April 25, 2018

Mr. Alex Azar, Secretary of the Department of Health and Human Services
Ms. Seema Verma, Administrator, Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

RE: Results of 2018 Open Enrollment and Planning for 2019; Opportunities to Lower Costs for Millions of Unsubsidized Americans

Secretary Azar and Administrator Verma,

With this letter and attached documents, Covered California is providing observations of the most recent open-enrollment period and, based on our experience, highlighting the opportunity of the administration to act to directly lower premiums for millions of Americans in 2019 by investing in marketing. These comments are anchored in the economic realities of the individual market and reflect the recently released enrollment summary for 2018 open-enrollment period. (*CMS' final report shows 11.8 million consumers enroll in 2018 Exchange coverage nationwide.)* In providing this letter, the attached analysis and the issue brief released today, "*Individual Insurance Markets: Enrollment Changes in 2018 and Potential Policies that Could Lower Premiums and Stabilize the Markets in 2019*," we hope to inform the planning efforts of the Department of Health and Human Services (DHHS) and the Centers for Medicare and Medicaid Services (CMS) for the upcoming plan year.

The individual market is in flux due to several recent decisions at the federal level, including the impending removal of the penalty for not having coverage on those who could otherwise afford it. Covered California recently commissioned a report that found that millions of middle-class Americans face the possibility of premium increases ranging from 12 to 32 percent in 2019 as a result of this and other factors. These premium increases could reflect a three year cumulative rise of over 90 percent in many states absent federal or state action. While there are several policies that could ameliorate these increases that would require legislation, the CMS report's discussion of the marketing cutbacks indicates that the one change that can be made immediately to save consumers and taxpayers literally billions dollars is not being given due consideration. That policy is restoring and increasing critical investments in marketing and outreach that would reduce premiums by promoting enrollment and increasing the overall health of the consumer pool.

Looking ahead to 2019, health insurance companies across the nation will be making pricing and participation decisions in the next two months. With bipartisan agreement on the need for policies to stabilize the individual market and protect middle class Americans, Congressional leaders on both sides of the aisle worked hard to develop a stabilization package for 2019 and beyond. While there was broad agreement on policy approaches, including funding for marketing and outreach, consensus to move forward on a legislative package was not reached. However, the administration can take positive steps in the coming months to actively promote enrollment for the upcoming year. Health insurance companies nationally would consider these steps in their pricing and would reduce proposed premiums on the expectation that marketing would attract and retain a better risk mix.

The reality is clear: If the federal government maintains the current cuts in marketing and outreach, premiums will be higher than necessary, consumers will be hurt as a result and taxpayers will pay the price by supporting higher the necessary subsidies. This does not need to happen and can easily be avoided. Announcing and describing a credible marketing program would result in health plans being able to price based on a better enrollment.

The Decision to Invest in Marketing Can Be Made Now to Promote Lower Costs

The decision to support lower premiums through marketing investments is wholly in the hands of the administration and does not require an appropriation from Congress. Health plans that serve consumers in the 39 federally facilitated marketplace (FFM) states pay an assessment to CMS to recoup the costs for exchange functions, including marketing and outreach.[1] Based on the CMS Budget Justification for FY 2019, plan assessment revenue is estimated to be $1.2 billion for 2018.[2] If the FFM allocated the same one-third of its health plan assessment revenue on marketing and outreach, as did Covered California, it would invest more than $400 million on marketing and outreach.

CMS is not starting from scratch. The agency has an existing contract with a nationally recognized marketing and communications firm that has worked on FFM marketing and outreach for years.[3] The creative assets and media plans that already exist can be rapidly adjusted or adopted.

It is also not too late to act. The best time to secure media inventory — placements in television, radio, digital and other locations — is still several months out (July and August), allowing adequate time for planning and getting the best possible deals. In addition to the creative assets that CMS already owns or that could be created by its vendor we at Covered California would be happy to make our creative assets available for use. California and the other state-based marketplaces have creative assets that any of us would happily share.

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[1] Section 1311(d)(5)(A) of the Affordable Care Act and 45 CFR 155.160.
[2] Plan assessment revenue for the 2018 FY is estimated to be $1.2 billion (see page 7 of the Centers for Medicare and Medicaid Services' FY 2019 budget justification document, available at - https://www.cms.gov/About-CMS/Agency-Information/PerformanceBudget/Downloads/FY2019-CJ-Final.pdf).
[3] Covered California and CMS have both utilized Weber Shandwick for marketing and outreach.

The Data From the 2018 Open-Enrollment Period Confirms the Negative Impact on Enrollment and Risk Mix From Cutting Back on Marketing

Covered California's observations are based on our five years of experience in fostering a robust and competitive market that is working for consumers — both those receiving subsidies and the more than 1 million unsubsidized Californians purchasing in and outside of our exchange. Covered California enrolled 423,484 new consumers in the most recent open-enrollment period for 2018, a 3 percent increase over the previous year. Overall, Covered California's total enrollment has remained relatively stable since 2016, and we finished the most recent open enrollment period with a total of 1.5 million consumers. Taken together, state-based marketplaces (SBMs) have seen similar stability in total enrollment, averaging roughly 3 million total consumers, with a total of 800,000 new plan selections during *each* of the past three open-enrollment periods.

In contrast, while the CMS press release says the 2018 open enrollment period was the "most cost effective and successful experience for HealthCare.gov consumers to date," and "enrollment stayed essentially the same," the underlying data highlight reasons for significant concern and underscore the direct effect of administration policy decisions to reduce marketing and outreach efforts on dampening enrollment and leading to higher premiums. Data includes:

- Total enrollment in the FFM decreased by 5 percent over last year and by 9 percent since its peak in 2016, which amounts to 900,000 fewer consumers signing up. The 9 percent decline is significant and did not occur in the states that were served by SBMs.

- The primary reason for the overall number of FFM enrollees "only" dropping by 5 percent in the past year was that renewal rates of existing consumers have remained high — driven substantially by the fact that the average net premium (after the Advanced Premium Tax Credit, or APTC, was applied) ***dropped*** by 16 percent in the FFM states. It is good news, but not surprising, to see strong renewal rates among the 85 percent of FFM enrollees receiving subsidies when on average they saw significant reductions in their premiums.

- While new enrollees eligible for subsidies would also have benefited from premiums that would have been 16 percent *lower* compared to the prior year, there was a substantial drop in "new enrollment" in 2018, down 18 percent from the previous open-enrollment period (from 3.0 to 2.5 million) and 39 percent from 2016 (from 4.0 to 2.5 million). In the same period, new enrollment in SBM states was constant.

Drops in new enrollment are a formula for a worse risk mix and higher premiums — premiums that will be borne by unsubsidized Americans and by taxpayers who will be paying for larger tax credits to those receiving subsidies. We are deeply concerned that this will mean consumers in states relying on the FFM are increasingly priced out of coverage, in part because of policy decisions to pull back on marketing.

Marketing Matters in the Individual Market and Drives Lower Premium by Improving the Risk Mix

As we detailed in our letter to CMS last September, there is clear and compelling evidence that a robust marketing and outreach campaign is critical to attract new consumers and address the reality that the individual market is one with substantial "churn." Our report, Marketing Matters, detailed how Covered California's extensive marketing and outreach campaigns contributed to one of the best take-up rates and lowest risk scores in the nation. In 2015 and 2016, California's lower risk score translated to costs that were 20 percent lower than the national average, saving consumers and the federal government $2.6 billion during this period. Covered California's marketing and outreach investment in 2015 and 2016 likely lowered premiums by 6 to 8 percent, resulting in healthier consumers enrolling because of the reduced price of insurance, which further drives down premiums and helps create a cycle of stability.

While the FFM is in the midst of a troubling downward trend in enrollment, the SBMs, which are in charge of their own marketing and outreach, fared much better with a 1.5 percent increase in total enrollment since 2016.[4]

A decision to continue the adopted policy of reduced marketing — when the FFM has collected an assessment from health plans based on the assumption that they would engage active promotion — will hurt millions of Americans, particularly those consumers who do not receive any financial help, and leave even fewer people insured. A clear commitment to either directly spend such funds, or to provide those funds to states to use to promote coverage in their state, could have a meaningful impact on rates for 2019.

An earlier analysis by Covered California estimated that if the FFM increased its marketing investment over three years, it would likely pay off with more than 1.4 million more Americans getting insurance and premiums that are 3 percent lower, yielding a more than six-to-one return on investment. A 3 percent premium reduction would mean a reduction of premiums of more than $1.6 billion dollars in 2019 alone, and a cumulative savings of $6.6 billion for the period of 2019 through 2021 (see attached for details). There are two primary beneficiaries of these savings: the millions of Americans who do not receive subsidies and taxpayers who pay a substantial portion of the premiums for those who do receive subsidies.

Understanding Individual Market Dynamics Is Vital to Informing Effective Policies

The core of this communication is to make sure that the leadership of DHHS and CMS understand the direct negative effects that will result from a decision to not fund marketing and outreach. At the same time, we are writing because of our concern that other elements of the CMS release summarizing the 2018 open-enrollment period reflect incomplete analysis or a fundamental misunderstanding of the market dynamics of individual health insurance costs,

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[4] This figure examines enrollment in the 12 states currently operating their own marketplace because Kentucky switched to the federal platform in 2017.

pricing and factors considered by consumers and health plans. In the spirit of our continued efforts to collaborate and share our perspective, please see the attached document describing those issues: (Attachment: Covered California's Review of CMS's Analysis of the 2018 Open-Enrollment Period).

Conclusion: Putting Patients First

The federally facilitated marketplace, Covered California and state exchanges across the country are preparing to begin negotiations and planning for the upcoming 2019 coverage year. It is important to underscore that promoting the availability of coverage through Healthcare.gov can and should be done in ways that are about letting consumers — many eligible for financial help — know what is available and making sure they shop to make the best informed decision possible. In California, our core message is "Life can change in an instant," and health insurance is more affordable than you may think it is, so shop and find out for yourself. Our messages emphasize the value of health insurance, and that health insurance makes a difference in people's lives and provides protection from high medical costs.

We stand ready to assist you in any way we can to protect the coverage available in individual markets across the nation. Feel free to contact me if you would like to discuss this further.

Sincerely,

Peter V. Lee
Executive Director

Attachments:

- Covered California's Review of CMS's Analysis of the 2018 Open-Enrollment Period
- Individual Insurance Markets: Enrollment Changes in 2018 and Potential Policies that Could Lower Premiums and Stabilize the Markets in 2019

cc:
The Honorable Mitch McConnell, Majority Leader, United States Senate
The Honorable Charles Schumer, Democratic Leader, United States Senate
The Honorable Paul Ryan, Speaker, United States House of Representatives
The Honorable Kevin McCarthy, Majority Leader, United States House of Representatives
The Honorable Nancy Pelosi, Democratic Leader, United States House of Representatives
Randy Pate, Deputy Administrator and Director, Center for Consumer Information and Insurance Oversight
Covered California Board of Directors