TO: CONNECT FOR HEALTH COLORADO JOINT FINANCE, OPERATIONS AND POLICY COMMITTEE

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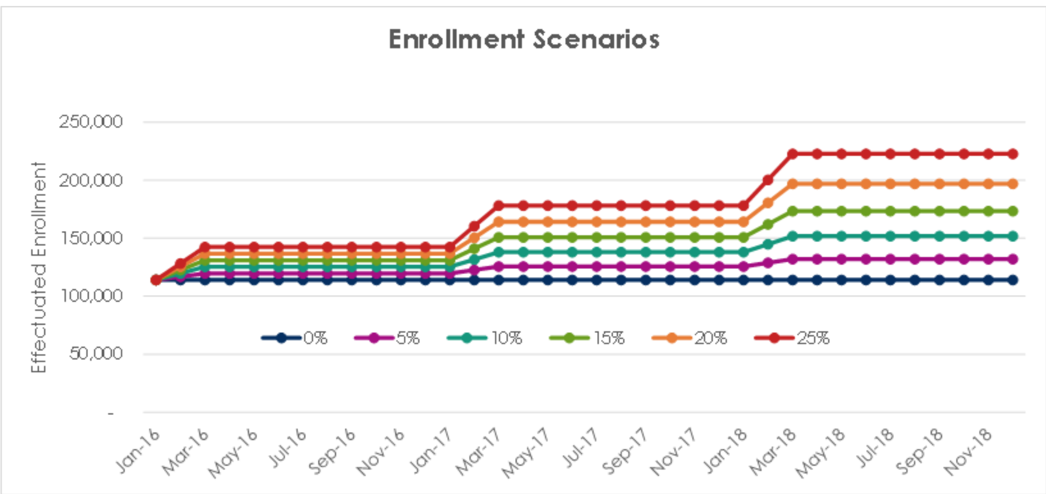
SUBJECT: FINANCIAL SCENARIO ANALYISIS - MULTIPLE VARIABLE SENSITIVITY

DATE: 11/19/2015

Based on the fee scenarios introduced at the last Policy Committee meeting, a more thorough sensitivity analysis has been conducted to determine the impact of changes in enrollment and cost reductions on cash flows and potentially future fee structures. The two scenarios we analyzed further are:

Scenario 1 – Current Fee Structure – 3.5% carrier admin fee, special fee assessment through CY 2016 at $1.80
Scenario 2 – Current Fee Structure plus extension of special fee assessment beyond CY 2016

For each of these scenarios we varied both the annual enrollment and the level of cost recovery/savings for the next 3 years. Enrollment was assumed to grow annually in a range of 0% to 25% resulting in enrollment at the end of the three year period ranging from 114,000 to 223,000.

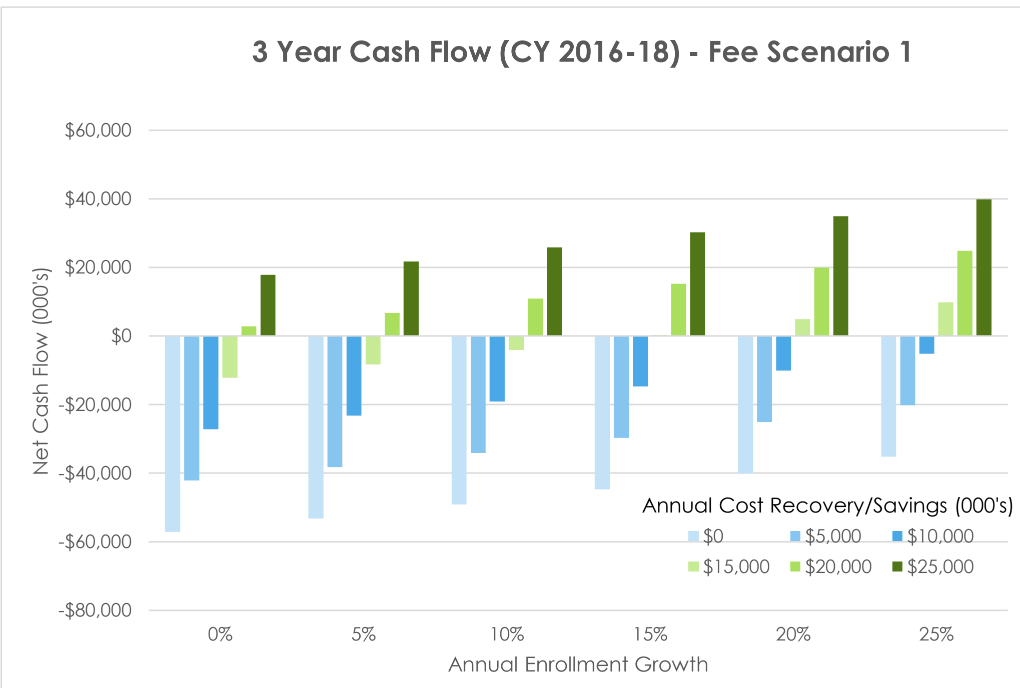


Cost reductions resulting from Medicaid cost recoveries, cost sharing with HCPF and other cost savings were varied in the range of $0 to $25 million reductions from the existing strategic plan operating and capital expenditure levels.

Cost Reductions (000's)	Annual Expenditures ($'s in 000's) CY 2016	CY 2017	CY 2018
$0	49,750	50,738	50,698
$5,000	44,750	45,738	45,698
$10,000	39,750	40,738	40,698
$15,000	34,750	35,738	35,698
$20,000	29,750	30,738	30,698
$25,000	24,750	25,738	25,698

Scenario 1 Sensitivity Analysis

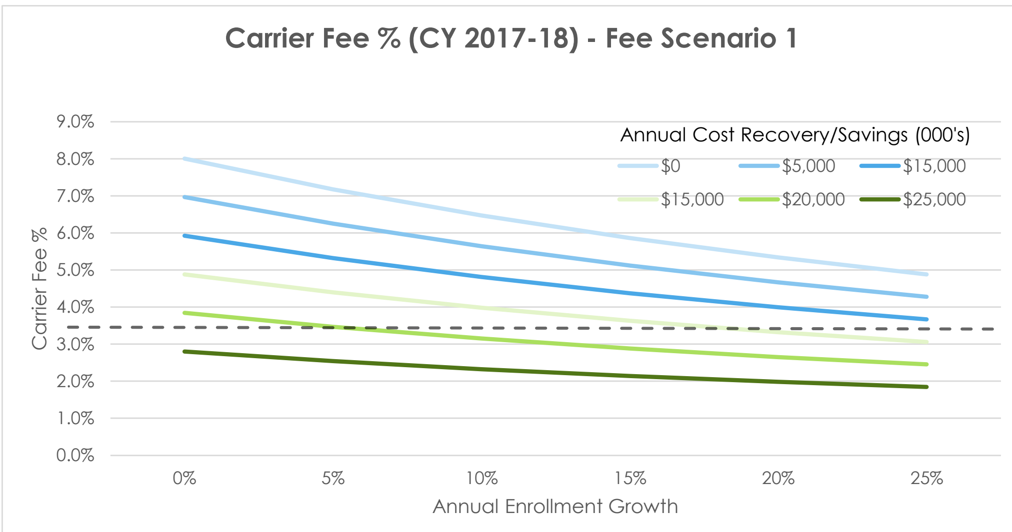
In this scenario we assumed the carrier admin fee stayed at the approved 3.5% rate for all three years of the projection (January 2016 – December 2018). The special fee assessment of $1.80 is in place (as approved) through December 2016. The graphic below depicts the impact of varying enrollment and costs under this fee scenario.



Numerical summary

CY 2016-18 - Net Cash Flow Cost Recovery/Savings (000's)	Enrollment - Annual Increase 0%	5%	10%	15%	20%	25%
$0	(57,162)	(53,259)	(49,117)	(44,729)	(40,086)	(35,182)
$5,000	(42,162)	(38,259)	(34,117)	(29,729)	(25,086)	(20,182)
$10,000	(27,162)	(23,259)	(19,117)	(14,729)	(10,086)	(5,182)
$15,000	(12,162)	(8,259)	(4,117)	271	4,914	9,818
$20,000	2,838	6,741	10,883	15,271	19,914	24,818
$25,000	17,838	21,741	25,883	30,271	34,914	39,818

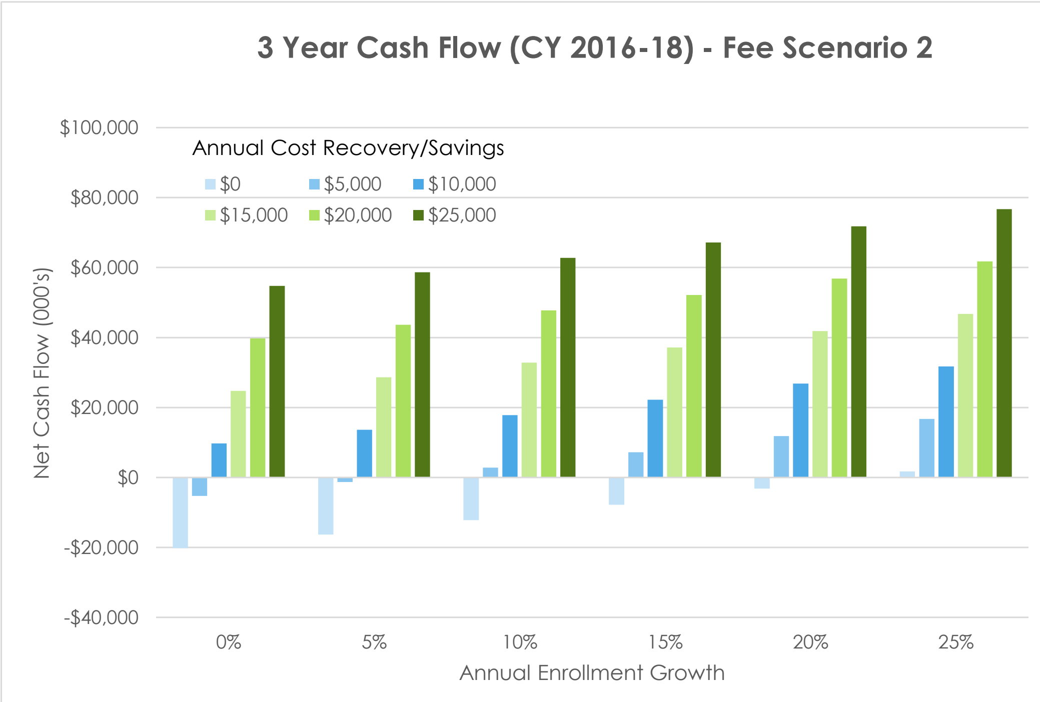
In this scenario, positive cash flows are generated even without enrollment increases when cost reductions/recoveries exceed $20 million. Conversely, with enrollment increases of 25%, cost reductions in excess of $10 million are needed to attain positive cash flows.   Under the current carrier admin fee structure, without cost reductions or other additional revenues, even at a 25% enrollment growth rate, cash flows are negative. The graph below shows the imputed carrier admin fee percentage needed in CY 2017 and 2018 to breakeven under the different enrollment and cost reduction assumptions.



The dashed line represents the current carrier admin fee percentage (3.5%). With $20 and $25 million cost reduction assumptions, the carrier fee percentage to reach breakeven cash flows actually drops below the current 3.5% level. Conversely, if we assume no cost reductions, the carrier fee percentage needed to breakeven ranges from 5% up to 8% depending upon the enrollment growth.

<u>Scenario 2 Sensitivity Analysis</u>

In this scenario we assumed the carrier admin fee stays at the approved 3.5% rate for all three years of the projection (January 2016 – December 2018). The special fee assessment of $1.80 is assumed to be extended through CY 2017 and 2018 in this scenario. The graphic below depicts the impact of varying enrollment and costs under this fee scenario.

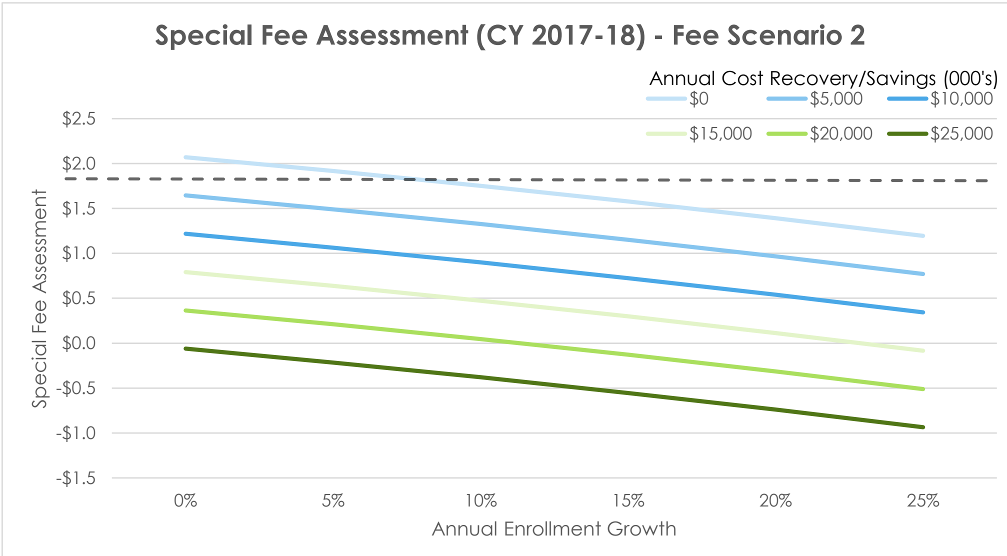


Numerical summary

CY 2016-18 - Net Cash Flow	Enrollment - Annual Increase					
Cost Recovery/Savings (000's)	**0%**	**5%**	**10%**	**15%**	**20%**	**25%**
$0	(20,244)	(16,341)	(12,199)	(7,811)	(3,168)	1,736
$5,000	(5,244)	(1,341)	2,801	7,189	11,832	16,736
$10,000	9,756	13,659	17,801	22,189	26,832	31,736
$15,000	24,756	28,659	32,801	37,189	41,832	46,736
$20,000	39,756	43,659	47,801	52,189	56,832	61,736
$25,000	54,756	58,659	62,801	67,189	71,832	76,736

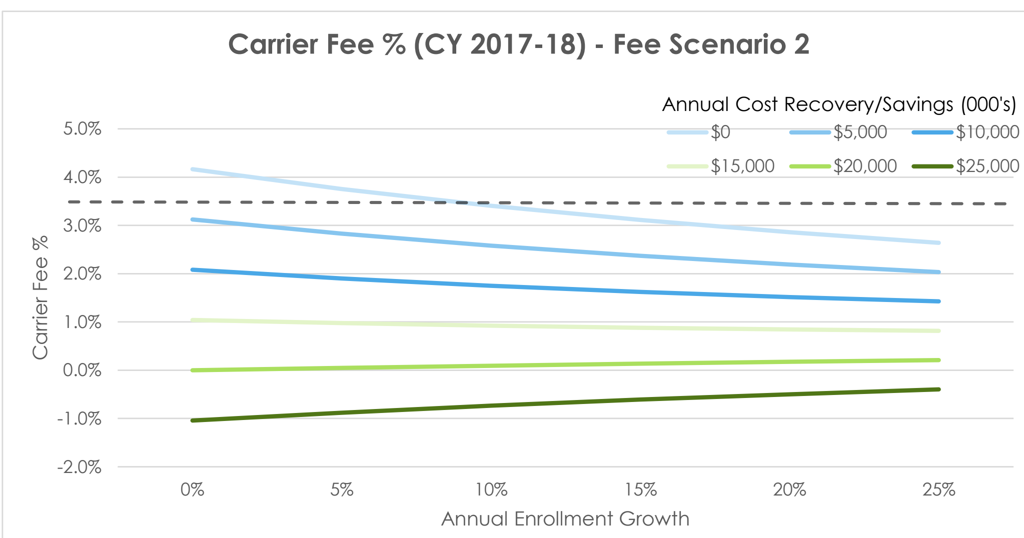
In this scenario, positive cash flows are generated under most of the enrollment and cost reduction assumptions. The exception is when there are no cost reductions. Under this assumption cash flows are negative unless enrollment growth approaches 25%. With cost reductions between $5 and $10 million, positive cash flows can be achieved even with no enrollment growth.

The sensitivity on both the carrier admin fee percentage and the special fee assessment charge for CY 2017 and 2018 was analyzed under this scenario. If the carrier fee percentage is held constant at 3.5%, the following graphic shows the impact on the special fee assessment charge.



The dashed line represents the current special fee assessment charge of $1.80. In keeping the carrier admin fee at 3.5%, the analysis indicates the special fee assessment needed to breakeven is less than the $1.80 under almost all assumptions. The only exception is when the enrollment growth rate is below 10% and there are no cost reductions. If annual cost reductions of $25 million are assumed there is no special assessment needed and the 3.5% carrier fee is sufficient to maintain positive cash flows. With annual cost reductions of $10 million the special fee assessment drops below $1.00 under most enrollment scenarios.

Conversely, looking at the sensitivity of the carrier admin fee percentage if we keep the special assessment fee at $1.80 we derive the following carrier fee percentage under the different enrollment and cost reduction assumptions.



The dashed line represents the current approved carrier fee percentage of 3.5%. By holding the special assessment fee constant at $1.80, this graph shows the level of the carrier fee percentage needed to breakeven on cash flow. Under most assumptions the necessary carrier fee is below the current approved level of 3.5%. When cost reductions of over $20 million are assumed the carrier fee is not needed to breakeven and the special assessment fee of $1.80 is sufficient to maintain positive cash flows.

Conclusions

The sensitivity analysis conducted provides insights and inputs into future strategic planning efforts and the overall sustainability planning for the organization. Some of the key points from this analysis include:

- Under the current approved rate structure (both carrier admin fees and special assessment fees through 2016) growth in individual enrollment by itself will not provide enough of a revenue stream to support the current expenditure levels.
- Strategies for reducing costs either through Medicaid cost recovery/allocation, cost sharing/efficiencies with the State or other cost saving measures are needed to assure positive cash flows and ultimately sustainability for the organization
- The opportunity exists from being successful in reducing costs and in growing enrollment to potentially reduce current fee levels in future years.
- Flexibility in increasing the carrier admin fee percentage beyond its current level, or the extension of the special assessment fee beyond 2016, provides a financial backstop for the organization over the next 3 years with the opportunity to reduce or eliminate the fees during the plan period based on enrollment and cost reduction successes