Section 1332 Waiver Extension Application

September 17, 2024

Submitted by:

Montana Governor Greg Gianforte

Montana State Auditor Troy Downing

Montana Reinsurance Association Board of Directors

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Extension Application Overview

The State of Montana, through its Governor, State Auditor and Commissioner of Securities and Insurance (Commissioner) and the Board of Directors (Board) for the Montana Reinsurance Association (MRA), submits this Section 1332 State Innovation Waiver request to the Centers for Medicare & Medicaid Services (CMS), a division of the United States Department of Health and Human Services (HHS), and the Department of the Treasury.

Summary and Waiver History

CMS originally approved Montana's 1332 State Innovation Waiver on August 16, 2019, for a five-year term from January 1, 2020, through December 31, 2024.

This request seeks an extension of the Section 1332 Waiver for an additional five-year period beginning January 1, 2025, on the same terms as the existing waiver. Extending the waiver will allow Montana to continue to build on the program's existing track record of lowering health insurance premiums for Montanans, expanding access to affordable health coverage, and preserving the existing quality of available exchange plans.

The State submitted a Letter of Intent (LOI) to seek a five-year extension of the existing waiver on December 20, 2023 (Attached as Exhibit A). In response, CMS sent a letter on January 17, 2024, confirming receipt of the LOI and providing a list of specific requirements for the waiver extension application (Attached as Exhibit B).

These requirements asked Montana to provide:

> (1) A detailed description of the extension request, including the desired time period for the extension. The state must confirm there are no changes to the current waiver plan for the new waiver period that are otherwise not allowable under the state's STCs, or that could impact any of the section 1332 statutory guardrails or program design;
>
> (2) Updated economic or actuarial analyses for the extension period, if the state is aware of changes in state law, the state insurance market, or to the waiver program that are allowable under the STCs and impact waiver assumptions and projections, and that the state has not previously shared with the Departments via its reporting requirements;
>
> (3) Preliminary evaluation data and analysis of observable outcomes from the existing waiver program, which includes quantitative or qualitative information on why the state believes the program did or did not meet the statutory guardrails. For example, the state may provide information comparing the originally projected premium reductions or expected claims reimbursements to the actual values of the outcomes observed;
>
> (4) Evidence of sufficient authority under state law(s) in order to meet the ACA section 1332(b)(2)(A) requirement for purposes of pursuing the requested extension;
>
> (5) An explanation and evidence of the process to ensure meaningful public input on the extension request, which must include:

a. For a state with one or more Federally-recognized Indian tribes within its borders, providing a separate process for meaningful consultation with such tribes, and providing written evidence of the state's compliance with this requirement;

b. Publicly posting the submitted LOI on the state's website to ensure that the public is aware that the state is contemplating a waiver extension request; and

c. Publicly posting the waiver extension application on the state's website upon its submission of the waiver extension application to the Departments.

The state does not have to meet all of the public notice requirements specified for new waiver applications in 31 C.F.R. § 33.112 and 45 C.F.R. § 155.1312 (e.g., holding two public hearings and providing a 30-day comment period) to fulfill paragraph (5) above. However, the state must ensure and demonstrate there was an opportunity for meaningful public input on the extension request. For example, the state may choose to hold one public hearing or provide an amended or shorter comment period, or some combination of both. If the state holds one public hearing, it can use its annual public forum for the dual purposes of gathering input on the existing waiver as well as the extension application request.

(6) The Departments may request additional information and/or analysis in order to evaluate and reach a decision on the requested extension.

Each item is addressed in this Extension Application below.

<u>Detailed Description of Extension Request</u>

The State seeks a full five-year extension of its waiver under 31 C.F.R. § 33.132(a).

This extension does not seek to change any of the waiver terms or changes to the program as it is currently operating. As detailed below, the existing program has been effective in reducing premium costs for Montanans, and the State anticipates that an extension of the program will continue to make health insurance more affordable for Montanans.

<u>State Law Authority for Request</u>

The Montana Reinsurance Association Act, § 33-22-1301, *et seq*., MCA, established the state reinsurance program that was the basis for the State's original application in 2019, and it remains the basis for the program today.

State law commands the Governor, Commissioner, and the Board to "jointly apply…for a state innovation waiver and federal pass-through funding to implement [the Montana Reinsurance Association Act] for benefit years beginning January 1, 2020, and future years to maximize federal funding." § 33-22-1322, MCA. Pursuant to the mandate to "maximize federal funding," these parties have jointly applied for the maximum five-year extension to the existing waiver. A joint letter from the Governor and Commissioner, as well as a separate letter from the Board, are included with this application. (Exhibit C).

Updated Economic and Actuarial Analysis

The Board hired Wakely Consulting Group LLC (Wakely) as consulting actuaries to conduct an updated actuarial analysis for the extension period to account for changes in state law, the state insurance market, or the waiver program that impact the waiver program's assumptions and projections.

Wakely issued a full report on its findings (Attached as Exhibit D). In summary, Wakely projects that the 1332 waiver program will reduce premium by 6-9% in each of the next five years, while increasing individual enrollment by a little over half of one percent. The particulars are summarized in this chart from Wakely's attached report:

Table 3: Impact of Waiver Extension on Premium, Enrollment, and Federal Deficit

	2025	2026	2027	2028	2029
Premium[8]	-9.1%	-6.4%	-6.5%	-6.6%	-6.8%
Individual Enrollment	0.7%	0.6%	0.6%	0.6%	0.7%
Federal Savings ($ millions)	$46.1	$29.7	$30.6	$32.2	$34.8

Preliminary Evaluation of Outcomes from Initial Waiver Period

The Board also hired Wakely as consulting actuaries to conduct a preliminary data evaluation and analysis of the observable outcomes from the existing waiver program. Wakely analyzed data from January 1, 2020, through the date of their report, and evaluated whether the program met the four statutory "guardrails" set forth in 42 U.S.C. § 18052(b)(1). These "guardrails" are:

Comprehensive Coverage. The program:

> (A) will provide coverage that is at least as comprehensive as the coverage defined in section 18022(b) of this title and offered through Exchanges established under this title…;

Affordability. The program:

> (B) will provide coverage and cost sharing protections against excessive out-of-pocket spending that are at least as affordable as the provisions of this title would provide;

Coverage. The program:

> (C) will provide coverage to at least a comparable number of its residents as the provisions of this title 2 would provide; and

Deficit Neutrality. The program:

> (D) will not increase the Federal deficit.

Wakely found that the initial run of the waiver program from 2020-2024 met the four statutory guardrails. Their findings are set forth in detail in its report (Attached as Exhibit E). In summary:

Comprehensive Coverage: The program did not modify any essential health benefits for plans, and therefore did not result in any changes to the scope of coverage of plans offered on the Montana exchange.

Affordability: The program reduced average premium for non-group health insurance plans by 8-10% each year compared with projections of what rates would be without the waiver program.

Coverage: The program increased plan enrollment by about 1% annually over what it would be without the program.

Deficit Neutrality: The program did not increase the federal deficit, but likely reduced it.

Wakely also evaluated the effect of the waiver program against the predictions in Montana's original 1332 waiver application. Wakely found that the waiver program's effects were "generally in line with the initial expectations. The premium impacts, enrollment increases, and federal savings have all been slightly larger than initially estimated." Exhibit E at page 6.

Opportunities for Public Input on the Request

Public Comment

On March 25, 2024, at 11:00 a.m., the Commissioner and MRA held a public forum for the purpose of receiving comments on the proposed waiver extension. Notice of the meeting (Attached as Exhibit F) was posted to the MRA website at:

https://mtreinsurance.org/public-meetings-and-notices/

This notice also provided a video link for interested parties to join the meeting remotely, and invited public comments to be submitted to the MRA for parties who could not attend the public forum.

No one attended the meeting when it was held, and MRA has not received any written comments as of the date of this application.

Tribal Input Process

The State held an open forum for comment on the proposed waiver extension by tribal leaders of all federally-recognized Indian tribes within Montana at the Commissioner's office on March 22, 2024, at 10:00 a.m. Because Montana is home to seven Indian reservations spanning hundreds of miles across the state, a remote attendance option was also provided to allow leaders to attend remotely.

On February 14, 2024, notices were sent to Tribal Leaders by both physical and electronic mail. Notice of the meeting (Attached as Exhibit G) was sent to Tribal Leaders for each reservation in Montana as well as to the Little Shell Chippewa Tribal Council, because the Tribe does not have a reservation in Montana.

For tribes that could not attend the meeting, either in person or virtually, tribes were invited to submit written comments until April 1, 2024.

No tribes attended the open forum, and no written comments were received.

Letter of Intent

The Board posted the LOI to the MRA website. It can be found at

> https://mtreinsurance.org/wp-content/uploads/2024/02/1332-Renewal-Letter-Montana-Signed.pdf

Full Application Posting

This full application will be posted to the MRA website following its formal submission to CMS.

Federal Questions and State Responses on Montana's 1332 Waiver Extension Application

CCIIO Questions Sent 7/19/2024 State Answers 8/8/2024

- **Could you please share the reinsurance parameters used to project the waiver's impact during the extension period?**

Please see the below Table 1.

Table 1. Projected Reinsurance Parameters

Description	2025 (Best)	2026	2027	2028	2029
Total Reinsurance Funding					
Estimated Federal Savings (millions)	$46.1	$29.7	$30.6	$32.2	$34.8
State Funds Available (millions)	$13.9	$15.1	$16.1	$16.9	$18.0
Total Reinsurance Payments (millions)	$60.0	$44.8	$46.7	$49.1	$52.8
Payment Parameters					
Attachment Point	$40,000	$40,000	$40,000	$40,000	$40,000
Cap	$94,000	$73,000	$73,750	$73,500	$75,000
Coinsurance	60%	60%	60%	60%	60%

We did not develop specific reinsurance parameters initially. Rather, we developed expected total funding and the resultant impact to the premium rates. However, it was relatively straightforward to calculate the appropriate parameters based on the initial analysis, which has been provided in the attached response.

- **Please share projected enrollment by income as a share of FPL.**

Please see the below Table 2.

Table 2. Projected Enrollment by FPL

	2025 (Best)	2026	2027	2028	2029
Total Non-Group APTC Eligible	59,260	50,221	48,075	48,075	48,075
Total Non-Group Enrollment	72,425	65,104	63,412	63,415	63,428
<100% of FPL	240	340	350	350	350

≥100% to ≤150% of FPL	9,304	5,788	5,541	5,541	5,541
>150% to ≤200% of FPL	13,885	12,873	12,323	12,323	12,323
>200% to ≤250% of FPL	11,338	10,323	9,882	9,882	9,882
>250% to ≤300% of FPL	10,280	9,166	8,775	8,775	8,775
>300% to ≤400% of FPL	12,488	12,071	11,554	11,554	11,554
>400% of FPL	14,890	14,543	14,987	14,990	15,003

Please share enrollment by income as a share of FPL or by unsubsidized vs. subsidized during the initial waiver period.

Please see the below Table 3.

Table 3. Experience Period Subsidized vs. Unsubsidized Membership*

	Average Enrollees		Total
Year	**APTC**	**Non-APTC**	**Enrollees**
2020	33,927	15,566	49,493
2021	35,854	16,534	52,389
2022	42,653	15,316	57,969
2023	44,975	14,520	59,495
Feb-24	57,380	14,854	72,234

** Subsidized and un-subsidized membership defined as eligible for APTC (subsidized) vs. non-APTC (unsubsidized).*

The projected membership was not initially broken out into the detailed FPL levels provided in the attachment. To develop the attached detailed projection, we assumed 2025 would look similar to 2024 OEP (during ARP) and 2026+ (post-ARP expiration) would look similar to 2021 OEP (pre-ARP). This is consistent with the assumptions underlying the original analysis.

From Wakely (the actuarial consultants):

- We did not develop specific reinsurance parameters initially. Rather, we developed expected total funding and the resultant impact to the premium rates. However, it was relatively straightforward to calculate the appropriate parameters based on the initial analysis, which has been provided in the attached response.

- The projected membership was not initially broken out into the detailed FPL levels provided in the attachment. To develop the attached detailed projection, we assumed 2025 would look similar to 2024 OEP (during ARP) and 2026+ (post-ARP expiration) would look similar to 2021 OEP (pre-ARP). This is consistent with the assumptions underlying the original analysis.

CCIIO Questions Sent 8/7/2024 State Answers 8/8/2024

- In its 2024 Passthrough Funding Report, Montana estimated enrollment for 2024 at about 60k. In the estimates included in the Waiver Extension Application, Montana estimates 2024 enrollment at about 72k. What is the cause of the large increase to the 2024 estimated enrollment?

For the last question about the increase in 2024 enrollment, the pass-through funding report underestimated the impact of Medicaid unwinding on the Montana marketplace. The increased enrollment as reported in the waiver extension application is consistent with actual enrollment observed at the beginning of 2024.

CCIIO Questions Sent 8/23/2024 State Answers 9/9/2024

Please see the table below for the baseline enrollment broken out by FPL. This has been provided by our Actuary, Wakely. The columns that were included in the prior response are to the right.

	2025 (Baseline)	2025 (Best)	2026	2027	2028	2029
Total Non-Group APTC Eligible	**59,260**	59,260	50,221	48,075	48,075	48,075
Total Non-Group Enrollment	**71,939**	72,425	65,104	63,412	63,415	63,428
<100% of FPL	240	240	340	350	350	350
≥100% to ≤150% of FPL	9,304	9,304	5,788	5,541	5,541	5,541
>150% to ≤200% of FPL	13,885	13,885	12,873	12,323	12,323	12,323
>200% to ≤250% of FPL	11,338	11,338	10,323	9,882	9,882	9,882
>250% to ≤300% of FPL	10,280	10,280	9,166	8,775	8,775	8,775
>300% to ≤400% of FPL	12,488	12,488	12,071	11,554	11,554	11,554
>400% of FPL	14,404	14,890	14,543	14,987	14,990	15,003

Commissioner of Securities and Insurance

Troy Downing
Commissioner

Office of the
Montana State Auditor

December 20, 2023

The Honorable Xavier Becerra
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Submitted via email to 1332-WaiverSupport@cms.hhs.gov

RE: Montana 1332 State Innovation Waiver Extension

Dear Secretaries Becerra and Yellen,

The Montana Commissioner of Securities and Insurance, Office of the Montana State Auditor, hereby gives notice that he intends to seek a 5-year extension of the existing 1332 State Innovation Waiver. This extension will not seek any substantive changes to the existing waiver or Specific Terms and Conditions of the previous waiver term.

We look forward to working with you to complete the waiver extension application process. The agency contact for this application will continue to be Andrew Cziok, CSI Legal Counsel, Acziok@mt.gov, (406) 444-3467.

Thank you for the opportunity to continue to strengthen the individual health insurance market for Montana consumers.

Sincerely,

Troy Downing
Montana State Auditor,
Commissioner of Securities and Insurance

840 Helena Avenue, Helena, Montana 59601
(main fax) 406.444.3413 | (securities fax) 406.444.5558
(policyholder services fax) 406.444.1980 | (legal fax) 406.444.3499
(phone) 800.332.6148 *or* 406.444.2040 | (email) csi@mt.gov | (web) www.csimt.gov

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Center for Consumer Information and Insurance Oversight
200 Independence Avenue SW
Washington, DC 20201

January 17, 2024

VIA ELECTRONIC MAIL: troy.downing@mt.gov
Troy Downing
Montana Commissioner of Securities and Insurance
Office of the Montana State Auditor
840 Helena Avenue
Helena, MT 59601

Dear Commissioner Downing:

Thank you for your December 20, 2023, letter of intent (LOI) to apply for an extension of Montana's State Innovation Waiver (section 1332 waiver) under Section 1332 of the Affordable Care Act (ACA). I am sending this letter from the Center for Consumer Information and Insurance Oversight (CCIIO) within the Centers for Medicare & Medicaid Services (CMS) under the Department of Health & Human Services (HHS), as well as on behalf of the Department of the Treasury (collectively, the Departments).

The Departments acknowledge that the state has informed the Departments at least one year prior to the waiver's end date, as required by the specific terms and conditions (STCs) governing Montana's (hereafter referred to as the "state") waiver,[1] of the state's intent to apply for continuation of the waiver. The Departments confirm that the state's anticipated section 1332 waiver application, as described below, may be submitted and will be reviewed as a waiver extension request. The requirements for the state's waiver extension application are enclosed with this letter. If the extension is approved, the Departments may determine the waiver extension will be subject to additional or revised requirements, which will be provided in the extension STCs.

The state's currently approved waiver of the ACA requirement for the single risk pool contained in ACA section 1312(c)(1) allows the state to operate a state-based reinsurance program for the individual health insurance market from January 1, 2020, through December 31, 2024. The state has confirmed that it seeks to waive ACA section 1312(c)(1) for an additional waiver period of five years from January 1, 2025, through December 31, 2029. The state aims to continue implementing the section 1332 waiver to support Montana's continued success in making health insurance more affordable and accessible to Montana residents.

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[1] *See* STC 9. The applicable STCs are available here: https://www.cms.gov/cciio/programs-and-initiatives/state-innovation-waivers/downloads/1332-mt-approval-stcspdf.pdf

A waiver extension is an extension of the existing waiver terms and does not propose any changes to the existing waiver that are not otherwise allowable under the state's STCs, or that could impact any of the section 1332 statutory guardrails or program design. Given that the state has not indicated any intentions to change any features of its waiver plan (except for the extended time period), the state may proceed with submitting an application for a waiver extension. The Departments encourage the state to submit its waiver extension application sufficiently in advance of the requested waiver effective date, ideally no later than the first quarter of 2024.

The enclosed document further outlines the application requirements for the state's waiver extension. Once the Departments receive the state's waiver extension application, the Departments will conduct a preliminary review to determine if the application is complete or will identify if elements are missing from the application by written notice. Please note, the state is not authorized to implement any aspect of the proposed waiver extension without prior written approval by the Departments. This letter does not constitute any pre-determination or intent to approve the state's proposed extension request.

Please send your acknowledgement of this letter and any communications and questions regarding program matters or official correspondence concerning the waiver to Lina Rashid at Lina.Rashid@cms.hhs.gov or stateinnovationwaivers@cms.hhs.gov.

We look forward to working with you and your staff. Please do not hesitate to contact us if you have any questions.

Sincerely,

Ellen Montz

Ellen Montz, Ph.D.
Director, Center for Consumer Information & Insurance Oversight (CCIIO)
Deputy Administrator, Centers for Medicare & Medicaid Services (CMS)

CC: Lily Batchelder, Assistant Secretary for Tax Policy, U.S. Department of the Treasury
The Honorable Greg Gianforte, Governor, State of Montana
Andrew Cziok, Legal Counsel, Office of the Montana State Auditor

Enclosure

Specific Requirements for Montana's Waiver Extension Application

The Departments will conduct a preliminary review of Montana's (hereafter referred to as the "state") waiver extension application and make a preliminary determination as to whether it is complete within approximately 30 days after it is submitted to stateinnovationwaivers@cms.hhs.gov. If the Departments determine that the application is complete, the application will be made public through the Department of Health and Human Services website, and a 30-day federal public comment period will commence while the application is under review. If the Departments determine that the application is not complete, the Departments will send the state a written notice of the elements missing from the application. The state's waiver extension application must include the following:

(1) A detailed description of the extension request, including the desired time period for the extension. The state must confirm there are no changes to the current waiver plan for the new waiver period that are otherwise not allowable under the state's STCs, or that could impact any of the section 1332 statutory guardrails or program design;

(2) Updated economic or actuarial analyses for the extension period, if the state is aware of changes in state law, the state insurance market, or to the waiver program that are allowable under the STCs and impact waiver assumptions and projections, and that the state has not previously shared with the Departments via its reporting requirements;

(3) Preliminary evaluation data and analysis of observable outcomes from the existing waiver program, which includes quantitative or qualitative information on why the state believes the program did or did not meet the statutory guardrails. For example, the state may provide information comparing the originally projected premium reductions or expected claims reimbursements to the actual values of the outcomes observed;

(4) Evidence of sufficient authority under state law(s) in order to meet the ACA section 1332(b)(2)(A) requirement for purposes of pursuing the requested extension;

(5) An explanation and evidence of the process to ensure meaningful public input on the extension request, which must include:
    a. For a state with one or more Federally-recognized Indian tribes within its borders, providing a separate process for meaningful consultation with such tribes, and providing written evidence of the state's compliance with this requirement;
    b. Publicly posting the submitted LOI on the state's website to ensure that the public is aware that the state is contemplating a waiver extension request; and
    c. Publicly posting the waiver extension application on the state's website upon its submission of the waiver extension application to the Departments.

    The state does not have to meet all of the public notice requirements specified for new waiver applications in 31 C.F.R. § 33.112 and 45 C.F.R. § 155.1312 (e.g., holding two public hearings and providing a 30-day comment period) to fulfill paragraph (5) above. However, the state must ensure and demonstrate there was an opportunity for meaningful public input on the extension request. For example, the state may choose to hold one public hearing or provide an amended or shorter comment period, or some combination of both. If the state holds one public hearing, it can use its annual public forum for the dual purposes of gathering input on the existing waiver as well as the extension application request.

(6) The Departments may request additional information and/or analysis in order to evaluate and reach a decision on the requested extension.

OFFICE OF THE GOVERNOR
STATE OF MONTANA
GREG GIANFORTE | GOVERNOR

COMMISSIONER OF
SECURITIES AND INSURANCE
TROY DOWNING | MONTANA STATE AUDITOR

May 17, 2024

The Honorable Xavier Becerra
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: Montana 1332 State Innovation Waiver Extension

Dear Secretaries Becerra and Yellen,

The Governor of the State of Montana, alongside the Montana Commissioner of Securities and Insurance, Office of the Montana State Auditor, and the Board of the Montana Reinsurance Association, hereby submit the attached Section 1332 Waiver renewal application. This application seeks to extend the original waiver by another five-year term, so the state's reinsurance program may continue to build on the program's existing track record of success:

Over the last five years, this program has lowered the average annual exchange plan premium by 8-10% of what it would have been without this program. Additionally, overall marketplace enrollment has increased from 45,634 in 2019, the last year before the program took effect, to a historic high of 66,336 in 2024, all while preserving the same comprehensive coverage consumers expect.

Thank you for the opportunity to continue to strengthen the individual health insurance market for Montana consumers. We look forward to our continued partnership and cooperation with you in improving health insurance costs and access for Montanans.

Sincerely,

Greg Gianforte
Governor
State of Montana

Troy Downing
Montana State Auditor
Commissioner of Securities and Insurance

840 Helena Avenue, Helena, Montana 59601
(main fax) 406.444.3413 | (securities fax) 406.444.5558
(insurance consumer services fax) 406.444.1980 | (legal fax) 406.444.3499
(phone) 800.332.6148 or 406.444.2040 | (email) csi@mt.gov | (web) www.csimt.gov

Montana Reinsurance Association

May 17, 2024

The Honorable Xavier Becerra
Secretary of Health and Human Services
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

The Honorable Janet Yellen
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: Montana 1332 State Innovation Waiver Extension

Dear Secretaries Becerra and Yellen,

The Board of the Montana Reinsurance Association, in conjunction with the Governor of Montana and the State Auditor hereby submit the attached Section 1332 Waiver renewal application. This application seeks to extend the original waiver by another five-year term, so the state's reinsurance program may continue to build on the program's existing track record of lowering health insurance premiums for Montanans, expanding access to affordable health coverage, and preserving the existing quality of available plans.

On behalf of the Board, I thank you for the opportunity to continue to strengthen the individual health insurance market for Montana consumers, and we look forward to our continued partnership and cooperation in improving health insurance costs and access for Montanans.

Sincerely,

Richard Miltenberger
Board Chair
Montana Reinsurance Association

wakely.com

State of Montana

Section 1332 State Innovation Waiver Extension
Actuarial and Economic Analysis

May 7, 2024

Prepared by:
Wakely Consulting Group, LLC, an HMA Company

Lydia Tolman, FSA, MAAA
Senior Consulting Actuary

Ksenia Whittal, FSA, MAAA
Senior Consulting Actuary

Julie Peper, FSA, MAAA
Principal, Senior Consulting Actuary

Michael Cohen, Ph.D.
Director

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Introduction

The individual health insurance market in the State of Montana ("Montana") has shown signs of improving since the approval and introduction of its reinsurance based 1332 waiver. In the years preceding the introduction of the reinsurance program, between 2014 and 2019, the average monthly premium for a 40-year-old non-smoker increased from $253 in 2014 to $561 in 2019, or over 17% on an annualized basis.[1] In the five years since the introduction of the reinsurance program, the benchmark premiums have decreased 9% on average, compared to without waiver premiums.

Montana submitted a Section 1332 State Innovation Waiver ("1332 waiver" or "waiver") effective for the 2020 benefit year to strengthen its individual market and provide greater access through lower premiums to its citizens. The Affordable Care Act (ACA) permits states to waive certain provisions of the ACA in order to increase access to affordable coverage. This waiver was approved by both of the Secretaries of Health and Human Services (HHS) and Treasury. Since the waiver went into effect, Montana's rates have been lower than they otherwise would have been. To maintain the gains Montana's 1332 waiver achieved, it is applying for a five-year extension to its waiver. This document is the actuarial and economic analysis for the extension application.

Pursuant to 45 CFR 155.1308(f)(4)(i)-(iii), in order for Montana's 1332 waiver to be approved, the state must demonstrate that the waiver satisfies the four "guardrails". The four guardrails are: coverage, affordability, comprehensiveness, and deficit neutrality.

The waiver, as proposed, would continue to reduce premiums through the continuation of the state-based reinsurance program that started in 2020. The reinsurance program would operate in the same fashion as the current 1332 waiver operates in that it would reimburse insurers for a proportion (coinsurance amount) of high-cost enrollee claims between a lower bound (attachment point) and an upper bound (cap). The reinsurance program will be funded, contingent on approval of the 1332 waiver, through a premium assessment on fully-insured commercial premiums and federal pass-through funds, for the 2025 to 2029 plan years.

The program will continue to waive the single risk pool provision under the current reinsurance program. The goal of the waiver is lower premiums and increased access and coverage to underserved and under-subsidized populations, which would incentivize enrollees to join or remain in the market. Reducing premiums for those purchasing insurance coverage in the individual market will also reduce the amount of Premium Tax Credits (PTCs) Montanans receive over the next five years. PTCs are subsidies for eligible enrollees that can be used to reduce the cost of premiums for plans purchased through the Exchange. The amount of PTCs available for eligible consumers are benchmarked to the second lowest cost silver plan (SLCSP) available on

[1] https://mtreinsurance.org/wp-content/uploads/2020/11/MT-1332-Waiver-Application_FINAL2.pdf

the Exchange. If premiums are reduced (including the SLCSP), then the amount the Federal Government will be required to pay in PTCs will also be reduced.

This report estimates the savings on aggregate PTC amounts. The waiver requests that Montana receive the amount of federal savings from PTCs, net of other costs, alongside savings attributable to the current approved 1332 waiver. By reducing premiums and also by using pass-through funding to support affordability, the waiver seeks to continue the access to affordable and comprehensive coverage that the current waiver affords the state.

The Montana Reinsurance Association ("MRA") retained Wakely Consulting Group, LLC ("Wakely"), an HMA Company, to analyze the potential effects of the proposed 1332 waiver extension. This document has been prepared for the sole use of Montana and the MRA. Wakely understands that the report will be made public and used in the 1332 waiver extension process. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

This actuarial report is a supplement to Montana's 1332 waiver extension application. It addresses the requirements of 45 CFR 155.1308(f)(4)(i)-(iii) for applying for a 1332 waiver, including actuarial analyses and actuarial certifications, economic analyses, and data and assumptions. Other sections of the waiver contain the non-actuarial portions of the 1332 waiver requirement. Reliance on this report should include a review of the full report by individuals with appropriate qualifications.

Background

Given that the proposed 1332 waiver extension would continue to operate in a similar manner as the current 1332 waiver program, it is relevant to review the extent to which the current waiver has met the four guardrails. In order for a 1332 waiver application to be approved by HHS, it must meet four ACA section 1332 "guardrails." These guardrails specify that the waiver must provide for coverage that is at least as comprehensive as the coverage currently offered on the state's exchange; the protections against excessive out-of-pocket spending by members (such as cost sharing) in the waiver must result in plans that are at least as affordable as plans currently offered on the state's exchange; the waiver must provide coverage to at least a similar number of residents as current plans; and, the waiver must not result in an increase to the federal deficit.

Comprehensiveness

The current 1332 waiver in effect for Montana did not mandate any changes to Essential Health Benefits ("EHBs").[2] Issuers offering plans in the state were and are still required to offer all mandated EHBs in order to be Exchange-compliant. Similarly, the extension of this waiver will not affect the current EHB mandate or other types of coverage in the state (such as Medicaid or

[2] https://mtreinsurance.org/wp-content/uploads/2020/11/MT-1332-Waiver-Application_FINAL2.pdf

Children's Health Insurance Program) and therefore the waiver extension will allow for plans that are as comprehensive as current plans in Montana.

Affordability

As part of an analysis for the Montana reinsurance program that is the subject of this 1332 waiver extension, Wakely examined the effect of the waiver on 2024 average premiums for non-group plans. Overall, Wakely estimated that the average premium paid by Montanans was reduced by approximately 9% due to the effect of the waiver.[3] Furthermore, a review of historical issuer rate filings with and without waiver in place suggested that the waiver reduced premiums (compared to if the waiver was not in place) by 8.3%, 9.6%, 9.8%, 8.2%, and 8.7% in 2020, 2021, 2022, 2023, and 2024, respectively. The extension of the waiver is expected to have a similar impact to the premiums paid by Montanans, and therefore the extension will provide for plan options that meet the affordability guardrail.

Table 1. Member Premium Changes with and without Reinsurance[4]

	2020	2021	2022	2023	2024
Premium Change with Reinsurance	-13.1%	0.5%	0.3%	8.9%	4.9%
Premium Change without Reinsurance	-5.2%	11.2%	11.2%	18.6%	14.9%
Impact of Reinsurance	**-8.3%**	**-9.6%**	**-9.8%**	**-8.2%**	**-8.7%**
Annual Reduction per Enrollee	$614	$726	$739	$640	$685

Coverage

Wakely also analyzed the effect of the waiver on membership and found that the waiver caused an increase in enrollment ranging from of 0.7% to 1.3% over the waiver period.[5] In addition, the number of carriers offering plans on the Exchange remained consistent over time from 2020 to 2024. These factors indicate that the waiver extension is likely to continue to provide similar or increased access for Montanans to health care.

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[3] The estimate is based on issuers' 2024 rate filings and Wakely's analysis conducted as part of 2024 passthrough reporting in the fall of 2023.

[4] The Premium Change with Reinsurance and the Impact of Reinsurance were calculated based on issuer rate filings and weighted by historical total premium revenue. The Premium Change without Reinsurance was calculated from these two numbers. The Impact of Reinsurance may vary from the CMS reported impact due to different weightings used in the calculations.

[5] The estimates are based on the take-up function resulting from a decrease in premiums among the unsubsidized enrollees in the market.

Deficit Neutrality

In each year of Montana's 1332 waiver, the state has received federal pass-through funds, which is reflective of the fact that the program has reduced federal spending. The reduction of premiums paid by members as well as the improved morbidity due to greater access to healthcare results in fewer federal funds spent on Advance Premium Tax Credits (APTC) in the state. These results serve to reduce the federal money spent and have a positive effect on the federal deficit. The extension of the 1332 waiver is expected to continue this trend and therefore no increase to the federal deficit is anticipated. The reinsurance program under the current 1332 waiver is funded by federal pass-through funds and a premium assessment on the total premium volume covering fully-insured commercial Montana residents collected by each member insurer, as defined under MCA 33-22-1301.

Analysis Results - Extension

As described previously, the four guardrails for approval of a 1332 waiver application are requirements for: 1) Coverage; 2) Affordability; 3) Comprehensiveness; and 4) Deficit Neutrality.

Wakely's analysis estimated that the waiver extension will meet each of the four guardrails in each of the five years of the waiver extension. The high-level guardrail results are shown in the table below. Detailed results for all five years of the waiver are included in Appendix B. Our analysis shows that the positive guardrail effects will continue with the waiver extension.

Throughout this report, the estimates reflect the current law and thus assume that provisions of the American Rescue Plan (ARP), particularly the enhanced premium subsidies for individuals purchasing health coverage on the Exchange, are not in effect in 2026 and beyond unless otherwise noted.

Table 2: High-Level Guardrail Results

Guardrail	Effect of Waiver
Coverage	Increases enrollment by 0.6% to 0.7%
Affordability	Reduces premiums by 6.4% to 9.1%
Comprehensiveness	No Impact
Deficit Neutrality (5-year)	$173.3 million savings

Coverage, Affordability, and Comprehensiveness

The waiver is expected to decrease premiums in the individual market. The reduction in premiums is expected to increase overall coverage. Research from the Congressional Budget Office (CBO)[6]

[6] http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/87xx/doc8712/10-31-healthinsurmodel.pdf

and the Council of Economic Advisors (CEA)[7] has noted that premium decreases result in enrollment increases. As the waiver results in decreased premiums, it is also expected to improve affordability for consumers. Finally, the increase in premium and cost-sharing subsidies would also increase coverage and improve affordability. The waiver would have no effect on the comprehensiveness of coverage (beyond increasing the number of people with comprehensive coverage). EHB requirements will not be affected by the waiver. Coverage in the individual market would provide the same benefits under the waiver as they would without it.

Deficit Impact

The following table displays the impact of the waiver extension's individual market elements, relative to the baseline, for each of the five years of the program. Based on the best estimate assumptions, the waiver will reduce premiums and increase individual enrollment, and have no negative effect on the federal deficit. Additional details regarding the 5-year estimates are shown in Appendix C.

Table 3: Impact of Waiver Extension on Premium, Enrollment, and Federal Deficit

	2025	2026	2027	2028	2029
Premium[8]	-9.1%	-6.4%	-6.5%	-6.6%	-6.8%
Individual Enrollment	0.7%	0.6%	0.6%	0.6%	0.7%
Federal Savings ($ millions)	$46.1	$29.7	$30.6	$32.2	$34.8

Over the 5-year window, the extension's individual market elements provide savings to the Federal Government due to PTC savings net of other federal revenues. The details of the federal savings over the 5-year window are shown in Appendix B.

2025 Scenario Testing

Wakely performed scenario testing, which primarily involved changing enrollment and premiums. Given the uncertainty around the impact of Medicaid redetermination on the ACA enrollment in 2024 (and the subsequent impact on 2025), as well as issuer premium increases, we have modeled three baseline scenarios (without the impact of reinsurance) evaluating the impact on 2025 benefit year:

> Low: This baseline scenario assumes a lower increase in 2025 enrollment from 2023, assuming low level of redetermination related enrollment in 2024, with MLR targets and trends similar to the Best baseline scenario.

[7] https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

[8] Premiums are net of 1.2% assessment.

Best: This baseline scenario assumes moderate 2025 enrollment from 2023; best estimate level of redetermination related enrollment is assumed in 2024, along with medical trends in 2024-2025 of similar magnitude to the longer-term historical trends in the market along with average premium rate increases and MLR targets similar to historical trends.

High: This baseline scenario assumes a higher increase in 2025 enrollment from 2023, with higher estimate level of redetermination related enrollment is assumed in 2024, along with higher medical trends in 2025 leading to higher premium increases and a lower target MLR than the historical average, which will lead to higher premiums overall.

Further details regarding the scenario testing can be found in Appendix A and Appendix B. The high-level results of the scenario testing are shown in the table below. Although a variety of alternative scenarios were tested, the basic conclusions did not alter significantly from the best estimate scenarios.

Table 4: 2025 High-Level Results of Scenario Testing

Scenario	1	2	3
Description	Best	Lower Enrollment	Higher Enrollment, Higher Premiums
Total Change in Premiums relative to Baseline	-9.1%	-9.9%	-8.3%
Estimated Net Federal Savings (millions)	$46.1	$47.8	$46.0

Actuarial Certification

I, Lydia Tolman, am a senior consulting actuary with the firm of Wakely Consulting Group, LLC, an HMA Company (Wakely), am a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries, and am qualified to provide the following certification.

Wakely was retained by the Montana Reinsurance Board to support the State's waiver extension application for a State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act (ACA). The State is seeking to waive certain provisions of the ACA in order to increase access to affordable coverage. This certification may not be appropriate for other purposes.

To the best of my information, knowledge and belief, the State of Montana's 1332 Waiver application complies with the following criteria:

> **Scope of Coverage**. The Section 1332 Waiver will provide coverage to at least as many Montanans as would be covered without the waiver.
>
> **Affordability**. The Section 1332 Waiver will provide coverage and premium subsidies that result in coverage that is at least as affordable for the Montanans as without the waiver.
>
> **Comprehensiveness of Coverage**. The Section 1332 Waiver will provide coverage that is at least as comprehensive for Montanans as would be provided without the waiver.
>
> **Deficit Neutrality**. The Section 1332 Waiver will not result in increases in the federal deficit.

In performing analyses underlying this certification, I have relied on the State of Montana, issuers, and others for data and assumptions. I have reviewed the data for reasonableness but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, the conclusions of the analysis may be impacted, potentially significantly.

Actuarial methods, considerations, and analyses used in this certification conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board.

Lydia J Tolman

Lydia Tolman
Senior Consulting Actuary
Fellow, Society of Actuaries
Member, American Academy of Actuaries

May 7, 2024

Appendix A – Data and Methodology

2025 Baseline Enrollment and Premium Estimates

Wakely analyzed the 2023 and 2024 individual market data, including average enrollment, premium, and claim data and estimated the 2025 market. To do this, Wakely completed the following steps:

1. Montana's insurers submitted 2023 and emerging 2024 enrollment, claims (2023 only), premium, and APTC information. Minor adjustments were made to obtain the estimated average enrollment and premium estimates for 2024. Adjustments accounted for attrition in enrollment throughout the year.

2. 2025 premium amounts were estimated from the 2023 and 2024 base data. 2025 premium increases were based on issuer data trended to 2025, and an estimate of target loss ratio based on 2024 URRT data. Similar adjustments were made to gross premiums for APTC members. Net premiums were adjusted both for inflation increases, and for scenarios where ARP is expiring (including the best estimate), adjustments to account for market changes due to the plan metal shifts, changes in the income and age distributions, and morbidity.

3. Given the legal uncertainty around the American Rescue Plan (ARP), we assumed that for the best scenario the ARP would expire at the end of 2025. This scenario aligns with current law.

4. To estimate the 2026 baseline, Wakely estimated enrollment attrition due to the ending of ARP enhanced subsidies. Wakely also increased premiums by a reasonable trend amount (4.7%) and net premiums for APTC members were increased by 3.8%.

Waiver Effects

1. To estimate pass-through amounts and impact of the waiver, Wakely developed a 2025 baseline market without reinsurance for both premiums and enrollment. Using these assumptions and the various total funding amounts, the pass-through was estimated, with the resulting funding being the state amount. One key assumption in this calculation was the impact to premiums due to reinsurance. Wakely made several assumptions:

    a. Wakely assumed that the premium impact would be reduced by the amount of reinsurance funding, variable non-benefit expense loads, and modest morbidity improvements.

    b. The impact to the SLCS plan, on which the APTCs and pass-through are based, was assumed to be similar to the market.

c. A PTC adjustment was included to reduce the APTC savings to PTC savings. For the ARP ends scenarios, a PTC adjustment similar to pre-ARP years was used. For the ARP continues scenario, an adjustment similar to 2022 was used.

The following table shows the historical and estimated enrollment and premiums with the reinsurance waiver.

Table 5: 2022 to 2024 Average Enrollment and Premium Data Best Estimates with Waiver

	2022 Actual	2023 Actual	2024 Estimated
Average Annual Enrollment			
Total Individual Market	57,969	59,495	73,113
Exchange	48,814	51,412	65,825
APTC	42,653	44,975	58,098
Non-APTC Exchange	6,161	6,437	7,728
Off-Exchange	9,155	8,083	7,288
Total Non-APTC	15,316	14,520	15,016
Premiums PMPM			
Total Individual Premium	$568	$601	$601
Gross Premiums for APTC Members	$586	$613	$607
Net Premiums for APTC Members	$96	$129	$111
APTC	$490	$484	$495
Total Annual Dollars[9]			
Total Individual Premiums (millions)	$395.4	$429.3	$527.0
Total APTCs (millions)	$250.7	$261.2	$345.2

Beyond 2025

For years beyond 2025, Wakely made the following assumptions specific to the best estimate, where ARP does not extend past 2025:

1. Baseline premiums (both total individual and on-Exchange) as well as Gross Premium Amounts for individuals with APTC were adjusted for the market average premium change in 2022, 2023, and 2024 benefit years. In 2026, baseline premiums were also adjusted for the changes in the market morbidity (assuming the healthiest enrollees would leave the market after ARP expiration), demographics, and plan metal buy-down.

[9] Note total premiums and APTCs are rounded.

2. APTC Net Premiums were increased 3.8% annually after 2026 to account for indexing.
3. In 2027 through 2029, the enrollment was assumed constant. That is, the impact of ARP was assumed to be complete as of 2027. While non-subsidized enrollment may decrease with annual rate increases, the impact would be minor and was ignored in this modeling.
4. The impact of reinsurance was assumed to reduce claims by the total amount state funding and the federal savings in each year. The state funding amount was calculated based on projected premiums for the prior year (e.g. 1.2% of 2025 premiums are used to calculate the 2026 available state funding). Changes in the individual market premiums are consistent with the modeling while changes in the small group and large group market premiums were set to standard population growth and nominal premium increases.

Alternative Scenarios

Wakely estimated two additional 2025 scenarios to analyze the robustness of the initial findings. Instead of analyzing various scenarios, Wakely focused on analyzing a “low” and a “high” scenario where many of the assumptions would result in lower/higher APTC savings. These scenarios are intended to be end points for a reasonable range of scenarios.

The first alternative scenario, the “low” scenario, assumes lower enrollment than the best scenario. Enrollment could be lower based on the economic conditions at the time of redetermination ending, as well as the ability for Exchanges to attract and keep the newly eligible enrollees. Given the uncertainty, Wakely set enrollment for this scenario to be lower than the best estimate enrollment.

The second alternative scenario, the “high” scenarios, assumes a higher enrollment relative to the best estimate scenario. Premiums were assumed to be higher than the best estimate due to higher medical trends and a lower target MLR than historical trends would suggest.

Each scenario produced a decrease in the state average premiums PMPM in 2025 between 8.3% and 9.9%, corresponding to Federal savings ranging from $46.0 to $47.8 million. Scenario 1 is the best estimate scenario. This scenario was used for the 5-year economic analysis.

Given the uncertainty around the continuation of the enhanced ARP subsidies in 2026, Wakely modeled additional scenario for 2026 in the event ARP is extended. Table 7 presents the results of this scenario, which are consistent with 2025 experience.

Table 6: Summary of Alternative Scenario Results for 2025

Scenario Description	1 Best	2 Low	3 High
Baseline			
Total Individual Enrollment	71,939	68,588	74,061
Exchange Enrollment	65,848	62,699	68,215
APTC Enrollment	59,260	56,743	61,640
Total Individual Premium PMPM	$730	$729	$765
APTC PMPM	$622	$622	$658
Total Individual Premiums (millions)	$629.9	$600.1	$680.1
Total APTCs (millions)	$442.5	$423.4	$486.9
With Reinsurance Waiver			
Reduction in Premiums (net of assessments)	-9.1%	-9.9%	-8.3%
Total Individual Premium PMPM	$663	$657	$702
APTC PMPM	$555	$549	$594
Percent Change in Total Enrollment	0.7%	0.7%	0.6%
Total Individual Enrollment	72,425	69,082	74,495
Exchange Enrollment	66,100	62,947	68,444
APTC Enrollment	59,260	56,743	61,640
Total Individual Premiums (millions)	$576.5	$544.9	$627.1
Total APTCs (millions)	$394.9	$373.9	$439.3
Total Waiver Savings			
Estimated APTC Savings (millions)	$47.7	$49.4	$47.6
Estimated PTC Adjustment	99.0%	99.0%	99.0%
Difference in User Fees (millions)	($1.1)	($1.1)	($1.1)
Estimated Federal Savings (millions)	$46.1	$47.8	$46.0
State Funds Available (millions)	$13.9	$13.6	$14.0
Total Reinsurance Payments (millions)	$60.0	$61.4	$60.0

Table 7: Summary of Alternative Scenario Results for 2026

Scenario Description	2026 No ARP	2026 ARP
Baseline		
Total Individual Enrollment	64,721	71,939
Exchange Enrollment	55,431	65,848
APTC Enrollment	50,221	59,260
Total Individual Premium PMPM	$826	$764
APTC PMPM	$704	$654
Total Individual Premiums (millions)	$641.7	$659.5
Total APTCs (millions)	$424.4	$465.1
With Reinsurance Waiver		
Reduction in Premiums	-6.4%	-9.8%
Total Individual Premium PMPM	$774	$689
APTC PMPM	$651	$579
Percent Change in Total Enrollment	0.6%	0.7%
Total Individual Enrollment	65,104	72,463
Exchange Enrollment	55,568	66,120
APTC Enrollment	50,221	59,260
Total Individual Premiums (millions)	$604.4	$599.3
Total APTCs (millions)	$392.3	$411.4
Total Waiver Savings		
Estimated APTC Savings (millions)	$32.0	$53.7
Estimated PTC Adjustment	95.0%	99.0%
Difference in User Fees (millions)	($0.7)	($1.2)
Estimated Federal Savings (millions)	$29.7	$51.9
State Funds Available (millions)	$15.1	$15.1
Total Reinsurance Payments (millions)	$44.8	$67.0

Table 8: Best Estimate Baseline and With Waiver Projection During Extension Period, 2025-2029[10]

Description	2025	2026	2027	2028	2029
Baseline					
Total Individual Enrollment	71,939	64,721	63,006	63,006	63,006
Exchange Enrollment	65,848	55,431	53,844	53,844	53,844
APTC Enrollment	59,260	50,221	48,075	48,075	48,075
Total Individual Premium PMPM	$730	$826	$865	$906	$948
APTC PMPM	$622	$704	$738	$774	$812
Total Individual Premiums (millions)	$629.9	$641.7	$654.1	$684.8	$716.9
Total APTCs (millions)	$442.5	$424.4	$426.0	$446.7	$468.5
With Reinsurance Waiver					
Reduction in Premiums (net of assessments)	-9.1%	-6.4%	-6.5%	-6.6%	-6.8%
Total Individual Premium PMPM	$663	$774	$808	$846	$884
APTC PMPM	$555	$651	$681	$714	$747
Percent Change in Total Enrollment	0.7%	0.6%	0.6%	0.6%	0.7%
Total Individual Enrollment	72,425	65,104	63,412	63,415	63,428
Exchange Enrollment	66,100	55,568	54,001	54,002	54,007
APTC Enrollment	59,260	50,221	48,075	48,075	48,075
Total Individual Premiums (millions)	$576.5	$604.4	$615.2	$643.8	$672.7
Total APTCs (millions)	$394.9	$392.3	$393.0	$412.0	$430.9
Total Waiver Savings					
Estimated APTC Savings (millions)	$47.7	$32.0	$33.0	$34.8	$37.5
Estimated PTC Adjustment	99.0%	95.0%	95.0%	95.0%	95.0%
Difference in User Fees (millions)	($1.1)	($0.7)	($0.8)	($0.8)	($0.9)
Estimated Federal Savings (millions)	$46.1	$29.7	$30.6	$32.2	$34.8
State Funds Available (millions)	$13.9	$15.1	$16.1	$16.9	$18.0
Total Reinsurance Payments (millions)	$60.0	$44.8	$46.7	$49.1	$52.8

[10] Please see Appendix B for total federal savings net of federal losses under the reinsurance program.

Appendix B – Guardrail Requirements

Guardrail Impact for the Reinsurance Waiver

SCOPE OF COVERAGE REQUIREMENT

In order for a 1332 waiver to be accepted, the waiver must demonstrate that the changes will provide coverage to at least a comparable number of residents as would have been provided coverage without the waiver. Our analysis estimates that the waiver would provide for at least a comparable number of enrollees (and most likely a greater number of individuals covered). This is due both to premium reductions and to making more individuals eligible for subsidies.

AFFORDABILITY REQUIREMENT

In order for a 1332 waiver to be accepted, the waiver must demonstrate that the changes will provide coverage, premiums, and cost-sharing protections that keep care at least as affordable as would be provided absent the waiver and provide coverage to at least a comparable number of residents as would have been provided absent the waiver. Generally, we expect premiums to be lower than they otherwise would have been each year of the waiver. Cost sharing for plans will remain similar. Our analysis estimates that the waiver would provide for at least as affordable coverage for residents (and most likely greater affordability for residents).

COMPREHENSIVENESS OF COVERAGE REQUIREMENT

In order for a 1332 waiver to be accepted, the waiver must demonstrate that it will provide coverage that is at least as comprehensive as would be provided absent the waiver. This waiver will not result in any changes to the EHB benchmark or actuarial value requirements and, as such, will not have any impact on the comprehensiveness of coverage for residents. To the extent that additional individuals gain coverage, that will increase the number with comprehensive coverage.

DEFICIT NEUTRALITY REQUIREMENT

PTCs

Since PTCs are benchmarked to the SLCSP, the decrease in premiums (specifically the SLCSP) will result in lower per person PTC amounts in 2024. Since enrollees who have PTCs are generally unaffected by changes in gross premiums, due to the subsidies shielding them from premium increases, the introduction of reinsurance is not expected to decrease the number of enrollees with PTCs. Due to the combination of a non-decreasing number of enrollees with APTCs and a decrease in premiums, which is connected to PTC amounts, Wakely's analysis estimates that the overall aggregate amount of PTCs will be lower each year over the 5-year window, as shown in the prior Table 8.

Additionally, as can be seen in the following table, each year of the waiver would result in a lower second-lowest cost silver premium and consequently lower premium tax credits.

Table 9: Benchmark Average Second Lowest Cost Silver Plan Premium PMPM, with and without Reinsurance and Waiver Extension, by Year

	2025	2026	2027	2028	2029
Baseline Without Waiver					
State Average	$484	$523	$548	$574	$600
With Waiver					
State Average	$435	$484	$506	$529	$553
Difference	($49)	($39)	($42)	($44)	($47)

OFFSETS TO PTC SAVINGS

Exchange User Fee

Since Montana uses the federally facilitated exchange, there is a small loss of Federal revenue via the Exchange user fee due to lower premiums. This amount reduced the estimated PTC savings in the modeling.

OTHER FEDERAL IMPACTS

Wakely did not directly estimate the impact of the proposed waiver on the collections related to, small business tax credit or income taxes. It is unlikely that any of these would have a significant impact on the overall savings.[11]

GROUP MARKET

A detailed analysis of the group market was not completed. It is not expected that the waiver will have an impact on the large group, federal employee health benefits program, and other health programs in the state. In particular, we do not expect enrollment migration from the group market to the individual market as a result of the waiver. Prior research on the effects of the ACA showed no impact on Employer Sponsored Insurance.[12]

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[11] http://mn.gov/commerce-stat/pdfs/mn-1332-actuarial-analysis.pdf

[12]https://dash.harvard.edu/bitstream/handle/1/28547756/Frean%20Gruber%20Sommers%20NEJM%20ACA%20Perspective%202116.pdf?sequence=1

Appendix C - Reliances

The following is a list of the data Wakely relied on for the analysis:

1. Issuer submitted premium and enrollment information for 2023 and emerging 2024 data through February 2024, including APTC information.
2. Issuer submitted paid claim continuance tables for 2023.
3. National Health Expenditure Data from CMS[13].
4. CMS' Section 1332 Tentative Pass-Through Payments for 2023[14].
5. 2021 and 2024 Open enrollment public use files.
6. Method for Calculation of Section 1332 Waiver 2023 Premium Tax Credit Pass-through Key Amounts[15].
7. CBO Modeling of the impact of ARP[16].
8. CBO's Price Sensitivity of Demand for Nongroup Health Insurance[17].
9. CEA's Understanding Recent Developments In The Individual Health Insurance Market[18].
10. Health Insurance Demand and the Generosity of Benefits: Fixed Effects Estimates of the Price Elasticity[19].
11. Wakely made some assumptions in working with the available data. These assumptions may impact the results of the analyses and were reviewed by members of the Montana Reinsurance Association board for reasonability.

The following are additional reliances and caveats that could have an impact on results:

[13] https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html

[14] https://www.cms.gov/files/document/key-components1332-pass-througharp-update.xlsx

[15] https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Downloads/1332-OTA-Methodology-Pass-through-Amounts-ARP-Sept-2022.pdf

[16] https://www.cbo.gov/system/files/2022-02/hwaysandmeansreconciliation.pdf

[17] https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/66xx/doc6620/08-24-healthinsurance.pdf

[18] https://obamawhitehouse.archives.gov/sites/default/files/page/files/201701_individual_health_insurance_market_cea_issue_brief.pdf

[19] https://ideas.repec.org/a/bpj/fhecpo/v12y2009i2n3.html

1. Data Limitations. Wakely received data submissions for full year 2023 and emerging 2024 experience from insurers offering individual market ACA-compliant plans in Montana. Wakely relied on the data submitted from all insurers for significant portions of this analysis. We reviewed the data for reasonability, but we did not audit the data. To the extent that the data is not correct, the results of this analysis will be impacted.

2. Political Uncertainty. There is significant policy uncertainty. Future federal actions in regards to American Rescue Plan/Inflation Reduction Act, or other material changes to the Affordable Care Act could significantly change premiums and enrollment in 2025 or future years. In particular, extension of the American Rescue Plan of passage or other changes to premium subsidies could impact pass-through, enrollment or premiums. State political reactions to changes in the individual market could alter the results.

3. Enrollment Uncertainty. Additionally, there is enrollment uncertainty. Beyond changes to potential rates and policy, individual enrollee responses to these changes also have uncertainty. All of these uncertainties result in limitations in providing point estimates on impacts of a 1332 waiver.

4. Premium Uncertainty. Given that several recent changes to statutory and regulatory rules of the individual market (e.g., American Rescue Plan) have not reached steady state in their effects on the individual market, there is uncertainty in how insurers may respond in their 2024 premiums.

5. Medicaid Unwinding Uncertainty. There remains significant uncertainty as to a number of individuals transitioning from Medicaid to the individual market in 2024, and potentially ultimately to the group market thereafter.

6. Pass-Through Uncertainty. Ultimately, the Department of Health and Human Services and the Department of Treasury model the pass-through amounts. The extent to which the assumptions, methodology, or calculations differ from Wakely's could result in different amounts.

Appendix D – Disclosures and Limitations

Responsible Actuary. Lydia Tolman and Ksenia Whittal are the actuaries responsible for this communication. They are both Members of the American Academy of Actuaries and Fellows of the Society of Actuaries. They meet the Qualification Standards of the American Academy of Actuaries to issue this report. Michael Cohen Ph.D. and Julie Peper, FSA, MAAA, contributed significantly to the analysis and contents of this report.

Intended Users. This information has been prepared for the sole use of the management of the State of Montana and Montana Reinsurance Association. Wakely understands that the report will be made public and used in the 1332 waiver process. Distribution to such parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results. This information is proprietary.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by the modeling are inherently uncertain. The extent to which the enrollment experience for 2025-2029 is different than expected results could be affected. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results may vary, potentially materially, from our estimates. Wakely does not warrant or guarantee that Montana will attain the estimated values included in the report. It is the responsibility of those receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. Wakely provides actuarial services to a variety of clients throughout the health industry. Our clients include commercial, Medicare, and Medicaid health plans, the federal government and state governments, medical providers, and other entities that operate in the domestic and international health insurance markets. Wakely has implemented various internal practices to reduce or eliminate conflict of interest risk in serving our various clients. Except as noted here, the responsible actuary is financially independent and free from conflict concerning all matters related to performing the actuarial services underlying this analysis. In addition, Wakely is organizationally and financially independent to the State of Montana and the Montana Reinsurance Association.

Data and Reliance. We have relied on others for data and assumptions used in the assignment. We have reviewed the data for reasonableness but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly. The information included in the 'Data and Methodology' and 'Reliances and Caveats' sections identifies the key data and assumptions.

Subsequent Events. These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. Material changes in state or federal laws regarding health benefit plans or federal subsidy levels may have a material impact on the results included in this report. In addition, many of the assumptions are based on the 2023 experience. Change in emerging 2024 enrollment and experience could impact the results.

Contents of Actuarial Report. This document (the report, including appendices) constitutes the entirety of actuarial report and supersede any previous communications on the project.

Deviations from ASOPs. Wakely completed the analyses using sound actuarial practice. To the best of our knowledge, the report and methods used in the analyses are in compliance with the appropriate ASOPs with no known deviations. A summary of ASOP compliance is listed below:

ASOP No. 23, Data Quality

ASOP No. 41, Actuarial Communication

ASOP No. 56, Modeling

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Montana Reinsurance Association Board

1332 Waiver: Guardrail Assessment

February 6, 2024

Prepared by:
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Executive Summary

The Montana Reinsurance Association Board ("Board") in the State of Montana ("Montana") retained Wakely Consulting Group, LLC ("Wakely") to analyze the effects of a state-based reinsurance program on Montana to determine if the program has met the four statutory guardrails for 1332 waivers as set out in 42 USC 18052(b)(1).

Since 2020 the state of Montana has had a 1332-based reinsurance program. The program is designed to increase affordability for Montanans. As can be seen in this report, to date the waiver has met all four guardrails. However, the actual impacts have differed from the initial waiver application for a number of reasons, including unanticipated regulatory/statutory changes, the Covid pandemic, and differences in state funding from what was expected.

This document has been prepared for the sole use of Montana, although we understand that it may be distributed to the public and will be used to support the Board's 1332 waiver extension application. This document contains the results, data, assumptions, and methods used in our analyses and satisfies the Actuarial Standard of Practice (ASOP) 41 reporting requirements. Using the information in this report for other purposes may not be appropriate.

Background

1332 Waiver and the Four Guardrail Requirements

Since 2020 the state of Montana has had a 1332-based reinsurance program. The program is designed to increase affordability for Montanans. Traditional reinsurance programs pay a portion of claim costs, based on a prescribed coinsurance rate, between an attachment point (the point at which the claims cost begin being paid) and a cap (the point at which the reinsurance payments stop). By paying a portion of claims costs, issuers have less claims liability. Lower liability for issuers reduces premiums for consumers (effectively the amount of reinsurance that an issuer is expected to receive is "subtracted" for the premiums it needs to cover costs).

More recently, states have used 1332 waivers in conjunction with reinsurance. In a reinsurance-based waiver, states are reimbursed for some of their reinsurance payment costs by the federal government since reinsurance programs not only reduce premiums but also federal costs for members who are eligible for premium subsidies (premium tax credits). The federal government sends the "savings" from lower premium tax credits to the state as part of the waiver. Given the advantages of lower premiums and federal funding, over a dozen states have had reinsurance-based 1332 waivers approved.

To get a 1332 waiver approved, states must demonstrate that the waiver meets four guardrail requirements. The requirements are: Comprehensive, Affordability, Coverage and Deficit Neutrality.[1]

- Comprehensive: A 1332 waiver must provide as comprehensive of coverage as defined in section 1302(b) of the Affordable Care Act. This means that the form of coverage must be as generous as the current Essential Health Benefit benchmark.
- Affordability: A 1332 waiver must provide coverage and cost sharing protections that are at least as affordable as provisions of Title 1 of the Affordable Care Act. This means premiums and cost-sharing must not be higher with a waiver than without.
- Coverage: A 1332 waiver must provide coverage to at least a comparable number of its residents as it would absent a waiver.
- Deficit Neutrality: A 1332 waiver is prohibited from increasing the federal deficit.

As can be seen the four guardrail requirements are met when comparing what would happen with a waiver relative to what would happen absent the waiver. A waiver that does not reach estimates captured in its application or levels that existed prior to the waiver does not necessarily mean that the waiver failed to meet the guardrail requirements.

Overview of Impacts

How much the Montana reinsurance program decreases premiums is related to the source and expected level of state funding. Montana raises funds for the program through a 1.2% assessment on fully insured commercial health insurance business in the state. How much funding this assessment raises, combined with federal funding, determines how much funds are available to pay reinsurance claims. However, the premium impact of the program is mostly directly tied to the initial estimates (not actual funding) of the state and federal funding amounts that are made in the spring prior to the program year. Issuers estimate the impact of reinsurance on their premiums based on the spring funding estimates and resulting parameters. Since the actual collections and actual experience of issuers can differ from the prior year’s spring estimates, the result can be surpluses or shortages in any given year.

The table below shows the overall program funding and premium impacts for each of the first five years of the program, as of fall 2023.[2] For 2023 and 2024, the state funding amounts shown in the table are estimates; 2020 through 2022 are actuals. The federal funding amounts shown in the table are actuals for all years except 2024, which is still an estimate.

[1] eCFR :: 31 CFR Part 33 -- Waivers for State Innovation

[2] Please note the maximum length of time for which a 1332 waiver can be approved is five years. 1332 waivers must be renewed at least once every five years to stay in effect.

The reinsurance program has had a surplus since the first year of the program because one of the issuers was not eligible to receive its share of reinsurance payments due to its medical loss ratio (MLR) being below the required amount. This has had a minimal impact on most years as the surplus has generally not been used. Around $750,000 of the surplus was added to state funding available for 2024 to increase the impact of the program. The remainder of the surplus is currently set aside to support years where reinsurance payments may exceed the annual funding available.

Table 1. Montana Reinsurance Program 2020 to 2024[3]

	2020	2021	2022	2023 *	2024**
Total Reinsurance Funding					
State Funding	$10,032,000	$10,339,735	$9,883,000	$11,173,000	$12,647,014
Federal Funding	$22,490,988	$30,818,509	$29,734,004	$28,428,130	$33,786,051
Total Funding	$32,522,988	$41,158,244	$39,617,004	$39,601,130	$46,433,065
Reinsurance Parameters					
Attachment Point	$40,000	$40,000	$40,000	$40,000	$40,000
Coinsurance	60%	60%	60%	60%	60%
Cap	$101,750	$101,750	$106,100	$80,800	$90,000
Estimated Premium Impact Range					
SLCS Plan	-9.1% to -8.3%	-9.4%	-9.2%	-8.3% to -8.2%	-8.7% to -7.9%
Total Premiums	-9.1% to -7.9%	-9.5% to -8.4%	-11.9% to -9.2%	-8.3% to -7.7%	-10.5% to -7.9%
Enrollment Change	1.1%	1.2%	1.4%	0.8%	0.9%

**The 2023 and 2024 premium impacts are based on estimated funding, which may differ from actual funding.*
***2024 funding is based on spring 2023 estimates. The 2024 State Funding includes carryover funds from prior years.*

As can be seen in the prior table, the average impact of the reinsurance program since inception has mostly been in the range of an 8% to 10% premium reduction. However, while the reinsurance program lowers gross premiums in the market, it can have significantly varying impacts to a member's net premiums, specifically for those who receive premium tax credits (PTCs). How the reinsurance program impacts a person may vary by the following characteristics: unsubsidized versus subsidized (i.e., income level), rating area, age, and plan selection.

[3] https://mtreinsurance.org/public-meetings-and-notices/

The next section will evaluate Montana's waiver impact on each of the four guardrails.

Comprehensiveness

The current 1332 waiver in effect for Montana did not mandate any changes to Essential Health Benefits ("EHBs") for the plans offered on the Montana exchange. Issuers offering plans in the state were and are still required to offer all mandated EHBs in order to be exchange compliant. Similarly, the extension of this waiver will not affect the current EHB mandate or other types of coverage in the state (such as Medicaid or Children's Health Insurance Program) and therefore the waiver extension will allow for plans that are as comprehensive as current plans on the Montana state exchange.

Affordability

As part of an analysis for the Montana reinsurance program that is the subject of this 1332 waiver extension, Wakely examined the effect of the waiver on average premiums for non-group plans for each year of the waiver. As can be seen in the below chart, since the effect of reinsurance (i.e., the waiver) has a negative impact on premiums, the waiver is meeting the affordability guardrails.

Table 2. Rate Increases with and without Reinsurance

	2020	2021	2022	2023	2024
Rate Change with Reinsurance	-13.1%	1.4%	0.5%	9.5%	4.8%
Rate Change without Reinsurance	-5.2%	11.7%	11.8%	19.2%	14.8%
Impact of Reinsurance	-8.3%	-9.2%	-10.1%	-8.1%	-8.7%

Coverage

Wakely also analyzed the effect of the waiver on membership and estimated that the waiver caused an increase in enrollment in each year of the waiver. This indicates that the waiver has likely improved access to health care for Montanans, thus passing the coverage guardrail.

Table 3. Change in Enrollment Due to Waiver

	2020	2021	2022	2023	2024
Impact of Waiver on Enrollment	1.1%	1.2%	1.4%	0.8%	0.9%

Deficit Neutrality

The reduction of premiums paid by members as well as the improved morbidity as a result of greater access to healthcare (that is, enrollment increases which are assumed to be healthier members) results in fewer federal funds spent on Premium Tax Credits (PTC) in the state. These results serve to reduce the federal money spent and have a positive effect on the federal deficit. Each year of the waiver the Federal government has deemed Montana a net positive to the federal deficit and therefore awarded the state pass-through funding. Below is the amount of funding for each year of the waiver Montana has received.

Table 4. Impact on Federal Deficit[4]

	2020	2021	2022	2023	2024
Federal Savings	$22.5M	$30.8M	$29.7M	$28.4M	TBD

Overall Assessment

As can be seen in the above four tables, Montana's waiver has met each of the four guardrails for each year of the first four years of the waiver and based on preliminary estimates, will meet for the fifth (and final) year of its five-year waiver. As a result of Montana's 1332 waiver, the waiver resulted in equal if not greater affordability, generosity of coverage (comprehensive), coverage, and lower federal deficit. Ultimately, a 1332 waiver is judged by its impact relative to the baseline (no waiver). However, in terms of operations and predictability, a useful comparison is to the initial estimates that were completed as part of the waiver application.

Comparison to Waiver Application

Montana submitted its 1332 waiver application on June 19th, 2019. The actuarial and economic analysis was conducted in the winter and spring of 2018/2019. As part of the application, Wakely estimated the impact of the waiver for 2020 through 2024. The estimated effects of the waiver are summarized below in Table 5.

Table 5. Summary of Estimated Waiver Impacts

	2020	2021	2022	2023	2024
Premium Impact	-8.0%	-8.0%	-8.1%	-8.2%	-8.4%
Enrollment Impact	1.0%	1.0%	1.0%	1.0%	1.0%
Federal Savings ($ in Millions)	$22.1	$23.0	$24.5	$26.0	$27.9

Despite the large changes in the ACA market since 2019, the effects of the waiver are generally in line with the initial expectations. The premium impacts, enrollment increases, and federal savings have all been slightly larger than initially estimated. The primary differences since the waiver include:

[4] Federal pass-through for plan year 2024 is not yet available.

- Federal legislative changes (e.g., American Rescue Plan, Inflation Reduction Act) have increased the amount of premium subsidies a member receives (resulting in lower premiums) as well as the number of members who are eligible for subsidies. This generally increases the total amount of pass-through funding since higher total federal subsidies result in higher dollar savings, all else equal.

- State funding amounts were overstated in the initial waiver application. The definition of who is required to pay the assessment has changed slightly over the course of the waiver, which results in differences in the state funding amounts both compared to the initial waiver and year over year. The state funding has also had less of a "per person" impact as the individual market has grown significantly since the waiver was introduced due to the additional premium subsidies being offered. Generally, these state funding factors are lowering the impact of the reinsurance program and are a slight offset to the increases due to the subsidies.

- As discussed above, the reinsurance program has operated at a surplus since the first year of operation because one of the issuers was not eligible to receive its share of reinsurance payments due to its MLR being below the required amount. This has had a minimal impact on most years as the surplus has generally not been used, but a small portion of the surplus was set aside for to use for the 2024 benefit year to increase the impact of the program.

Table 6. Summary of Difference's from Initial Estimates

Difference	2020	2021	2022	2023	2024
Premium Impact	-0.3%	-1.3%	-2.0%	0.1%	-0.3%
Enrollment Impact	0.1%	0.2%	0.4%	-0.2%	-0.1%
Federal Savings	$0.4	$7.8	$5.2	$2.4	TBD

Conclusion

Overall Montana's 1332 waiver has met all four guardrails for each year of the waiver. As a result of the reinsurance program, overall premiums are lower and therefore more affordable, coverage is higher, benefit generosity has not changed, and there is no negative impact to the federal deficit. Given the number of unexpected changes the ACA has endured since the waiver was passed, it is not surprising the initial waiver estimates do not entirely align with the actual experience. However, it appears that the benefits of actual implementation of the program exceeded initial estimates.

Disclosures and Limitations

Responsible Actuaries. Julie Peper is the actuary responsible for this communication. Julie is a Member of the American Academy of Actuaries and Fellow of the Society of Actuaries. She meets the Qualification Standards of the American Academy of Actuaries to issue this report. Michael Cohen and Jenna Roska also contributed significantly to the preparation of this report.

Scope of Services. Unless otherwise explicitly indicated, Wakely's work is limited to actuarial estimates and related consulting services. Wakely is not providing accounting or legal advice. The Montana Reinsurance Association should retain its own experts in these areas. In addition, the Montana Reinsurance Association is responsible for successful administrative operations of all of its programs, including those which are the subject of Wakely's actuarial work.

Intended Users. This information has been prepared for the sole use of the Montana Reinsurance Association Board. Distribution to parties should be made in its entirety and should be evaluated only by qualified users. The parties receiving this report should retain their own actuarial experts in interpreting results.

Risks and Uncertainties. The assumptions and resulting estimates included in this report and produced by previous modeling are inherently uncertain. Users of the results should be qualified to use it and understand the results and the inherent uncertainty. Actual results will likely vary, potentially materially, from our estimates. Wakely does not warrant or guarantee that the Montana Reinsurance Association, state of Montana, or Montana issuers will attain the projected values included in the report. It is the responsibility of the organization receiving this output to review the assumptions carefully and notify Wakely of any potential concerns.

Conflict of Interest. Wakely provides actuarial services to a variety of clients throughout the health industry. Our clients include commercial, Medicare, and Medicaid health plans, the federal government and state governments, medical providers, and other entities that operate in the domestic and international health insurance markets. Wakely has implemented various internal practices to reduce or eliminate conflict of interest risk in serving our various clients. Except as noted here, the responsible actuaries are financially independent and free from conflict concerning all matters related to performing the actuarial services underlying this analysis. In addition, Wakely is organizationally and financially independent to the Montana Reinsurance Association Board and the state of Montana.

Data and Reliance. We have relied on others for data and assumptions used in the assignment. Specifically, the information included is based on rate filings, Wakely prior work, information provided by the state, and federal information. We have reviewed the data for reasonableness but have not performed any independent audit or otherwise verified the accuracy of the data/information. If the underlying information is incomplete or inaccurate, our estimates may be impacted, potentially significantly.

Subsequent Events. These analyses are based on the implicit assumption that the ACA will continue to be in effect in future years with no material change. Material changes in state or federal law regarding health benefit plans may have a material impact on the results included in this report. In addition, any changes in issuer actions in future years could impact the results. There are no other known relevant events subsequent to the date of information received that would impact the results of this report.

Contents of Actuarial Report. This document and the supporting exhibits constitute the entirety of actuarial report and supersede any previous communications on the project.

Deviations from ASOPS. Wakely completed the analysis using sound actuarial practice. To the best of our knowledge, the report and methods used in the analysis are in compliance with the appropriate Actuarial Standards of Practice (ASOP) with no known deviations. A summary of ASOP compliance is listed below:

ASOP No. 23, Data Quality

ASOP No. 41, Actuarial Communication

ASOP No. 56, Modeling