

Bureau of Insurance Statement Regarding Maine Community Health Options – March 14, 2016

Maine Community Health Options (“CHO”) was organized in 2011 as a Maine-domiciled Consumer Operated and Oriented Plan (“CO-OP”) and commenced business in 2014. It was capitalized with \$132.3 million from the United States pursuant to the Affordable Care Act (“ACA”) and has offered ACA-compliant qualified health plans (QHPs) through the Federally Facilitated Marketplace (FFM) as well as outside the FFM in Maine and New Hampshire. Since commencing business, CHO’s enrollment has grown rapidly to 84,269 members at February 29, 2016, making it the largest writer of individual health insurance in the State of Maine.

The Maine Bureau of Insurance (“BOI”) licenses CHO and is its principal financial regulator. The Centers for Medicare & Medicaid Services (“CMS”) act for the United States respecting the capital investments made in CHO as well as its on-going status as a writer of QHPs.

CHO reported 2014 net income of \$7.3 million, the only CO-OP in the country to report positive income. In August 2015, CHO provided a revised business plan to the BOI and CMS which projected a \$3 million loss for the year. Late in October, CHO advised it had incurred a \$17.2 million loss during the third quarter but expected to break-even for the rest of the year. Consistent with its preliminary reports to the BOI, on March 1, 2016 CHO filed its annual statement for 2015 reporting a net loss of \$74 million for the year. This loss includes a \$43 million Premium Deficiency Reserve (“PDR”). Since the premium rates for CHO’s 2016 individual health business are inadequate and under the ACA cannot be changed until January 1, 2017, CHO has had to estimate and set a reserve for the cost of the premium deficiency. CHO’s actuarial consultants at Milliman assisted it in determining the size of that PDR reserve.

In retrospect, CHO’s 2015 individual health insurance rates were also inadequate. An issuer of QHPs is required by federal regulations to set its ACA-related health insurance rates well before the year they become effective. Adding to the pricing challenge, CHO, consistent with its mission, has sought to insure individuals who were previously uninsured and whose use of medical services once covered is difficult to predict. A number of large for profit insurers have also mispriced ACA-compliant coverage and been required to establish Premium Deficiency Reserves.

A few key statistics demonstrate the variability in CHO’s potential results:

- CHO’s 2015 Net Premium Income increased by 97.5% in comparison with 2014 while Benefits and Loss Related Payments increased by 131%.
- CHO’s membership at December 31, 2014 (39,743) grew by 88.7% during 2015 to 74,981 at yearend. Membership as of February 29, 2016 was 84,269, a 12.4% increase from yearend 2015.
- In late December 2015, CMS made the final available capital investment into CHO -- \$55.5 million. CMS also converted \$12.5 million of existing CHO debt into capital/surplus so that in total, during December, CMS increased CHO’s capital by \$68 million.

- CHO's 2015 annual statement reported yearend capital and surplus of \$49.8 million. This is net of the \$43 million PDR.

With CHO's report in October 2015 of its third quarter loss, the BOI increased its level of regulatory supervision to the highest level possible short of a judicial proceeding. The BOI also asked CHO to stop writing new underpriced individual health insurance as soon as possible but CMS and the FFM could not "suppress" CHO on the website until December 27, 2015. Consequently, individual health insurance membership continued to increase beyond the levels expected in CHO's 2016 plan.

Due to CHO's 2015 results, the BOI has been concerned with CHO's capital position, particularly the relationship of that capital to its larger than planned insured risk. Membership has grown significantly and rapidly since CHO began business January 1, 2014.

Because of the nature of its business, CHO faces the risk of wide variability of results. This reality is demonstrated by its 2015 losses. The BOI's concern is that CHO is thinly capitalized and that adverse variation from plan could in the future adversely impact its ability to continue to transact an insurance business. CHO's management and employees have worked very hard to reduce 2016 expenses and other costs and with their consulting actuaries have prepared a detailed 2016 monthly plan. The BOI's actuary has reviewed this plan and advised that its projected results fall within a reasonable range of outcomes but that there is the possibility of wide variability in results. During January, CHO's operating results were better than the plan.

Under the foregoing circumstances, the BOI will continue to closely monitor CHO's operations and financial results; work closely with CHO, CMS and the New Hampshire Insurance Department; and post on the BOI's website its monthly assessment of the situation.