STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

Agency (Department) Name	Contact Person	Mailing Address
California Health Benefits Exchange	Dennis Meyers	1601 Exposition Blvd. Sacramento, CA 95815
Email Address	Telephone Number	
Dennis.Meyers@covered.ca.gov	(916) 403-4477	

1. Statement of the need for the proposed major regulation.

The regulations provide the public with clear standards and eligibility requirements to qualify for federal tax subsidies through the Exchange. They also set out the standards and requirements for the qualified health plan issuers regarding enrollment of qualified individuals in the qualified health plans and termination of coverage for qualified individuals through the Exchange. In addition, the regulations establish procedures for appeal of eligibility determinations and redeterminations so as to provide the public with an opportunity to request and receive a fair hearing.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The regulations only directly impact individuals who enroll for coverage through the Exchange. The regulations themselves do not impose any direct financial obligations on health insurance carriers or other businesses. Health insurance carriers that participate in the Exchange will have access to previously uninsured participants and associated premium revenue streams. Providers of healthcare goods and services will see increased revenue from the expansion of the number of individuals with health coverage.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

Individuals who enroll through the Exchange who previously did not have health insurance will now have better and timelier access to healthcare. In 2014 these individuals paid premiums and incurred additional out-of-pocket healthcare spending, net of federal subsidies, totalling $750 million and reduced their spending on goods and services not related to health insurance and healthcare by a like amount. In 2014, Exchange enrollees who were previously insured and now receive a federal subsidy spent $2,753 million less on health insurance and on out-of-pocket expenses, which allowed them to spend more on non-health insurance goods and services.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

These regulations became effective in October 2013 when the Exchange began its first open enrollment. The first policies sold were effective for calendar year 2014 and were estimated to to have an economic impact that exceeded $50 million.

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5. Description of the agency's baseline:

Covered California utilized the REMI PI+ Model and Department of Finance data for the macroeconomic baseline. The baseline for the analysis is the pattern of individual insurance coverage of individual enrollees prior to 2014, which was derived from information provided during the eligibility determination and enrollment process for 2014 coverage.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:
   a. All costs and all benefits of the alternative
   b. The reason for rejecting alternative

State law created the California Health Benefit Exchange and the Health Benefit Exchange Board consistent with the federal Affordable Care Act (ACA). It also expressly requires the Exchange to adopt all of the requirements of the federal ACA and the requirements contained in federal guidance and regulations. With these mandates to adhere to federal law and regulations, the Exchange had no ability implement alternative approaches in general, and had only limited opportunities to consider alternative approaches to specific provisions within the regulations.

Alternative 1: Do not expand definition of Other Qualifying Life Event to include "Victims of domestic abuse and spousal abandonment"
The Exchange had the option and chose to include victims of domestic abuse and abandonment in the definition of Other Qualifying Life Event for enrolling during special enrollment, which entitled from 600 to 1,200 more individuals to enroll than if it had not. Compared to the baseline estimate, from 2014 through 2018, estimated employment gains would be reduced by 354 jobs, private investment gains by $6 million, income gains by $24 million, and state GDP gains by $30 million. Alternative 1 was rejected because it would have led to less enrollment and reduced economic benefits for California.

Alternative 2: Adopt Minimum Grace Period for Incomplete Applications
The regulations allow applicants 90 calendar days from the date they were notified that their application was incomplete to provide the missing information. The regulations could have allowed as little as 10 calendar days. Limiting the grace period to 10 days would have reduced enrollment by 24,600 in 2014 but would not have led to any effective cost savings. Compared to the baseline estimate, from 2014 through 2018, estimated employment gains would be reduced by 7,700 jobs, private investment gains by $131 million, income gains by $522 million, and state GDP gains by $660 million. Alternative 2 was rejected because it would have led to less enrollment and reduced economic benefits for California.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The Exchange met with the Department of Health Care Services and stakeholder groups. The regulations were discussed and approved in publicly held, duly noticed meetings of the California Health Exchange Board where interested members of the public were given the opportunity to offer suggestions and comments. In conjunction with these meetings, the regulations were posted on the Exchange's web site.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The REMI model of the California economy was used to assess economic impacts of the proposed regulations based on assumed changes to consumer and healthcare spending beginning in 2014 as indicated by premiums paid, additional out-of-pocket healthcare spending, and federal subsidies paid. Multiple sectors are directly impacted: pharmaceuticals, health care, physician services, dental services, paramedical services, hospitals, nursing homes, health insurance, and state government.

The overall economic impact of these regulations was determined by the nature of the persons who enroll for insurance coverage through the Exchange, which consists of those that are eligible for federal subsidies and those that are not and among these, those that previously had health insurance and those that didn't. The direct economic impact of this enrollment is reflected in the actuarial value and premiums of the policies sold to these groups and the payment of federal subsidies.

In 2014, enrollees paid $4.7 billion in premiums, $4.2 billion of which was paid by those who received federal subsidizes ($3.2 billion of which was offset by subsidies). In addition, $448 million was paid as Cost Share Reductions to reduce out-of-pocket expenses for expenses such as copayments and deductibles.

Spending on goods and services not related to health insurance and healthcare in 2014 increased by $2,003 million. Enrollees who were previously uninsured reduced their spending by the amount spent on the unsubsidized portion of their premiums and the additional out-of-pocket healthcare spending in 2014—$750 million. Enrollees who previously had health insurance could increase spending not related to health insurance and healthcare by the amount of subsidies received and cost sharing reductions paid—$2,753 million.

In 2014, spending on health insurance premiums increased by $1.1 billion by extending coverage to enrollees who were not previously insured. Of that, 80%, or $892 million, was spent on healthcare goods and services with the remaining spent on administration, marketing, and profits, which includes fees paid to the Exchange–$160 million. An additional $391 million was spent on healthcare goods and services in the form of additional out-of-pocket healthcare spending by enrollees who were not previously insured. Thus, overall spending on healthcare goods and services in 2014 increased $1,283 million.

These impacts were projected from 2014 through 2018 based on the assumptions that enrollment through the Exchange increases to 1,800,000 in 2018, that premiums increase 4% per year and that the spread of consumer spending across all sectors remains constant.

Agency Signature	Date
Kathleen Keeshen	1/14/16
Agency Head (Printed)	