MILLIMAN REPORT

Simulating the future impact of shifts to level-funded plans

Health insurance market dynamics

Funded by Blue Cross Blue Shield of Louisiana

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Executive Summary

This paper, funded by Blue Cross Blue Shield of Louisiana, explores the increased adoption by small employers of level-funded health plans and the potential future impacts on small group health insurance market dynamics. The study models the decision-making process of rational employers when choosing between fully insured, ACA small group health plans and underwritten level-funded plan alternatives. The primary outcomes of interest are:

1. The annualized increase in per member per month (PMPM) healthcare costs in the ACA-compliant fully insured small group market in the presence of level-funded plan alternatives.
2. The likelihood of a group returning to the fully insured market after switching to a level-funded plan.

The analysis assumes that employers are inclined towards lower-cost alternatives but may not switch plans annually due to various financial and non-financial reasons. Some of these reasons may include the following:

- Inertia: Even if groups would recognize savings from switching, it needs to be sufficiently large to motivate a group to make the change. Groups would also need to consider any potential changes to covered benefits (for example potential differences due to essential health benefits provided in the ACA market).
- Brand security/familiarity: Small groups are familiar with the carriers they currently contract with and may be less inclined to change, even if there are potential savings.
- Risk tolerance levels: The level-funded market tends to have higher volatility and may lead to certain groups being less inclined to move from the ACA market to the level-funded market.

The study uses data from BCBSLA's fully insured ACA small group population from 2021 to 2023 to model population movements and claim cost changes over a ten-year period.

Key findings from the simulation results indicate that as lower-cost groups transition from the ACA small group market to level-funded plans, the average PMPM claim cost of the ACA small group market increases. The extent of this increase depends on the likelihood of groups moving between the two markets. The study presents three scenarios with varying probabilities of market transition (Low, Medium, and High) to illustrate the range of possible outcomes.

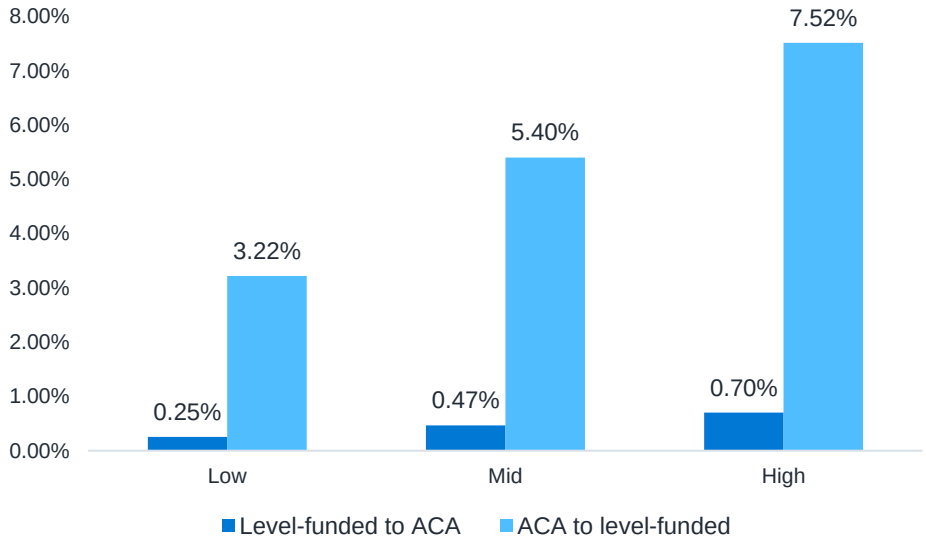
Figure A and Figure B below highlight the key results of our analysis. Figure A demonstrates how the resulting ACA PMPM claim costs are notably higher than the overall ACA small group market average over time as small groups with lower costs move to the level-funded market.

FIGURE A: ACA PMPM CLAIM COST PERCENT CHANGE COMPARED TO OVERALL AVERAGE BY YEAR AND SCENARIO

	Low	Medium	High
Baseline	0%	0%	0%
Year 2	3%	5%	8%
Year 10	15%	29%	52%

Figure B shows the average annual probability over a ten-year period for a group moving from one market to the other.

FIGURE B: AVERAGE ANNUAL PROBABILITY OF MARKET TRANSITION BY SCENARIO OVER 10-YEAR MODELED TIME PERIOD



The modeling demonstrates that while there is variability in outcomes, the overall trend points towards rising costs for ACA-compliant plans as lower cost groups opt for level-funded alternatives.

This research provides valuable insights for stakeholders in the small group health insurance market, highlighting the potential financial implications of shifting market dynamics and the importance of understanding the interplay between different markets and funding mechanisms. Any changes to either the level-funded or ACA small group market should be examined carefully, with the interest of the stability of the fully insured ACA small group market in mind.

Theoretical framework

This paper models the decisions that a rational employer makes when confronted with the choice between purchasing a fully insured, market rated (i.e. not rated on the employer group's own claims experience or health status), ACA small group health plan for its employees or purchasing an underwritten level-funded plan alternative. There are two outcomes of interest:

1. What is the annualized increase in PMPM healthcare costs in the fully insured ACA small group market in the presence of level-funded plan alternatives, compared to a hypothetical world without such an alternative?
2. When a group changes its funding arrangement from a fully insured plan to a level-funded plan, what is the likelihood that it will eventually return to the ACA small group market at a later date?

We assume that groups are inclined toward the lower-cost alternative, but that in any given year, a group may still not switch between one product and the other even if the alternative product would have a lower cost. Even though in practice, employers may exit from the small employer health market entirely for a variety of reasons (such as merger/acquisition, going out of business, growing to a size that qualifies for a large group policy, discontinuing a group health plan in favor of an ICHRA), this paper assumes that groups continue to purchase one of these two product types and that there are no changes to the overall number of members participating in the combined ACA small group and level-funded markets over time.

A group's renewal quote in the ACA-compliant fully insured small group market is driven by the aggregate claim costs of the statewide risk pool, rather than the group's own specific historical or expected claims. Therefore, we assume the following:

- The likelihood of transitioning from a fully insured plan to a level-funded plan is greater to the extent that the group's expected PMPM claim costs are lower than the expected claim cost of the statewide small group risk pool.
- A level-funded plan is assumed to be priced by reviewing a group's characteristics and claim history for a two-year period.
- Other factors that affect health plan pricing, such as a provider network's unit cost, the rate of unit cost and utilization trend, and retention loads, are assumed to be identical irrespective of funding mechanism.

Once a group has a level-funded plan, its future renewal rates will continue to be based on the group's own claims experience for the most recent two prior years. To the extent that a group's projected claims are greater than the average claims of the fully insured statewide risk pool (controlling for the group's age mix and metal level selection), the group has an increasing probability of switching back to a fully insured product. With transitions out of the fully insured small group market, we assume that some groups will remain in a level-funded plan even if their costs could be lower in the fully insured small group market, as there may be considerations that are not strictly financial.

Within the framework described above, a group's claim costs in any year are assumed to be predicted by its claim costs in the prior two years. However, particularly for smaller groups, there is a degree of randomness in the change in claim costs from one year to the next. We reviewed BCBSLA's data from 2021 to 2023 to estimate the probability distribution of claims in a year given its claims in the preceding two years.

Data and model

Our model is fit using data from BCBSLA's fully insured ACA small group population, starting with the years 2021, 2022, and 2023. We have defined 2023 as the baseline in our model, with the analysis producing a projection of population movements and claim cost changes through Year 10.

The source data is a large portion of Louisiana's fully insured small-group population. The following figure shows summary statistics on the base data:

FIGURE 1: LOUISIANA'S FULLY INSURED SMALL-GROUP POPULATION, 2021-2023

	2021	2022	2023
Member Months	1,334,327	1,349,486	1,320,165
PMPM Medical and Rx Claims Cost	$430.91	$451.26	$484.00
Total Claims	$574,970,135	$608,972,728	$638,962,356

A review of the data indicated that the probability distribution of a group's future claim costs should be modeled separately based on group size and starting claim costs. There is more variance in the distribution of future claim costs at smaller group sizes compared to larger group sizes. Moreover, groups with high starting claim costs are more prone to decreases or smaller increases, whereas groups with low starting claim costs are more likely to experience higher increases in a future period. We divided groups into 16 segments, representing four ranges of group size and four ranges of starting PMPM claim cost (with different cut points for starting PMPM claim cost for Bronze, Silver, Gold, and Platinum metal levels). These 16 distributions of the rate of change in PMPM claim costs were used as the basis of a simulation approach in our modeling.

FIGURE 2: SUMMARY OF SEGMENTS

GROUPED BY 2022 GROUP SIZE	COUNT OF GROUPS	PERCENT DISTRIBUTION	CUMULATIVE COUNTS
Member Months			
< 25	1,710	7%	1,710
25 - 48	3,144	19%	4,854
49-96	3,130	31%	7,984
> 96	3,411	44%	11,395
GROUPED BY 2021-2022 AVERAGE PMPM	**COUNT OF GROUPS***	**PERCENT DISTRIBUTION**	**CUMULATIVE COUNTS**
Bronze Metal Level PMPM			
Group 1: < $50	444	37%	444
Group 2: $51 - $150	367	30%	811
Group 3: $151 - $400	183	15%	994
Group 4: > $400	210	17%	1,204
Silver Metal Level PMPM			
Group 1: < $100	995	31%	995
Group 2: $101 - $250	965	30%	1,960
Group 3: $251 - $600	764	24%	2,724

Group 4: > $600	517	16%	3,241
Gold Metal Level PMPM			
Group 1: < $150	1,287	23%	1,287
Group 2: $151 - $300	1,632	29%	2,919
Group 3: $301 - $800	1,923	34%	4,842
Group 4: > $800	808	14%	5,650
Platinum Metal Level PMPM			
Group 1: < $300	387	30%	387
Group 2: $301 - $600	457	35%	844
Group 3: $601 - $1200	294	23%	1,138
Group 4: > $1200	160	12%	1,298

*Note: Groups without actuarial value data were excluded from the metal distributions.

Our model starts with the baseline population and their actual claim costs as the baseline population for the ACA small group market. Thereafter, we assign a market (fully insured or level-funded) to each group based on a set of assumed transition probabilities. We assumed that groups of any size were eligible for either the level-funded or ACA small group market. Currently, payers in the Louisiana market have different minimum group sizes for providing level-funded coverage.

In setting the assumed transition probabilities, we tested three scenarios that vary the likelihood of a group to move between the ACA and level-funded market – Low, Medium, and High. Specific assumptions for each of these scenarios are listed in Figure 3. We also assign claim cost to each group based on the empirical distributions described above, using claim costs from the baseline and the prior year as the inputs to the probability distribution. This is then repeated for each subsequent year, through Year 10.

In performing the simulations for this analysis, we considered the following assumptions:

1. Annual Medical Trend – This is the assumed medical trend applied to project claims forward to each year in our analysis.
2. Cost threshold to leave ACA market – This represents how much lower the costs for a group would need to be while moving to the level-funded market when compared to the average age- and plan-adjusted cost in the ACA small group market. For example, if the threshold is -50%, then a group would only consider leaving if its historical claim costs were at least 50% less than the average cost of groups in the ACA small group market with similar age mix and plan selection.
3. Probability of leaving ACA market – Groups that hit the threshold to consider leaving the ACA small group market will or won't actually leave due to various reasons such as inertia, brand security/familiarity, and/or risk tolerance levels. This assumption determines the likelihood of any single group leaving the ACA small group market if it met the cost threshold for considering leaving the market.
4. Cost threshold to return to ACA market – This is defined similar to the cost threshold to leave the ACA small group market, except it is a cost level *above* rather than *below* the ACA market average.
5. Probability of returning to ACA market – Not all groups that hit the threshold to consider returning to the ACA small group market will return due to various reasons such as inertia, brand security/familiarity, and/or risk tolerance levels. This assumption determines the likelihood of any single group returning to the ACA small group market if they met the cost threshold for considering returning to the market.

The following figure shows the parameters used in our simulations to determine when a group will be projected to transition from one plan type to another.

FIGURE 3: MODELED PARAMETERS

Scenario	Low	Medium	High
Annual Medical Trend	5%	5%	5%
Cost Threshold to Leave ACA Market	-50%	-40%	-30%
Probability of Leaving ACA Market if cost threshold is met	7%	12%	18%
Cost Threshold to Return to ACA Market	+50%	+40%	+30%
Probability of Returning to ACA Market if cost threshold is met	50%	50%	50%

The selected assumptions for each scenario are theoretical assumptions.

For each set of input parameters in the three scenarios (Figure 3), we performed 10,000 simulations, randomly selecting the groups that enter or leave the ACA small group market by applying the probability assumptions above. This resulted in a probability distribution of our outcome variables based on the source data and our estimated claim cost distributions and market transition probability assumptions.

Simulation results

Figure 4 and Figure 5 highlight the results of the analysis and address the two following questions, respectively:

1. What is the annual increase in per member per month (PMPM) healthcare costs in the ACA small group market in the presence of level-funded plan alternatives?
2. What is the likelihood of a group returning to the fully insured market after switching to a level-funded plan?

Figure 4 below summarizes the ACA small group PMPMs relative to the overall average PMPM for both the ACA small group and level-funded markets combined. This comparison highlights how costs of the ACA small group market are expected to change as groups selectively move between the small group and level-funded markets.

FIGURE 4: ACA PMPM CLAIM COST PERCENT CHANGE COMPARED TO OVERALL AVERAGE BY YEAR AND SCENARIO

	Low	Medium	High
Baseline	0%	0%	0%
Year 2	3%	5%	8%
Year 10	15%	29%	52%

This figure shows that in year 10, the ACA PMPM costs would be 15% to 52% higher than the average small group market costs (including both the ACA small group and the level-funded markets) when lower cost groups select into the level-funded market.

The following graph shows the average annual probability over 10 years of any group moving from the level-funded market back into the ACA small group market by year for each of the three scenarios modeled.

FIGURE 5A: AVERAGE ANNUAL PROBABILITY OF MARKET TRANSITION BY SCENARIO OVER 10-YEAR MODELED TIME PERIOD

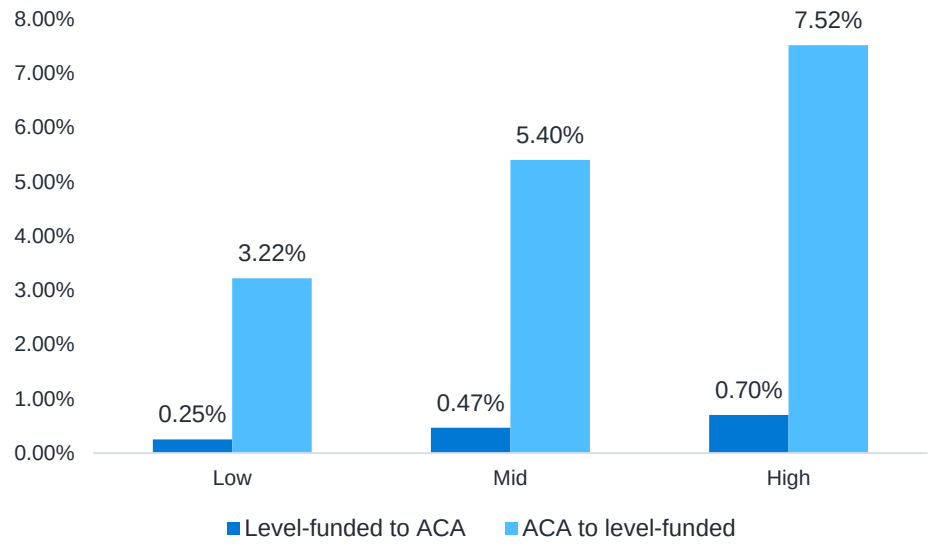


FIGURE 5B: LOW SCENARIO - PROBABILITY OF MARKET TRANSITION BY YEAR

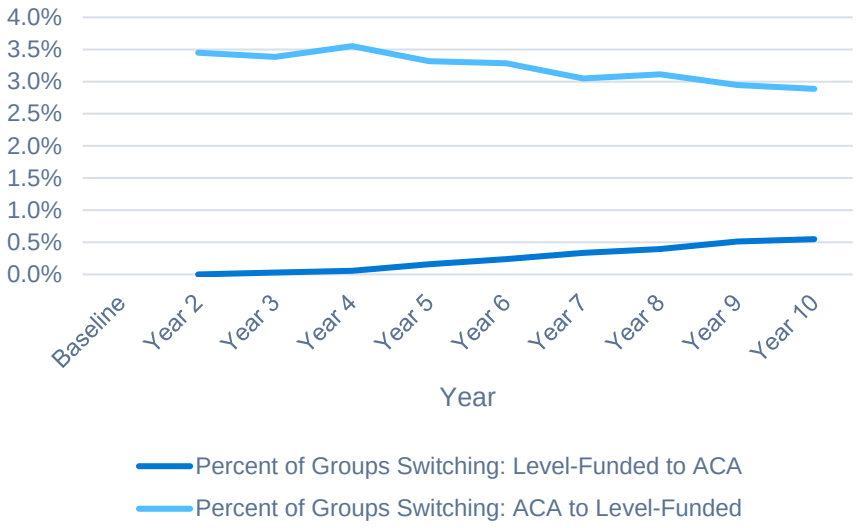


FIGURE 5C: MEDIUM SCENARIO - PROBABILITY OF MARKET TRANSITION BY YEAR

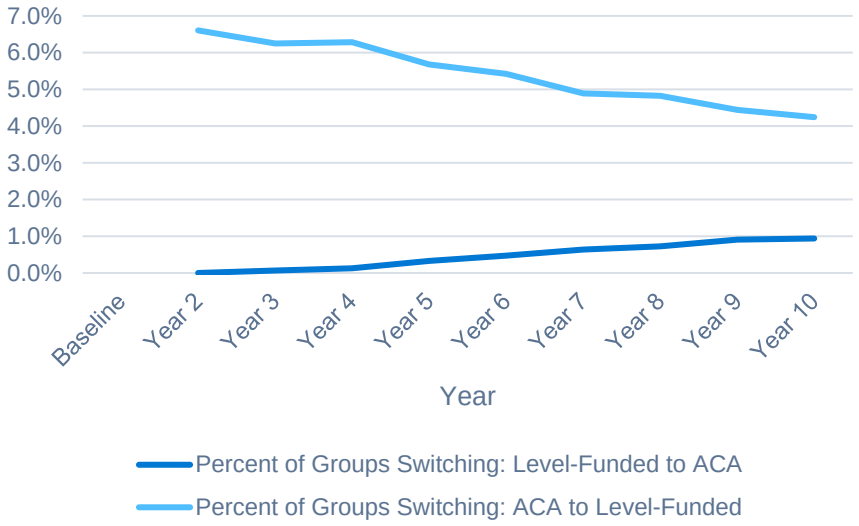
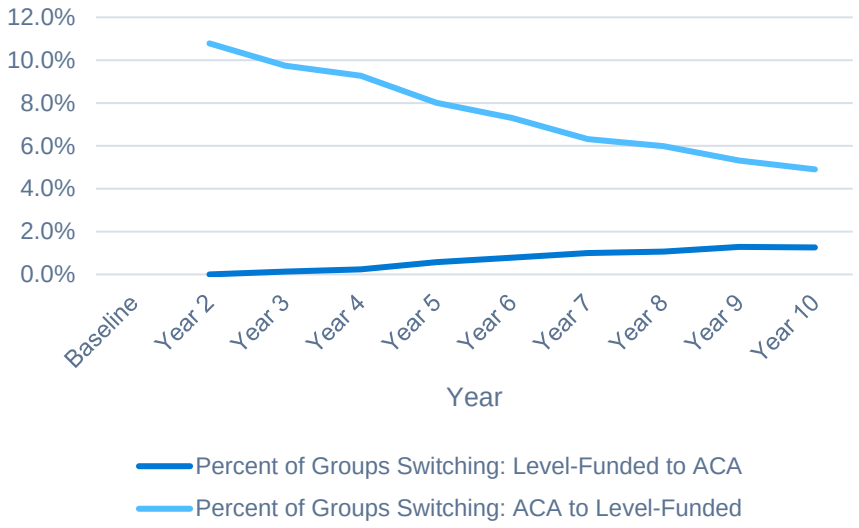


FIGURE 5D: HIGH SCENARIO - PROBABILITY OF MARKET TRANSITION BY YEAR



The key results from Figure 5A through Figure 5D are:

- In all scenarios, the likelihood of a group moving out of the ACA small group market is higher than the probability of a group moving out of the level-funded market. This highlights the selection that occurs for groups with favorable experience electing to move to the level-funded market.
- Figures 5B through 5D show that it is reasonably expected that the likelihood of a group transitioning out of the ACA small group market decreases over time, which would be expected as groups with lower costs have already transitioned to the level-funded market.
- Comparing Figures 5B through 5D shows that as scenarios increase the likelihood of groups being able to move between markets, not only is there a higher probability of groups moving out of the ACA small group market, but the rate at which groups move out of the ACA small group market decreases more rapidly. This suggests that groups with lower costs will move out of the ACA small group market more quickly.

AVERAGE SIMULATION RESULTS

Figure 6 through Figure 11 summarize results from the simulations for Year 0, Year 2, and Year 10, to highlight differences that occur over time as groups can switch between the ACA small group and level-funded markets. We have separated these results into the three market transition probability scenarios.

Low Market Transition Probability Scenario

FIGURE 6: LOW MARKET TRANSITION PROBABILITY SCENARIO – AVERAGES

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315	13,821	10,491	-27%	-24%
Level-funded	0	494	3,824	n/a	674%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,284,714	998,187	-24%	-22%
Level-funded	0	35,443	321,970	n/a	808%
PMPM	$484	$531	$692	43%	30%
ACA	$484	$545	$794	64%	46%
Level-funded		$125	$412	n/a	231%
ACA vs. overall average	1.00	1.03	1.15		
Level-funded vs. overall average		0.23	0.60		

FIGURE 7: LOW MARKET TRANSITION PROBABILITY SCENARIO – TRANSITION OUT OF LEVEL-FUNDED

Year	Total Groups	Groups switching from level-funded to ACA	Groups switching from ACA to level-funded	Percent of Groups: level-funded to ACA	Percent of Groups: ACA to level-funded
Baseline	14,315	0	0	0.0%	0.0%
Year 2	14,315	0	494	0.0%	3.5%
Year 3	14,315	4	484	0.0%	3.4%
Year 4	14,315	8	508	0.1%	3.6%
Year 5	14,315	23	475	0.2%	3.3%
Year 6	14,315	34	470	0.2%	3.3%
Year 7	14,315	48	437	0.3%	3.0%
Year 8	14,315	57	446	0.4%	3.1%
Year 9	14,315	73	422	0.5%	2.9%
Year 10	14,315	79	413	0.5%	2.9%
Average		33	461	0.3%	3.2%

Medium Market Transition Probability Scenario

FIGURE 8: MEDIUM MARKET TRANSITION PROBABILITY SCENARIO – AVERAGES

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315	13,370	7,955	-44%	-41%
Level-funded	0	945	6,360	n/a	573%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,247,972	753,315	-43%	-40%
Level-funded	0	72,185	566,842	n/a	685%
PMPM	$484	$529	$694	43%	31%
ACA	$484	$556	$897	85%	61%
Level-funded		$147	$441	n/a	201%
ACA vs. overall average	1.00	1.05	1.29		
Level-funded vs. overall average		0.28	0.64		

FIGURE 9: MEDIUM MARKET TRANSITION PROBABILITY SCENARIO – TRANSITION OUT OF LEVEL-FUNDED

Year	Total Groups	Groups switching from level-funded to ACA	Groups switching from ACA to level-funded	Percent of Groups: level-funded to ACA	Percent of Groups: ACA to level-funded
Baseline	14,315	0	0	0.0%	0.0%
Year 2	14,315	0	945	0.0%	6.6%
Year 3	14,315	10	895	0.1%	6.2%
Year 4	14,315	18	899	0.1%	6.3%
Year 5	14,315	47	813	0.3%	5.7%
Year 6	14,315	68	776	0.5%	5.4%
Year 7	14,315	92	700	0.6%	4.9%
Year 8	14,315	103	691	0.7%	4.8%
Year 9	14,315	130	636	0.9%	4.4%
Year 10	14,315	134	607	0.9%	4.2%
Average		60	773	0.5%	5.4%

High Market Transition Probability Scenario

FIGURE 10: HIGH MARKET TRANSITION PROBABILITY SCENARIO – AVERAGES

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315	12,771	5,538	-61%	-57%
Level-funded	0	1,544	8,777	n/a	469%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,196,531	509,022	-61%	-57%
Level-funded	0	123,626	811,135	n/a	556%
PMPM	$484	$528	$702	45%	33%
ACA	$484	$572	$1,067	120%	87%
Level-funded		$167	$472	n/a	182%
ACA vs. overall average	1.00	1.08	1.52		
Level-funded vs. overall average		0.32	0.67		

FIGURE 11: HIGH MARKET TRANSITION PROBABILITY SCENARIO – TRANSITION OUT OF LEVEL-FUNDED

Year	Total Groups	Groups switching from level-funded to ACA	Groups switching from ACA to level-funded	Percent of Groups: level-funded to ACA	Percent of Groups: ACA to level-funded
Baseline	14,315	0	0	0.0%	0.0%
Year 2	14,315	0	1,544	0.0%	10.8%
Year 3	14,315	19	1,395	0.1%	9.7%
Year 4	14,315	34	1,328	0.2%	9.3%
Year 5	14,315	82	1,147	0.6%	8.0%
Year 6	14,315	111	1,046	0.8%	7.3%
Year 7	14,315	143	905	1.0%	6.3%
Year 8	14,315	153	857	1.1%	6.0%
Year 9	14,315	184	761	1.3%	5.3%
Year 10	14,315	181	702	1.3%	4.9%
Average		91	1,076	0.7%	7.5%

90% CONFIDENCE INTERVAL RESULTS

As part of performing simulations for this analysis, we summarized a confidence interval for modeled outcomes. This section summarizes results for the 90% confidence intervals for our modeling. The 90th percentile confidence interval suggests that based on modeled parameters and assumptions, that 90 percent of the time, results will fall within the ranges presented. Results can fall outside of this statistical range and would be expected to happen 10% of the time. To the extent that actual experience differs from what was assumed, the actual results will differ from what is presented here.

Figure 12 below highlights the average and 90th percentile confidence interval for Year 10 PMPM for each of the modeled scenarios.

FIGURE 12: MODELED SCENARIO RESULTS – 90% CONFIDENCE INTERVAL FOR YEAR 10 PMPM VALUES

Figures 13 through 15 provide model output details for the 90% confidence intervals.

Low Market Transition Probability Scenario

FIGURE 13: LOW MARKET TRANSITION PROBABILITY SCENARIO – 90% CONFIDENCE INTERVALS

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315 to 14,315	13,785 to 13,856	10,394 to 10,586	-27% to -26%	-25% to -23%
Level-funded	0 to 0	459 to 530	3,729 to 3,921	n/a	622% to 733%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,280,417 to 1,288,819	984,563 to 1,011,401	-25% to -23%	-23% to -21%
Level-funded	0	31,338 to 39,740	308,756 to 335,594	n/a	712% to 926%
PMPM	$484	$518 to $544	$671 to $714	39% to 48%	26% to 35%
ACA	$484	$532 to $559	$767 to $823	58% to 70%	40% to 52%
Level-funded	$0	$117 to $133	$389 to $438	n/a	n/a
ACA vs. overall average		1.03 to 1.03	1.13 to 1.16		
Level-funded vs. overall average		0.22 to 0.25	0.56 to 0.63		

Medium Market Transition Probability Scenario

FIGURE 14: MEDIUM MARKET TRANSITION PROBABILITY SCENARIO – 90% CONFIDENCE INTERVALS

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315	13,321 to 13,417	7,839 to 8,072	-45% to -44%	-41% to -40%
Level-funded	0	898 to 994	6,243 to 6,476	n/a	540% to 608%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,241,788 to 1,253,941	737,097 to 769,519	-44% to -42%	-41% to -38%
Level-funded	0	66,216 to 78,369	550,638 to 583,060	n/a	624% to 755%
PMPM	$484	$517 to $543	$673 to $716	39% to 48%	26% to 36%
ACA	$484	$543 to $571	$862 to $934	78% to 93%	54% to 69%
Level-funded	$0	$140 to $154	$422 to $462	n/a	n/a
ACA vs. overall average		1.05 to 1.05	1.27 to 1.31		
Level-funded vs. overall average		0.26 to 0.29	0.61 to 0.66		

High Market Transition Probability Scenario

FIGURE 15: HIGH MARKET TRANSITION PROBABILITY SCENARIO – 90% CONFIDENCE INTERVALS

	Baseline	Year 2	Year 10	Change Year 10 vs. baseline	Change Year 10 vs. Year 2
Groups	14,315	14,315	14,315	0%	0%
ACA	14,315	12,711 to 12,832	5,415 to 5,657	-62% to -60%	-58% to -56%
Level-funded	0	1483 to 1604	8,658 to 8,900	n/a	447% to 492%
Member Months	1,320,157	1,320,157	1,320,157	0%	0%
ACA	1,320,157	1,188,579 to 1,204,424	492,235 to 525,917	-63% to -60%	-59% to -56%
Level-funded	0	115,733 to 131,578	794,240 to 827,922	n/a	516% to 600%
PMPM	$484	$516 to $541	$680 to $725	41% to 50%	28% to 38%
ACA	$484	$558 to $586	$1018 to $1121	110% to 132%	77% to 96%
Level-funded	$0	$161 to $173	$455 to $490	n/a	n/a
ACA vs. overall average		1.08 to 1.09	1.48 to 1.56		
Level-funded vs. overall average		0.30 to 0.33	0.65 to 0.69		

Summary

Based on our modeling, it is anticipated that as lower-cost groups move from the ACA small group market to level-funded plans, the average cost for the ACA small group market will increase more rapidly compared to the overall costs for the two markets combined. This outcome is driven by two key assumptions: 1) the ACA small group market remains a fully insured, market-rated market, while the level-funded market is underwritten and 2) that groups can feasibly shift between the two markets.

Modeling the future impact of groups moving between the ACA small group and level-funded markets based on the methodology outlined in this paper, results in the following key outcomes:

- The average PMPM cost of the ACA small group market increases over time as lower cost groups move from the ACA to the level-funded market.
- The more likely it is for groups to move between the ACA small group and level-funded markets, the higher the resulting average PMPM cost increase for the ACA small group market.
- The likelihood of a group leaving the level-funded market and returning to the ACA small group market varies by year and ranges from 0.4% in earlier years up to 2.2% in later years.

The probability of low-cost groups transitioning to the level-funded market influences the estimated cost increase in the ACA small group market relative to the overall costs for both markets combined. Our modeling demonstrates a range of possible outcomes, indicating that the estimated variability of outcomes does not materially change as the probability of groups moving between markets varies.

When groups with lower-than-average costs leave the ACA small group market for lower premiums in the level-funded market, higher-cost groups remain in the ACA small group market. Consequently, premiums in the ACA market must increase to cover the higher average costs of the remaining groups.

Overall, this paper highlights that lower-cost groups moving to the level-funded market will likely result in higher costs for those remaining in the ACA small group market. It highlights the need for careful consideration of market dynamics and potential regulatory adjustments to mitigate adverse selection and ensure market stability, particularly for the fully insured ACA small group market.

Qualifications, Caveats, and Limitations

QUALIFICATIONS

The authors of this report are consulting actuaries for Milliman, Inc. They are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

CAVEATS AND LIMITATIONS

This report was developed for BCBSLA to provide a description of level-funded health plans, including their general characteristics and potential impact on the fully insured small group risk pool in Louisiana. This information may not be appropriate, and should not be used, for other purposes. We do not intend this information to benefit, and assume no duty or liability to, any third party that receives this work product. Any third-party recipient of this report that desires professional guidance should not rely upon Milliman's work product but should engage qualified professionals for advice appropriate to its specific needs. Any releases of this report to a third party should be in its entirety.

Actual results (costs, enrollment, and other measures including morbidity and risk pool impacts of migration) will differ from the examples given in this report due to changes in elements that include the characteristics of the enrolled populations, underlying medical costs, regulatory activity, and economic conditions, as well as random fluctuation.

Milliman developed certain models used to estimate the values included in this communication. We reviewed the models, including the data, inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice (ASOP). The results and models, including all inputs, calculations, and outputs may not be appropriate for any other purpose.

The development of estimates in this report relies, in part, on information collected from BCBSLA. We accepted this information without audit but reviewed the information for general reasonableness. Our projections, results, and conclusions may not be appropriate if this information is not accurate.

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