,000	$174,744,000
TOTAL	$1,455,586,000	$938,396,000	$517,190,000

TECHNICAL ASSISTANCE FOR 2021 STATE SUBSIDY PROGRAM PLANNING

1. Review estimates of the cost of the 2020 State Subsidy program based on the latest enrollment data available.

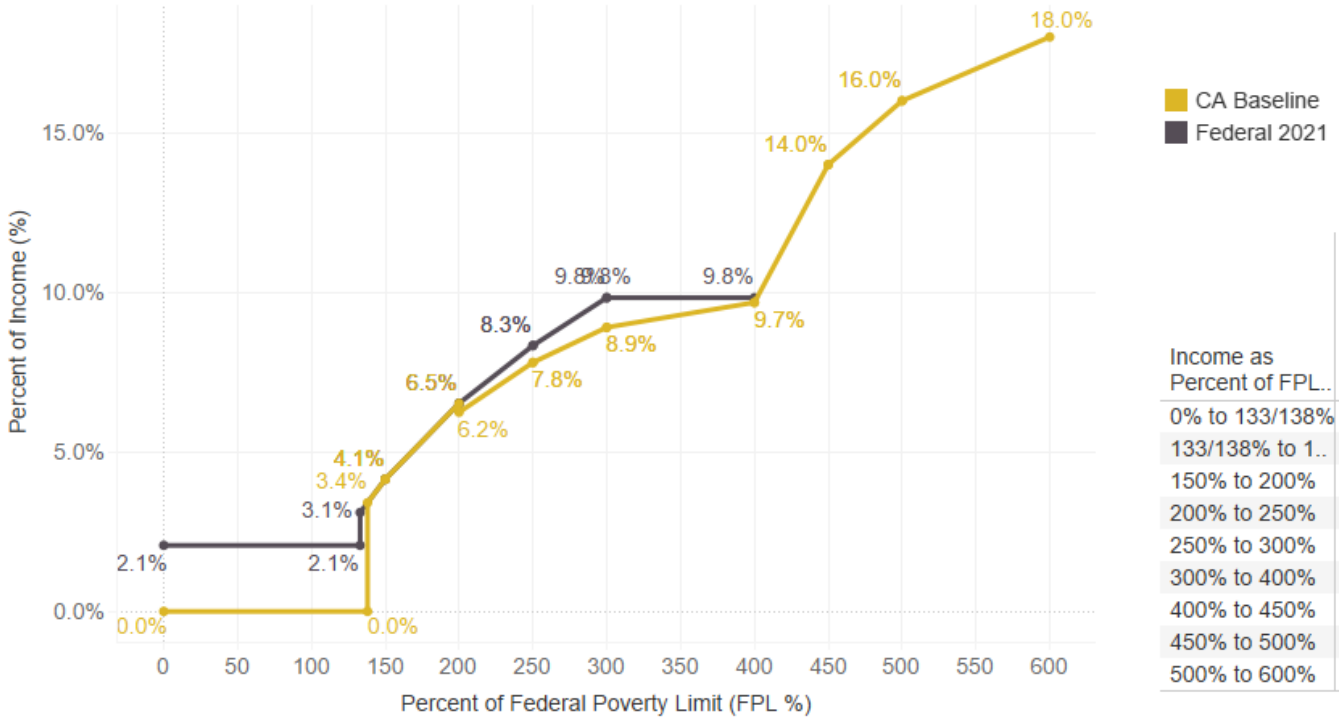
2. Estimate cost for 2021 State Subsidy program holding under 2020 program design rules (baseline), with preliminary estimates for COVID-19 rates.

THE MAY REVISION PROPOSAL

The Governor's May Revision maintains the current level of state subsidies as adopted in the 2020 state subsidy program design, based on the estimated cost of extending the current program design into 2021.

For the Board's reference, in conducting its own analysis of the state subsidy program, Covered California also reviewed several program design options which would have expanded subsidies but stayed within the original program budget. Those options are presented in the appendix.

MAY REVISE – CONTINUE 2020 PROGRAM DESIGN REQUIRED CONTRIBUTION CURVE



Income as Percent of FPL..	Federal 2021 Intial	Federal 2021 Ending	CA Baseline Intial	CA Baseline Ending
0% to 133/138%	2.07		0.00	
133/138% to 1..	3.10		3.41	
150% to 200%	4.14	6.52	4.14	6.52
200% to 250%	6.52	8.33	6.24	7.80
250% to 300%	8.33	9.83	7.80	8.90
300% to 400%	9.83	9.83	8.90	9.68
400% to 450%			9.68	14.00
450% to 500%			14.00	16.00
500% to 600%			16.00	18.00

MAY REVISE – CONTINUE 2020 PROGRAM DESIGN

Under the May Revise proposal, the 2020 State Subsidy program design would be maintained for 2021. With the enrollment experience from 2020, we estimate that if maintained through 2022, this program design would have a cumulative cost of $938 million.

Note that we still anticipate enrollment growth in the 400 to 600% FPL group that are receiving state subsidies for 2021.

Total Program Cost Over 3 Year

2020	$217M
2021	$349M
2022	$372M
Grand Total	$938M

Key Program Metrics for 2021

	2021
State Subsidy $ (aggregate)	$349M
State Subsidy $ (% of spend to over 400 FPL)	72%
Enrollees	1,502,271
Enrollees between 400 and 600% FPL	98,984
Enrollees Receiving State Subsidy (400 to 600% FPL)	57,720
Share of Enrollees in 400 to 600% FPL Receiving >$0	45%
State Subsidy $ (avg PMPM) - receiving only	$47
State Subsidy $ (avg PMPM, 400-600% receiving only)	$362
State Subsidy $ (avg PMPM, 200-400% receiving only)	$14

NEXT STEPS FOR FINAL PROGRAM DESIGN

At the June 2020 Board meeting, staff will return to the Board with its final proposed 2021 State Subsidy Program Design for action.

For the June 2020 Board meeting, should the final appropriation differ from what has been proposed in the May Revise, Covered California staff will bring back a final proposed curve for 2021 that is:

a) consistent with the appropriation passed by the legislature; and

b) integrates any new adjustments to COVID-19 related premium or enrollment impacts.

In addition to setting the required contribution curve for the 2021 plan year, the draft program design document proposes technical updates, including a clarification that the definition of eligible consumers in the program design includes both those who apply through the single, streamlined application *or* transition from another Insurance Affordability Program.

APPENDIX
STATE SUBSIDY 2021
SCENARIO MODELING

2021 PROGRAM DESIGN MODELING

For 2021, Covered California analyzed several options for subsidy program design that:

- Were consistent with original legislative intent to adjust the program design to provide maximum affordability consistent with the legislature's appropriation;
- Recognized the difficult budget horizon created by COVID-19, with projected budgets *below* the original $1.5B;
- Included at least some additional supports across all incomes under 600% FPL, but showcase options with different additional support along the income spectrum.

2021 PROGRAM DESIGN MODELING - ASSUMPTIONS

- Analysis of both premium and enrollment impacts from COVID-19 and the recession are evolving *very* quickly.
- To meet the state budget process timelines, this analysis was completed in mid-April. Some of the assumptions are already “outdated” with respect to those being used by Covered California for its proposed FY 2020-21 budget model.
- All models assume the “most likely” scenarios for 2021, which as of the time of the analysis were 14.7% rate increase and 1.502 million average monthly enrollment.

ASSUMPTIONS – ENROLLMENT DURING COVID-19

Most modeling anticipates some growth to Marketplace enrollment during the recession, but the level depends on a range of factors, and depending on the balance, these factors *could* even lead to negative growth.

The most significant churn dynamics – which move in opposite directions for Marketplace impact – are:

1) **Churn out:**
   - What volume of consumers transition to Medi-Cal based on new, lower income for the month?
   - What volume of consumers drop coverage they purchase directly even though not eligible for Medi-Cal?
2) **Churn in:**
   - What share of consumers lose job-based coverage (ESI), and of those, what portion *take-up* coverage on the exchange?

ASSUMPTIONS – ENROLLMENT DURING COVID-19

The enrollment assumptions for this analysis are presented in the table to the right, and are based on Covered California's Financial Management Division's modeling as of early-to-mid April.*

Given a range of reasonable assumptions based on available empirical evidence, the current enrollment forecast range is much wider than what would otherwise be expected for the marketplace. Despite this uncertainty, the range for the most likely estimates still hovers within 10-15% above or below the level of current enrollment.

* These estimates will be updated to reflect the final enrollment model when the 2021 State Subsidy Program Design is brought back to the Board for final approval.

Estimated 2020, 2021, and 2022 Enrollment under Mid enrollment scenarios

(Eligibility for state subsidy is based on current 2020 State Subsidy Program Design rules.)

		14.7% Rate Increase		
		Mid Enrollment		
		New	Renewal	Total
Enrollees	2020	419,917	1,015,407	1,435,324
	2021	422,409	1,079,862	1,502,271
	2022	422,984	1,079,287	1,502,271
Enrollees Receiving State Subsidy	2020	185,654	408,422	594,075
	2021	186,403	434,669	621,072
	2022	185,719	432,433	618,151
Enrollees between 400 and 600% FPL	2020	32,002	43,204	75,205
	2021	39,226	59,758	98,984
	2022	39,714	60,253	99,967
Enrollees Receiving State Subsidy (400 to 600% FPL)	2020	19,391	15,244	34,635
	2021	27,608	30,112	57,720
	2022	27,918	30,167	58,085

ASSUMPTIONS 2021 & 2022 – PREMIUM GROWTH

Based on input from Covered California's Chief Actuary in early April, and following on Covered California's analysis in "The Potential National Health Cost Impacts to Consumers, Employers and Insurers in the Commercial Market Due to COVID-19", this analysis used the following premium estimates:

	2021 Rate Impact	2022 Rate Impact	2022 Cumulative
Medium	14.7%	3.3%	18.5%

These estimates included not only increases in the cost of health care stemming from COVID-19, but a range of potential factors such as anticipated increased enrollment due to expanded subsidies, as well as uncertain market conditions.

As noted, the estimates used here were from mid-April and may differ from subsequent estimates (such as those used in the final Covered California budget forecasts) for how the pandemic and its economic consequences may impact premiums and enrollment.

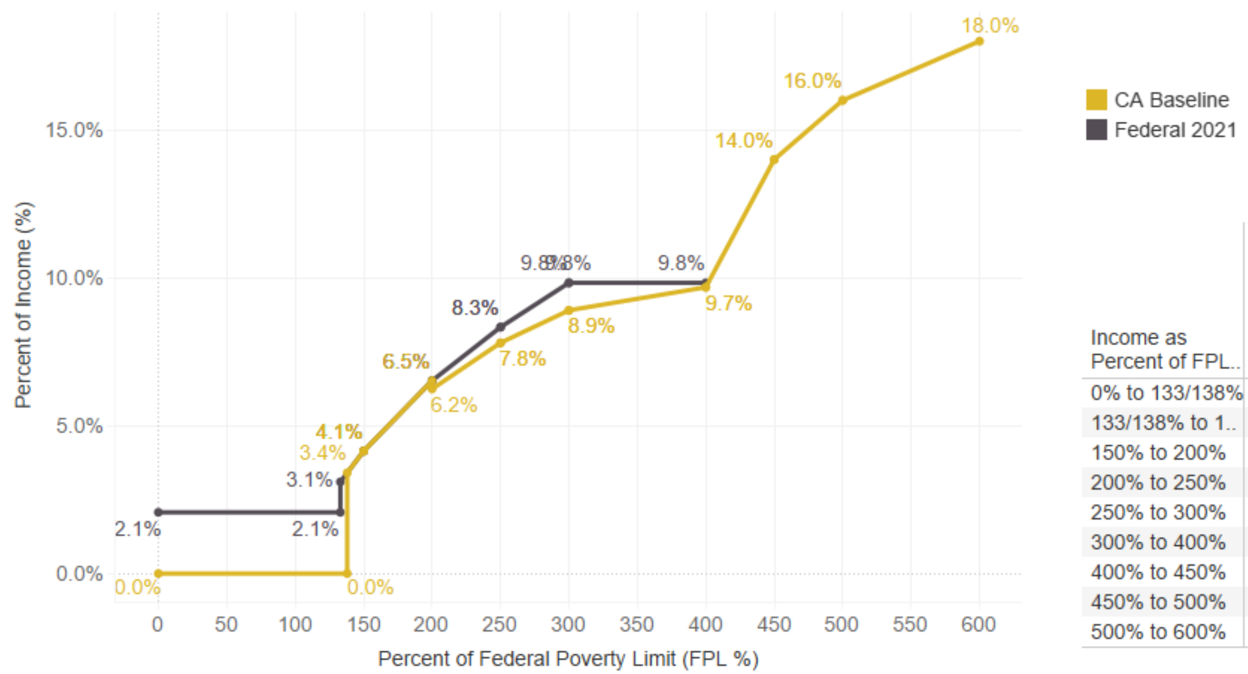
MODELS CONSIDERED FOR 2021 PROGRAM DESIGN

Model	Name	Description	Estimated 3 Year Budget
Model B1	**Baseline (Mid)**	Continues existing program design into 2021 and 2022	$938 M
Model E4	**Close the Gap**	Improve affordability for all <=600% FPL with emphasis on consumers under 200% FPL who were not assisted in 2020.	$1.371 Billion
Model E5	**Enhance Support for Low Income**	Improve affordability for all <=600% FPL with emphasis on consumers in the 200 to 400% FPL range.	$1.360 Billion
Model E6	**Expand Middle Class Subsidies**	Improve affordability for all <=600% FPL with emphasis on consumers in the 400 to 600% FPL range.	$1.322 Billion

** All models use 14.7% premium growth and the 'Mid' enrollment assumptions.*

BASELINE – CONTINUE 2020 PROGRAM DESIGN REQUIRED CONTRIBUTION CURVE

B1 - Baseline

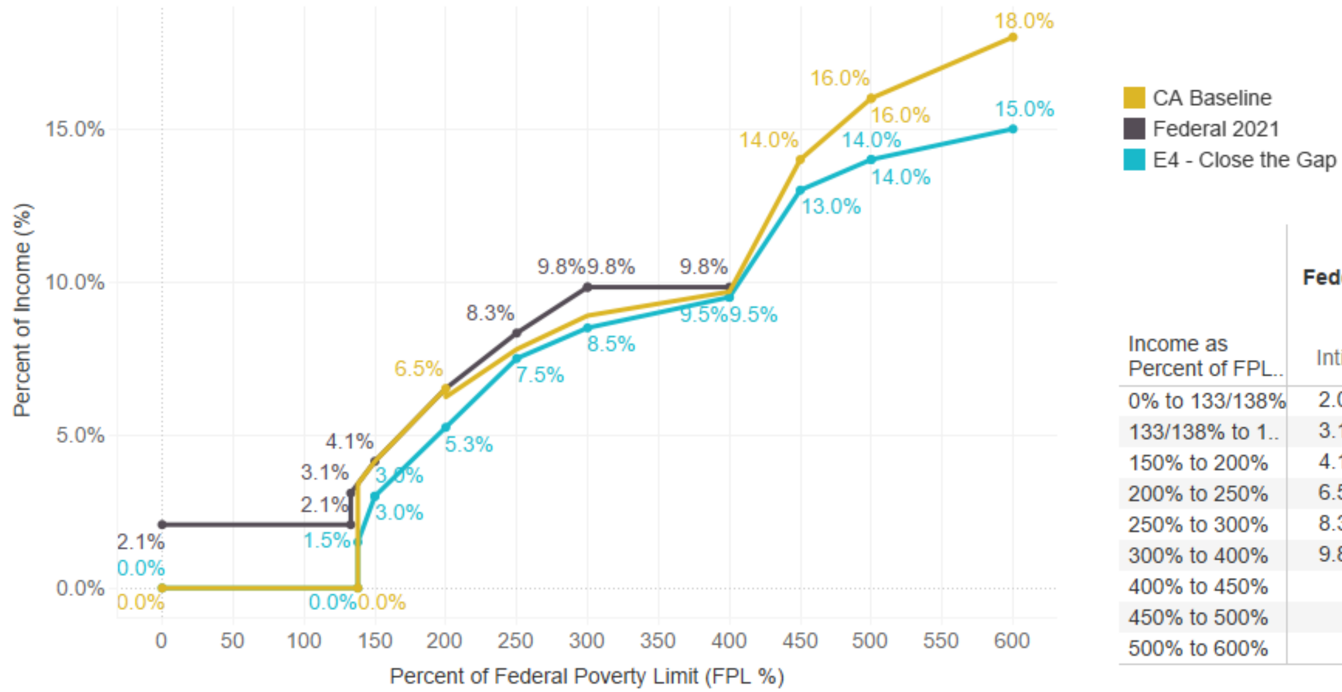


	Federal 2021		CA Baseline	
Income as Percent of FPL..	Intial	Ending	Intial	Ending
0% to 133/138%	2.07		0.00	
133/138% to 1..	3.10		3.41	
150% to 200%	4.14	6.52	4.14	6.52
200% to 250%	6.52	8.33	6.24	7.80
250% to 300%	8.33	9.83	7.80	8.90
300% to 400%	9.83	9.83	8.90	9.68
400% to 450%			9.68	14.00
450% to 500%			14.00	16.00
500% to 600%			16.00	18.00

Model: B1 - Baseline

MODEL E4 – CLOSE THE GAP REQUIRED CONTRIBUTION CURVE

E4 - Close the Gap

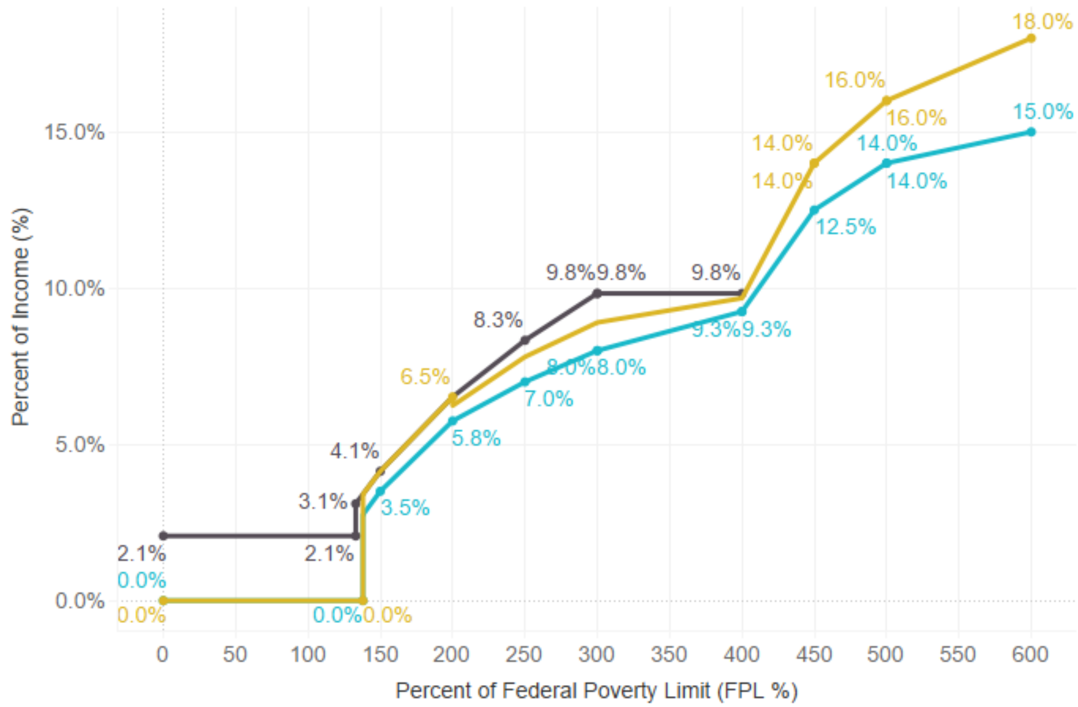


Income as Percent of FPL..	Federal 2021		CA Baseline		E4 - Close the Gap	
	Intial	Ending	Intial	Ending	Intial	Ending
0% to 133/138%	2.07		0.00		0.00	
133/138% to 1..	3.10		3.41		1.50	
150% to 200%	4.14	6.52	4.14	6.52	3.00	5.25
200% to 250%	6.52	8.33	6.24	7.80	5.25	7.50
250% to 300%	8.33	9.83	7.80	8.90	7.50	8.50
300% to 400%	9.83	9.83	8.90	9.68	8.50	9.50
400% to 450%			9.68	14.00	9.50	13.00
450% to 500%			14.00	16.00	13.00	14.00
500% to 600%			16.00	18.00	14.00	15.00

Model E4 - Close the Gap

MODEL E5 – ENHANCE SUPPORT FOR LOW-INCOME REQUIRED CONTRIBUTION CURVE

E5 - Enhanced Support for Low Income

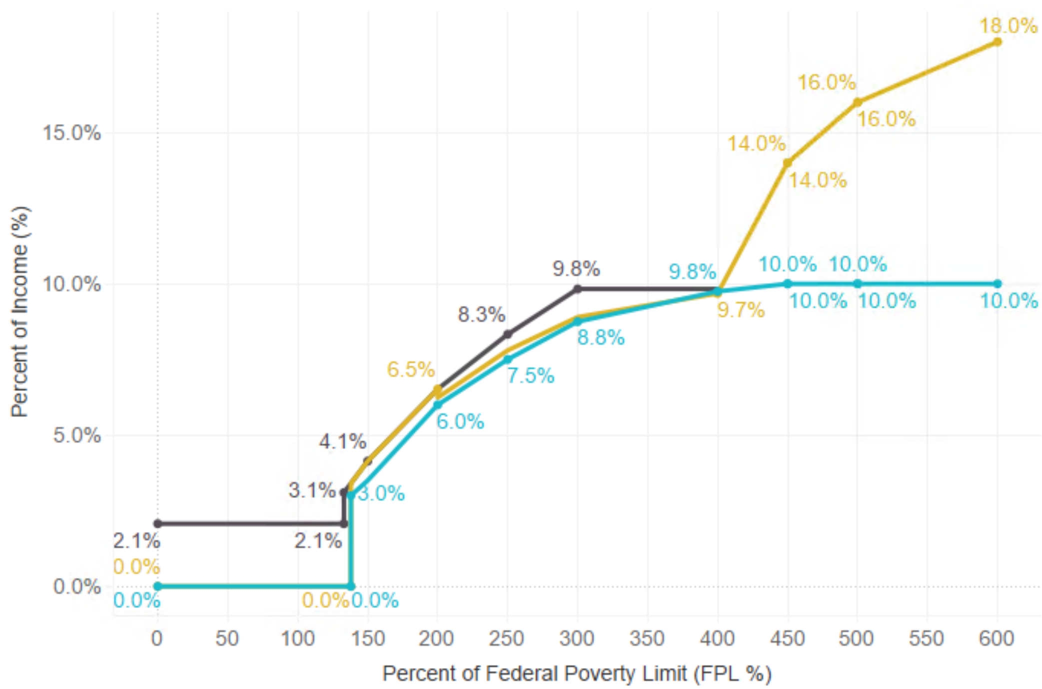


Income as Percent of FPL..	Federal 2021		CA Baseline		E5 - Enhance Support Low Income	
	Intial	Ending	Intial	Ending	Intial	Ending
0% to 133/138%	2.07		0.00		0.00	
133/138% to 1..	3.10		3.41		2.75	
150% to 200%	4.14	6.52	4.14	6.52	3.50	5.75
200% to 250%	6.52	8.33	6.24	7.80	5.75	7.00
250% to 300%	8.33	9.83	7.80	8.90	7.00	8.00
300% to 400%	9.83	9.83	8.90	9.68	8.00	9.25
400% to 450%			9.68	14.00	9.25	12.50
450% to 500%			14.00	16.00	12.50	14.00
500% to 600%			16.00	18.00	14.00	15.00

Model: E5 - Enhanced Support for Low Income

MODEL E6 – EXPAND MIDDLE CLASS SUBSIDIES REQUIRED CONTRIBUTION CURVE

E6 - Expand Middle Class Subsidies



E6 - Expand Middle Class Subsidies
CA Baseline
Federal 2021

Income as Percent of FPL..	Federal 2021 Intial	Federal 2021 Ending	CA Baseline Intial	CA Baseline Ending	E6 - Expand Middle Class Subsidies Intial	E6 - Expand Middle Class Subsidies Ending
0% to 133/138%	2.07		0.00		0.00	
133/138% to 1..	3.10		3.41		3.00	
150% to 200%	4.14	6.52	4.14	6.52	3.50	6.00
200% to 250%	6.52	8.33	6.24	7.80	6.00	7.50
250% to 300%	8.33	9.83	7.80	8.90	7.50	8.75
300% to 400%	9.83	9.83	8.90	9.68	8.75	9.75
400% to 450%			9.68	14.00	9.75	10.00
450% to 500%			14.00	16.00	10.00	10.00
500% to 600%			16.00	18.00	10.00	10.00

Model: E6 - Expand Middle Class Subsidies

ALL MODEL COMPARISONS
KEY METRICS

	14.7% Rate Increase Mid Enrollment			
	B1 Baseline	E4 Close the Gap	E5 Enhanced Support for Low Income	E6 Expand Middle Class Subsidies
	2021	2021	2021	2021
State Subsidy $ (aggregate)	$349M	$564M	$558M	$538M
State Subsidy $ (% of spend to over 400 FPL)	72%	50%	52%	67%
Enrollees	1,502,271	1,503,338	1,503,641	1,507,342
Enrollees between 400 and 600% FPL	98,984	100,051	100,355	104,056
Enrollees Receiving State Subsidy (400 to 600% FPL)	57,720	62,232	64,053	78,699
Share of Enrollees in 400 to 600% FPL Receiving >$0	45%	48%	49%	59%
State Subsidy $ (avg PMPM) - receiving only	$47	$43	$43	$41
State Subsidy $ (avg PMPM, 400-600% receiving only)	$362	$376	$374	$381
State Subsidy $ (avg PMPM, 200-400% receiving only)	$14	$24	$30	$18
State Subsidy $ (avg PMPM, 138-200% receiving only)		$21	$11	$9

	B1 Baseline	E4 Close the Gap	E5 Enhanced Support for Low Income	E6 Expand Middle Class Subsidies
2020	$217M	$217M	$217M	$217M
2021	$349M	$564M	$558M	$538M
2022	$372M	$591M	$585M	$567M
Grand Total	$938M	$1,371M	$1,360M	$1,322M