5. Projection Factors

A. Change in the Morbidity of the Population Insured

The morbidity of the insured population is projected to increase by 9.5% in the projection period compared to the experience period. The complete repeal of individual mandate penalties is the main driver. It will result in some healthier consumers choosing to go without coverage and the underlying risks of the WA individual market as well as KFHPWA's pool are expected to increase. Carriers will respond with high rate increases to cover cost, this will make premiums unaffordable especially for consumers not receiving Federal subsidies so the likelihood that these consumers will drop coverage will also increase.

Several data points were considered in the development of this assumption. We analysed our 2017 experience for factors that drove disenrollment in 2017 and possible future trends. We also took into consideration results published by CMS' Office of the Actuary on the impact of eliminating individual mandate penalties. CMS estimates that the uninsured rate will increase by ~4 million over the next decade. Of which about 2 million will come from ACA exchanges shortly after the effective date of the repeal in 2019. Assuming 2017 enrolment in the individual market was approximately 20 million, CMS' projection suggests that the market will contract by ~10% in 2019. Extrapolating this projection to WA State suggests the WA State market may be 27,000 – 30,000 members less in 2019 compared to 2017. This projection is in line with a recent Kaiser Family Foundation survey which determined that "nine in ten non-group enrollees say they intend to continue to buy their own insurance in 2019 when the mandate penalty is no longer in effect". Implying one in ten is projected to drop coverage. https://www.kff.org/health-reform/poll-finding/kaiser-health-tracking-poll-march-2018-non-group-enrollees/

These sources predict that a higher proportion of those projected to drop coverage will be younger and lower risk, especially those receiving limited or no premium subsidies from the Federal Government. KFHPWA's 2017 experience showed similar trends and we expect these trends will be observed in 2018 and at a higher rate in 2019. The Congressional Budget Office (CBO) estimates even more material impact on enrollment and premium rates, but KFHPWA's projection is in line with the results published by CMS and the Kaiser Foundation. That is, most subsidized individual and consumers who need care and can afford the premiums are expected to continue buying coverage, so the individual market in WA and the KFHPWA pool will contract by approximately 10% only. The impact on morbidity is expected to be similar for both pools. As consumers move in and out of the KFHPWA pool the impact on morbidity on the KFHPWA pool will be relatively stable since the new enrolees will come from the market-wide pool already impacted by the individual mandate and high rate increases.

We analysed KFHPWA's 2017 experience to determine 9.5% as an appropriate adjustment to experience period data. Since there are many uncertainties in the market, many scenarios could give rise to this outcome. Exhibit 5 illustrates one highly probable scenario. It shows the impact on KFHPWA 2017 experience if 45% of enrolees with no

claims in 2017 were to drop coverage. The pool contracts by ~8.7% and allowed claims increase 9.5%. The average age factor also increases ~1.03% and the ACA risk score, based on 2017 experience, increases 7.1%. KFHPWA believes this scenario is a reasonable estimation of the impact on the KFHPWA pool in 2019. The WA individual pool will also experience similar trends although the actual impact on the overall market risk score may be different for several other reasons. These results are factored into the 2019 enrolment and risk adjustment projections discussed in sections 5(B), 9 and 20.

B. Changes reflected in "Other" adjustments in Worksheet 1

Changes in Demographics

A demographic adjustment factor of -0.1% is applied to allowed claims. This accounts for the differences between the average mix of the population by age, tobacco use and area expected in the projection period compared to the experience period. The membership projected for benefit year 2019 adjusts for enrolees expected to drop coverage due to the complete repeal of the individual mandate penalties and new members likely to join the pool. The development of the factor is shown in Exhibit 21.

The 2017 average age/area/tobacco factor for is 1.862. As of March 2018, King County enrolment was 41.3% compared to 32.9% in 2017. This shift drove a reduction in the average demographic factor by -1.05% from 2017. For 2019, KFHPWA projects that the average tobacco and area factors will stay the same but the age factor will increase by ~1% since younger enrolees are projected to drop coverage than older ones. This change in age factor offsets the reduction in area factor driven by growth in King County leaving the demographic factor almost unchanged from 2017.

The demographic adjustment factor change is reflected in the "Other" adjustment in Worksheet 1 and in Exhibit 6. Also included in "Other" are adjustments for two items:

(1) Non-payment of consumer cost shares to Kaiser Permanente Medical Group. Our billing department estimates $1.7 million dollar ($1.17 PMPM) of bad debt in 2016 and 2017 due to non-payment of consumer cost shares. This is expected to increase going forward since KFHPWA has most of the bronze enrolment in WA and the cost shares for bronze members is higher.

(2) Additional claims expected due to the Reproductive Parity Act (WA State Bill SSB6219). Under this bill health plans must cover all contraceptive drugs, devices, and other products, approved by the FDA — including over-the-counter contraceptive drugs, devices, and products. Claims for some of these products are not reflected in the experience period data and KFHPWA estimates increase to allowed claims of $0.27 PMPM.

Benefit Changes

There are no benefit changes from 2017 coverage.