MAINE GUARANTEED ACCESS REINSURANCE ASSOCIATION
Minutes of the Board of Directors
July 22, 2019

A regularly scheduled quarterly meeting of the Board of Directors of the Maine Guaranteed Access Reinsurance Association ("MGARA" or the "Association") was held at 254 Commercial Street, Portland, Maine 04101 at 3:00 p.m. Attendance is reflected in the record of attendance set forth below:

Joel Allumbaugh	Marybeth Liang
Dr. David Howes (absent)	Jim Lyon
Jolan F. Ippolito, Chair	Bruce Nicholson
Dana Kempton	Katherine Pelletreau
Kevin Lewis	Dan Rachfalski

Also in attendance were Laren Walker and Diane Kopecky of River 9 (administrator), Chris Howard and Emily Cooke of Pierce Atwood LLP (counsel to the Association), and Dave Williams, Sean Hilton, and Donna Wix, all of Milliman, Inc. (actuary to the Association).

1. Public Session

The Public Session of the Board was opened. There being no members of the public present, the Board concluded the Public Session without comment.

1. Approval of Minutes

The Board reviewed the minutes of the July 8, 2019 Board meeting (the "Minutes"). Jim Lyon corrected the attendance record to reflect his attendance on that date. With this correction, on a motion duly made and seconded, it was

RESOLVED: To approve the Minutes as presented, with the correction provided by Mr. Lyon.

3. Monthly Operations Report

Mr. Howard opened the monthly operations report. He noted that because the Board had previously reviewed and discussed the May 2019 operations report at its July 8 meeting, and the June operations report is not yet final, this discussion was expected to be relatively brief.

Mr. Walker reported that on July 9, MGARA received a grant disbursement of $8.2MM. The following day, approximately $6MM of this was drawn from MGARA's federal Payment Management System account. With the proceeds from these draws, MGARA has brought all claims and bill payments current.

Mr. Walker added that MGARA has now received an updated list of TPAs from the Maine Bureau of Insurance ("BOI") for use in cross-checking MGARA's assessment list. Obtaining a comprehensive list of carriers is a larger undertaking, on which the BOI is still working.

Overall, Mr. Walker offered the observation that MGARA's cash flow picture is now in good shape and running smoothly.

4. Milliman Presentation re Model and Observations on 2020 based on Results to Date

Mr. Howard introduced this segment of the Board meeting, indicating that given Board turnover and the large number of relatively new Board members, it seemed like an opportune time for an overview of the actuarial and financial models underpinning MGARA's program.

Mr. Williams first reminded the Board that Milliman worked within several parameters in refreshing the pre-suspension model for post-suspension operations. Some of these are prescribed by statute. Others can be modified, including the mandatory ceding conditions, attachment points, and coinsurance.

Milliman's work on the MGARA operating model comprises two categories: an economic model, whose inputs include population, rates, and elasticity; and an actuarial model, which considers the volume of mandatory versus voluntary cedes. Milliman's modeling goals and objectives include modeling a reinsurance solution that remains financially solvent and stable; estimating the program's impact on the individual market in Maine; complying with current regulatory requirements; and producing the economic and actuarial components required for a 1332 Waiver application.

Mr. Lyon inquired whether Milliman reports on the accuracy of the projections generated by its models on a backward-looking basis. Mr. Williams affirmed that the final page of Milliman's presentation for today's meeting includes performance against projections, adding that it is too early to comprehensively assess the accuracy or efficiency of the various inputs to the 2019 model.

Mr. Williams noted that the biggest unknown variables in Milliman's modeling are the cost per patient, which tends to be subject to greater variability over a longer modeling time horizon, and how mandatory and voluntary ceding will unfold.

Joel Allumbaugh inquired about the recent health reimbursement account rule change, suggesting that this change – which is not currently captured in the modeling – could conceivably boost individual market participation. Kevin Lewis observed that the rule change could also become a vehicle for depositing risk in the individual market, though Mr. Allumbaugh noted that the rule contains some safeguards against this.

A discussion ensued. Participants expressed concern about the levels of mandatory ceding at this stage in the year. Mr. Walker added that, based on his experience in Idaho, mandatory cedes can be expected to increase as the year goes on. Mr. Lewis noted that it would be problematic if different carriers view the mandatory ceding process differently.

The Board briefly turned to the size of MGARA's surplus. Mr. Howard reminded the Board that the organization's 10% surplus target was set by the Board, not by statute. He added that assessments can be reduced, though mid-year assessment adjustments are operationally difficult. It was inquired whether a higher-than-expected reserve at the end of 2019 could prompt a reduction in Section 1332 pass-through funding. Mr. Williams responded that this would not be the result in the short term; over the longer term, as premium decreases push rates lower, a reduced federal impact would result in lower pass-through payments. Mr. Allumbaugh expressed the view that, in general, the greater variability and unpredictability in MGARA's operating landscape warrants greater conservatism in the maintenance of reserves.

The Board briefly discussed MGARA's exposure to high claims and its various mitigating mechanisms to cushion that exposure, including policy-based ceding. It was acknowledged that in light of the expected high efficiency of voluntary cedes and the volatility and variability of the post-suspension pool, the ability of those mechanisms to insulate MGARA is more limited.

Mr. Allumbaugh returned to the subject of differences among carriers' mandatory ceding behavior – specifically, that one carrier has made more than 300% more mandatory cedes than either other carrier. A discussion ensued as to potential reasons for this discrepancy. It was agreed that if the discrepancy merely reflects a difference in the timing of one carrier's mandatory ceding efforts versus the others, this would not negatively affect MGARA, since mandatory ceding premiums are retroactive to January 1. Other reasons – e.g., a difference in one carrier's interpretation or application of the mandatory ceding conditions – would be more troubling. Mandatory ceding levels will be monitored to determine whether this issue persists.

5. Discussion re Provider and Pharmaceutical Cost Inflation and Implementation of Claim Cost Controls

Mr. Howard reminded the Board of the background of this item. David Howes has previously shared with the Board his concerns, based on his own professional experiences and observations, that large claims are rising in the healthcare market, particularly as pharmaceutical costs rise. Dr. Howes has raised the question whether MGARA should do more to ensure that claims costs are controlled post-ceding, given the potential for carriers to impose less effective cost controls on a particular claim once that claim is ceded.

Mr. Howard pointed out that MGARA's Plan of Operations contains prohibitions on differential treatment of ceded claims, but that the question remains whether and to what degree this can or should be policed. He further noted that this question has been

periodically revisited by the Board as far back as 2012, and the Board has historically concluded that MGARA would not be in a position to expend the resources that would be involved, in light of the perceived level of risk. Mr. Howard added that from his personal perspective, he sees it as unlikely that carriers would set up a separate claims management system to treat ceded claims differently, given the risks and costs involved. However, none of this alters Dr. Howes' valid concerns regarding rising cost trends, particularly (but not exclusively) in the pharmaceutical space, and their potential implications for MGARA.

Dan Rachfalski expressed agreement with Mr. Howard's remarks, and added that carriers have independent reasons not to treat claims differently based on their ceded status, including the obligation to provide appropriate levels of care and other internal legal compliance obligations. Mr. Lewis and Mr. Allumbaugh concurred. A brief discussion ensued regarding whether there are additional tools or levers that MGARA can use to compel carriers to maximize efforts to manage claim costs. It was generally agreed that it would be useful to inquire of other state reinsurance programs whether they use any such tools or strategies. MaryBeth Liang commented that Connecticut's reinsurance program does not. Mr. Allumbaugh inquired whether MGARA has any ability to add leverage to the carriers' own leverage. Mr. Williams wondered whether a staff medical director would be useful or additive, but there was a general consensus that it would not. Mr. Howard reminded the Board that in an informal introductory discussion, incoming DHHS Commissioner Lambrew inquired about claims costs and MGARA's control mechanisms. Mr. Allumbaugh pointed out that it may be necessary for MGARA to conduct some baseline audit/verification to shore up its due diligence efforts.

Mr. Walker noted that MGARA's annual claims verification process indeed touches on these concepts. That said, the process does not trace a carrier's costs back through the claims payment system to the provider itself. Diane Kopecky added that the current claims verification process pulls a certain ratio of claims, and then examines the claim form, enrollment date, identity of service recipient, etc.

6. Review of Proposed Policy Regarding Large Claims Review

Mr. Howard explained that the occurrence of one notably large claim gave rise to discussion whether MGARA should institute a policy for the automatic audit of large claims. To that end, counsel has proposed a draft Large Claims Review Policy, which proposes a $500K threshold for mandatory review. He explained that the threshold itself can be discussed and adjusted; the objective is to establish a threshold sufficiently high to represent truly outsized claims, to avoid spending resources for a comparatively low return.

Following discussion, it was agreed to revise the draft policy to reflect a threshold of $250K in out-of-pocket MGARA obligations. It was further agreed that the Board would postpone adoption of the proposed policy until the October Board meeting.

A discussion ensued as to whether and to what extent individual Board members, and particularly those employed by carrier or insurance industry members, have the right or obligation to share MGARA's draft documents or proposals with their respective employers. Counsel reiterated that, when acting as a MGARA Board member, each director's fiduciary duty under the law is to MGARA. It was acknowledged that this can be a difficult balance at times, but that this is ultimately what is required of each director, and that the duty of confidentiality precludes sharing of many draft documents or nascent initiatives outside the boardroom. It was also acknowledged that Board members have an obligation to educate themselves on the various issues under consideration as they arise.

7. Review of Upcoming Action Items and Reporting

Mr. Howard explained that counsel has developed a timeline and calendar of required steps associated with 1332 Waiver compliance and other operational milestones. While there is no pressing need to review this in detail at this time, it can be included as an agenda item for a future meeting.

8. Board Meeting Schedule Confirmation

Mr. Howard confirmed the Board's regularly scheduled in-person quarterly meetings on the following dates: October 21, 2019; January 27, 2020, April 14, 2020, and July 13, 2020. Following a brief discussion, it was agreed to schedule monthly telephonic meetings in those months when the Board is not scheduled to convene in person. Those will take place on the fourth Monday of each month. Financial reports will continue to be shared on an ongoing basis.

There being no further business to come before the Board, the meeting was adjourned.

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Duly Authorized Officer