

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from electronic originals
(may include minor formatting differences from printed original)



**Merrill's Wharf
254 Commercial Street
Portland, ME**

**ANNUAL REPORT TO
JOINT STANDING COMMITTEE ON
INSURANCE AND FINANCIAL SERVICES**

April 14, 2017

I. INTRODUCTION

This report is submitted pursuant to 24-A MRS § 3955(5). Pursuant to that statute, the Maine Guaranteed Access Reinsurance Association (the “Association”) is required to make an annual report to the Joint Standing Committee on Insurance and Financial Services. The report must include information on the Association’s financial solvency and administrative expenses.

II. BACKGROUND INFORMATION

In May 2011, the Maine State Legislature passed Public Law Chapter 90 “An Act to Modify Rating Practices for Individual and Small Group Health Plans and to Encourage Value-based Purchasing of Health Care Services” (PL90). Included in the many components of PL90 was the establishment of the Association as a reinsurance program for the higher risk segment of Maine’s individual health insurance market. The portion of PL90 establishing the Association was codified at 24-A MRS c. 54-A and, together with a series of technical amendments enacted on April 12, 2012, is referred to herein as the “Enabling Act.”

The Association was formally organized as a Maine non-profit corporation on January 23, 2012 and, following an initial start-up phase, commenced reinsurance operations on July 1, 2012.

Pursuant to Public Law 2013, Chapter 273, Section 4 (codified at 24-A M.R.S. Section 3962), the Association filed with the Superintendent for approval an Amended Plan of Operation (“Suspension Plan”) on June 5, 2014. Effective as of January 1, 2014, the Association **suspended all operations** other than those specified below. The suspension is currently scheduled to expire on December 31, 2017, at which point the Association is required to restart operations. Notwithstanding the suspension of operations, the Association continues certain functions during the period of suspension, as described below:

1. **Reinsurance Coverage:** The Association provided reinsurance claims payments for all Eligible Claims incurred prior to January 1, 2014. All claims payments have now been terminated.
2. **Assessments:** The Association retains the right to assess Insurers to the extent necessary to cover any net losses pursuant to Section 3957(5) of the Enabling Act.
3. **Administration:** The Association continues limited operations necessary to support financial administration, including:
 - (i) Continued regular quarterly meetings of the Board of Directors and related oversight and management of the Association’s business.
 - (ii) Continued engagement of Ameriben as the Association’s administrator responsible for financial administration.
 - (iii) Administering to the Association’s banking and limited investment activities, and maintenance of all appropriate books and records and financial reporting.

- (iv) Monitoring of the Federal Transitional Reinsurance Program and planning and execution of any actions required for re-start of the reinsurance program at the conclusion of the Federal Program.

III. FINANCIAL POSITION

Attached hereto is the Association's Audited Financial Statements for the 12 months ended December 31, 2016. All information set forth therein is incorporated herein by reference.



Financial Statements
December 31, 2016 and 2015

Maine Guaranteed Access Reinsurance Association

Maine Guaranteed Access Reinsurance Association

Table of Contents

December 31, 2016 and 2015

Independent Auditor's Report.....	1
Financial Statements	
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis.....	3
Statements of Revenues and Expenses and Changes in Net Assets – Modified Cash Basis	4
Statements of Cash Flows – Modified Cash Basis.....	5
Notes to Financial Statements.....	6



Independent Auditor's Report

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Portland, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of Maine Guaranteed Access Reinsurance Association (the Association), which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2016 and 2015, and the related statements of revenues and expenses and changes in net assets – modified cash basis and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Association as of December 31, 2016 and 2015, and its revenue and expenses for the years then ended in accordance with the modified cash basis of accounting, as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Boise, Idaho
April 11, 2017

Maine Guaranteed Access Reinsurance Association
 Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis
 December 31, 2016 and 2015

	2016	2015
Assets		
Current Assets		
Cash in bank	\$ 301,459	\$ 42,170
Accrued interest receivable	16,415	14,256
Investments	5,123,151	5,137,105
	\$ 5,441,025	\$ 5,193,531
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 1,015	\$ 3,969
Total current liabilities	1,015	3,969
Net Assets	5,440,010	5,189,562
	\$ 5,441,025	\$ 5,193,531

Maine Guaranteed Access Reinsurance Association
Statements of Revenues and Expenses and Changes in Net Assets – Modified Cash Basis
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Regular assessments	\$ 427,785	\$ -
Refund	-	18,822
	427,785	18,822
Total operating revenues	427,785	18,822
Operating Expenses		
Contracted management services	118,107	75,325
Professional fees	77,290	78,298
Interest and bank charges	382	620
Other administrative costs	16,720	17,294
	212,499	171,537
Total operating expenses	212,499	171,537
Income (Loss) from Operations	215,286	(152,715)
Nonoperating Income (Expense)		
Interest income	76,486	49,189
Loss on investments	(41,324)	(18,396)
	35,162	30,793
Total nonoperating income	35,162	30,793
Change in Net Assets	250,448	(121,922)
Net Assets, Beginning of Year	5,189,562	5,311,484
Net Assets, End of Year	\$ 5,440,010	\$ 5,189,562

Maine Guaranteed Access Reinsurance Association
Statements of Cash Flows – Modified Cash Basis
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	\$ 250,448	\$ (121,922)
Adjustments to reconcile change in net assets to cash from (used for) operating activities		
Loss on investments	41,322	18,396
Interest income	(76,485)	(49,189)
Changes in assets and liabilities		
Change in claims receivable	-	93,174
Premiums receivable	-	90,259
Prepaid assets	-	6,000
Accounts payable	(2,954)	(20,817)
Claims payable	-	(883,643)
Net Cash from (used for) Operating Activities	212,331	(867,742)
Investing Activities		
Purchase of investments	(4,778,440)	(3,310,563)
Sale of investments	4,825,398	3,761,942
Net Cash from Investing Activities	46,958	451,379
Net Change in Cash	259,289	(416,363)
Cash, Beginning of Year	42,170	458,533
Cash, End of Year	\$ 301,459	\$ 42,170

Note 1 - Organization and Significant Accounting Policies

Organization Structure

The Maine Guaranteed Access Reinsurance Association (the Association) is a Maine mutual benefit non-profit corporation created pursuant to Titles 13-B and 24-A, Chapter 54-A of the Maine Revised Statutes on January 6, 2012. The members of the Association are Insurers that offer individual health plans and are actively marketing individual health plans in the State of Maine. The Association, which is governed by an 11 member Board of Directors (the Board) appointed by the Superintendent and Member Insurers as provided in the Association's Articles of Incorporation and Section 3953(2) of the Enabling Act.

The Association was created for the purpose of providing a reinsurance program for the higher risk segment of Maine's individual health insurance market in order to reduce insurance costs in that market and assure availability of affordable health insurance to residents of the State of Maine by providing reinsurance of a significant portion of the coverage provided through individual health insurance policies offered by its Member Insurers. In the normal course of business, the Member Insurers seek to limit their exposure to loss on any single insured and to recover a portion of losses paid by ceding reinsurance to the Association. After a deductible of \$7,500, the Association will cover losses at 90% up to \$32,500 and at 100% after \$32,500.

The Association officially commenced operations on January 1, 2012. Premium collections and claims processing began on July 1, 2012. The Association suspended its operations effective January 1, 2014, and the final assessment was assessed in October of 2013.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP). Under that basis, assessment revenues are recognized when received rather than when earned. Consequently the Association has not recognized accounts receivable for assessments and its related effects on earnings in the accompanying financial statements.

Under a pure cash basis method, all revenues are recognized when cash is received and expenses are recognized when cash is disbursed. Under the modified cash basis, the pure cash basis is adjusted for certain assets and liabilities. These adjustments relate to premiums receivable, claims payable, and the liability for claims incurred but not reported.

Management has modified the financial statements for these items.

Assessments

The Board assessed each insurer a one-time organizational assessment of \$500 per Insurer. On a quarterly basis, the Board assessed each Insurer an amount not to exceed \$4 per month per Covered Person resident in the State of Maine enrolled in Medical Insurance, reinsured or administered by the Insurer. In addition to the organizational and regular assessments, the Board may assess Insurers an amount not to exceed \$2 per month per Covered Person enrolled in Medical insurance insured to cover any net loss incurred. The Association suspended its operations effective January 1, 2014, and the final assessment was assessed in October of 2013.

Cash

For purposes of reporting cash flows, cash includes only cash held in the bank.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of assets, liabilities and net assets – modified cash basis. Net investment gain/(loss) is reported in the statement of revenue and expenses and changes in net assets – modified cash basis and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Financial Instruments and Credit Risk

The Association manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Association has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Association.

Fair Value of Financial Instruments

FASB ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of assets, liabilities, and net assets – modified cash basis. The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. The standard excludes certain financial instruments and all non-financial instruments from its disclosure requirements. The carrying amounts reported in the statement of assets, liabilities, and net assets – modified cash basis for cash and receivables, and accounts payable approximate the fair value of those financial assets and liabilities.

Revenue and Revenue Recognition

Premium revenue is recognized when earned. Program fees and claim payments are expensed in the period the services are incurred. Assessments are recognized when cash is received.

Investment Income and Gains

Investment income and gains are reported as increases in unrestricted net assets.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect account balances and the amounts reported in the accompanying financial statements.

Display of Net Assets

The accompanying financial statements have been prepared in accordance with ASC 958-205, "Presentation of Financial Statements of Not-For-Profit Organizations." Accordingly, the net assets of the Association are reported in each of the following three classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Under these provisions, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. As of December 31, 2016 and 2015, there were no temporarily or permanently restricted net assets.

Any net assets held by the Association upon its termination will be distributed to the Association's existing member carriers in accordance with the then-existing assessment formula. As there is no intention to permanently terminate the Association, the net assets are reported as unrestricted.

Significant Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Income Taxes and Uncertainty

It is management's position that the Association is a non-profit tax exempt organization under 501(c)(4) of the Internal Revenue Code (IRC). The Association received a letter from the Internal Revenue Service dated October 8, 2015, confirming approval of the tax exempt status effective June 27, 2012.

We believe that the Association has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. We would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Subsequent Events

The Association has evaluated subsequent events through April 11, 2017, the date which the financial statements were available to be issued.

Note 2 - Cash Deposits

As of December 31, 2016 and 2015, the book balance of deposits was \$301,459 and \$42,170, respectively. At times during the year, the Association has exceeded FDIC insurance coverage on its cash deposit balances.

Note 3 - Investments and Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under the FASB ASC 820 are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
- Level 2 - Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Money market deposit accounts: Valued at carrying value, which approximates fair value, based on the amount of net contributions plus any investment earnings allocated to the account.

Certificates of deposit: Valued at cost plus accrued interest, which approximates fair value.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issues with similar credit ratings.

U.S. agency securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar bonds.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Maine Guaranteed Access Reinsurance Association
Notes to Financial Statements
December 31, 2016 and 2015

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31:

	2016			2015
	(Level 1)	(Level 2)	(Level 3)	
Certificates of deposit	\$ -	\$ 1,796,362	\$ -	\$ 1,796,362
US agency securities	-	249,740	-	249,740
Municipal bonds	-	100,000	-	100,000
Corporate bonds	-	2,977,049	-	2,977,049
Total assets at fair value	\$ -	\$ 5,123,151	\$ -	\$ 5,123,151

	2015			Total
	(Level 1)	(Level 2)	(Level 3)	
Certificates of deposit	\$ -	\$ 3,548,399	\$ -	\$ 3,548,399
US agency securities	-	497,574	-	497,574
Municipal bonds	-	100,000	-	100,000
Corporate bonds	-	991,132	-	991,132
Total assets at fair value	\$ -	\$ 5,137,105	\$ -	\$ 5,137,105

Note 4 - Assessments Receivable/Offset of Future Revenues

As defined by the Association's Plan of Operations, if assessments and other receipts exceed the actual net losses, the excess funds must be held in an interest bearing account or otherwise invested in accordance with the Association's Investment Policy to offset future losses or reduce reinsurance premiums. As of December 31, 2016 and 2015, there was \$5,440,010 and \$5,189,562, respectively, available to offset future losses.

Note 5 - Provisions for Unpaid Claims and Claims Administration

In accordance with the modified cash basis of accounting, the Association estimates its liability for claims that were incurred before year end, but for which payment will not be made until after year end. The estimate is based on information concerning incurred but not reported claims provided by the insurance companies that were participating in the program during the year. The Association's Board of Directors monitors the estimates with assistance from actuarial consultants, and the necessary adjustments are reflected in current operations. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

The provision for incurred losses and loss adjustments remained at \$0 for the years ended December 31, 2016 and 2015. Operation of the Association was suspended effective January 1, 2014, and accordingly there was no new activity for 2016.

Note 6 - Management Contract

The Association has entered into an Administrative Services Agreement (ASA) with AmeriBen Solutions, Inc. (ABS). ABS provides general management and accounting services to the Association. Effective May 1, 2015, the ASA was assigned to River 9 Consulting (R9) subject to the same terms and conditions of the original agreement, expiring December 31, 2016. The agreement, effective May 1, 2015 through December 31, 2016, stipulates a fixed monthly payment \$5,500. The management service expense for the years ended December 31, 2016 and 2015 was \$66,000 and \$66,000, respectively, of which \$0 was payable at December 31, 2016 and 2015.

Note 7 - Insurance/Risk Management

The Association is exposed to various risks of loss related to tort claims as well as errors and omissions by employees. The Program is covered through commercial insurance purchased by R9 to the extent of its employees' involvement with the Association. Current insurance coverage is summarized as follows:

Individual Claims	\$ 1,000,000
Aggregate Claims	\$ 3,000,000

Note 8 - Affordable Care Act

The following is a brief summary of the circumstances relating to the temporary suspension of the operations of the Association.

The Association was established pursuant to an act of the Maine State Legislature. Separately, the federal Affordable Care Act establishes a temporary uniform national reinsurance program to be operated across all 50 states in the years 2014, 2015, and 2016 (the Federal Program). The Federal Program provides coverage for 80% of claims between \$45,000 and \$250,000 in 2014, 50% of claims between \$75,000 and \$250,000 in 2015, and 50% of claims between \$90,000 and \$250,000 in 2016, across the entire individual insurance market. The Federal Program is funded through assessments payable by all health insurers and TPAs (including those operating in Maine). As a result, Maine's health insurance market would be subject to double assessments for overlapping individual market reinsurance coverage if both the Association and the Federal Program were to operate conterminously.

Because the Federal Program does not contain an exemption for states, such as Maine, that operate their own reinsurance program, the Board has concluded that the only reasonable alternative is to suspend operation of the Association's reinsurance program during the pendency of the Federal Program in order to avoid the cost burden on the state's insurance market associated with overlapping reinsurance programs and multiple assessments. The Board further believes that there is a strong likelihood that there will still be a continued need for subsidization of the individual health market in Maine following the conclusion of the Federal Program.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2016 and 2015

The Maine Legislature adopted 2013 Public Law ch. 273 amending the Association's Enabling Legislation to require the suspension of the Association's operations during the period in which the Federal Program is in effect. The legislation permits the Association to retain its existing statutory authority to wind down its operations, including (i) paying reinsurance claims incurred prior to the effective date of its suspension of operations; and (ii) imposing any additional assessment necessary to fund any net losses for the period of the Association's operation pursuant to 24-A M.R.S. §3957(5). The Association filed an amendment to its Plan of Operation giving affect. On or before January 1, 2016, the Joint Standing Committee of the Legislature having jurisdiction over insurance and financial services matters shall conduct a review and evaluation, and make a recommendation to the Superintendent of Insurance, as to whether the Association should resume operations as of January 1, 2017, which is the anticipated date of termination of the Federal Program. On November 11, 2015, the Board of Directors agreed to request an extension of the Association's suspension for an additional 2 years, due to uncertain market conditions in the near future, subject to review by the Superintendent and recommendation of the Joint Standing Committee.