MAINE GUARANTEED ACCESS REINSURANCE ASSOCIATION
Minutes of the Board of Directors
June 22, 2020

A special meeting of the Board of Directors of the Maine Guaranteed Access Reinsurance Association ("MGARA" or the "Association") was held via teleconference at 3:00 p.m. Attendance is reflected in the record of attendance set forth below:

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

Also in attendance were Laren Walker and Diane Kopecky of River 9 (administrator) and Chris Howard and Emily Cooke of Pierce Atwood LLP (counsel to the Association).

1. **Approval of Minutes**

The Board reviewed the minutes of the Board meeting of May 26, 2020 (the "Minutes"). On a motion duly made and seconded, it was

RESOLVED: To approve the Minutes as presented.

2. **Monthly Operations Report**

Mr. Walker provided the monthly operations report for April 2020. He noted that the level of claims incurred but not reported ("IBNR") currently stands significantly below expectations for this juncture in the year, which may provide some additional cushion to MGARA's financial position. Participants briefly discussed whether this could be a product of the Covid-19 pandemic and related shutdowns. Based on input from the carrier members, deferred and avoided care are the likely contributors to the lower-than-anticipated IBNR. No action is required at this time, but this item will be monitored over the next couple of months.

Mr. Walker reported that assessments and premiums are tracking projections, while claims, at just over $15MM, are somewhat low relative to full-year projections. The report shows no 1332 grant proceeds drawn yet because MGARA made its first draw on the 2020 1332 Waiver grant funds on May 7th in the amount of $2,543,050.

The report continued with a review of the investment portfolio. Mr. Walker reminded the Board that $20 million in investments were maturing shortly and he was looking for guidance regarding reinvestment. MGARA's cash and investments remain subject to the current extremely low interest rates, even in "business advantage"-type accounts. The guidance was to hold the maturing investments in cash and cash equivalents so as to be positioned to meet any cash demands resulting from the lower level of 1332 pass-through payments available for 2020 (as compared to 2019), and to potentially take advantage of any uptick in interest rates over the coming months.

In response to a request from Ms. Pelletreau, it was agreed that future meetings would include screen-sharing functionality to make it easier for Board members to follow along with financial updates and other operational matters that could benefit from a visual presentation.

3. CMS Status Report

Mr. Howard provided an update on compliance with reporting obligations pursuant to the 1332 Waiver and related requirements of the federal Center for Medicare and Medicaid Services ("CMS"). The next required public forum will take place via Zoom on June 25 and, consistent with past practice, will be a joint undertaking with the Maine Bureau of Insurance (the "BOI"). In response to a request from Ms. Pelletreau, Mr. Howard agreed to share the upcoming status report as provided to CMS and the details of the public hearing.

4. Discussion of Small Group Market Merger Initiative

Mr. Howard reported on the status of the Small Group Market Merger Initiative. By way of introduction, he shared his view of what is going on in this analysis. Milliman and Gorman utilized very different methodologies, but had come to similar results. Only real area of substantive discrepancy was calculating 1332 Pass-Through payments. Another session had been set for later that week to review the discrepancy. It is clear that the merger and transition to a retrospective model has limited impact on the small group market and significantly limits MGARA's ability to deliver benefit to the individual market.

At an 2022 attachment point of $350,000 "MGARA 2.0" is projected to experience an $18.5 million deficit for 2022. MGARA could support that level of deficit for 2022 because it is projected to have built a surplus of $43.3 million (representing an RBC Ratio of 776%) as of year-end 2021, but without adjustment for COVID -19. That would leave MGARA 2.0 with surplus of $24.8 million as of year-end 2022 (representing an RBC Ratio of 500%, which is the bottom of the MGARA Board's surplus target range).

There have been considerable discussions with Milliman about extending the model beyond the 2022 year, but they were hesitant to do so because of the highly speculative nature of that kind of projection. However, it is clear that without some change in revenue sources, the attachment point for 2023 and beyond would need to be increased in order to maintain any level of surplus at MGARA. The projected MGARA surplus could support one year of losses at the 2022 level and would then be nearly depleted. Maintaining a RBC Ratio of 500% would require an attachment point of approximately $485,000. Although Milliman did not model this, the individual and small group markets are converging in terms of their Risk Scores and MGARA 2.0 will not prevent that from continuing.

Gorman did project out to 2023 and 2024 in their materials, which shows that the effect of a merger and MGARA 2.0 is more a 1-time adjustment re-setting the trend line, but then the deteriorating trend continues. The merger is not "bending the curve," it simply provides a 1-time adjustment, while the overall deterioration in the small group market continues.

Mr. Howard posed the natural question, which was – why does this happen? His explanation is that the key drivers of this result are a combination of factors, not any single factor: (i) the increase in the number of lives MGARA covers, (ii) reductions in revenue due to significantly reduced 1332 Grant revenue (2019 vs. 2020 and beyond), and elimination of ceding premium, and (iii) a fixed assessment at $4 PMPM, which was established to address a 2012 environment. Scratching below that surface explanation, there are several underlying factors responsible for this result:

1. Expanded Medicaid – the individual market lost a high percentage of its most subsidized lives to Medicaid, putting downward pressure on APTC and therefore 1332 revenue.

2. Small Group Health and Wealth Effect – the small group market is becoming less healthy as it is de-populated by migration of the better risks, but it is also sufficiently affluent that it brings no APTC subsidy, which means no additional 1332 revenue.

3. Vicious Cycle -- 1332 Grant revenue is a function of the "with and without MGARA" rates filed by the carriers, the size of the market and the level (and distribution FPL) of its subsidized population. As the revenue available to the program declines in relation to market size being serviced, the less "value" the carriers will give the program as reflected in their "with and without MGARA" rates, resulting in downward pressure on 1332 Grant revenues.

A brief discussion ensued, in which it was acknowledged that immediate next steps in light of these results remain to be determined with more discussion to be held at the quarterly Board meeting in July. There was consensus that a better solution is needed. The Board discussed several interesting observations:

1. Charging Premium: Milliman shared an observation that charging a small premium is not just "trading dollars." The reasoning is that it has a stabilizing influence. Raising attachment points takes you to the same place economically, but at very high attachment points there is significant volatility, therefore less stability, and the program will inevitably be less "valued" by the carriers.

2. The MGARA prospective model may be a better solution than a retrospective model because it is "shaping behavior," and not just redistributing subsidy.

3. As Medicaid continues to draw lives out of the individual market, MGARA inevitably gets smaller, unless COVID pushes APTC qualified lives back into the market.

It was agreed that discussion would continue once it becomes clearer what direction the MBOI and the State will be taking on this initiative.

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

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Duly Authorized Officer