

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 HEALTH
COVERAGE, INSURANCE AND FINANCIAL
SERVICES**

June 25, 2024

I. INTRODUCTION

This report is submitted pursuant to 24-A MRS § 3955(5), which requires the Maine Guaranteed Access Reinsurance Association (the “Association” or “MGARA”) to make an annual report to the Joint Standing Committee on Health Coverage, Insurance and Financial Services and the Superintendent of Insurance. The report must include information on the Association’s financial solvency and administrative expenses.

MGARA’s enabling legislation is set forth at 24-A M.R.S. Chapter 54-A §§ 3951 – 3963 (the “Enabling Act”). MGARA’s original Plan of Operation was adopted effective June 12, 2012. Pursuant to legislative action, effective January 1, 2014, MGARA’s operations were suspended during the pendency of the transitional reinsurance program pursuant to Section 1341 of the Patient Protection and Affordable Care Act (“Federal Program”) in order to avoid redundancy with the Federal Program.

On July 30, 2018, the State of Maine received approval from the United States Department of Health & Human Services, Centers for Medicare & Medicaid Services (“CMS”) of its Application for State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act, which is incorporated herein by reference (“Section 1332 Waiver Application”). On August 21, 2018 the State of Maine accepted the Section 1332 Waiver by executing and delivering to CMS the Specific Terms and Conditions of the Section 1332 Waiver, which are also incorporated herein by reference (“STCs”). The Section 1332 Waiver Application and the STCs are collectively referred to as the “Section 1332 Waiver”.

On August 18, 2018, the MGARA Board approved the re-initiation of MGARA operations as of January 1, 2019, and the submission of an amended and restated Plan of Operation for approval by the Maine Superintendent of Insurance. In December 2018 MGARA received approval of its Amended and Restated Plan of Operation for a January 1, 2019 re-start of operations and has been operating under that plan from January 1, 2019 to the present, subject to certain amendments described below.

Pursuant to Section 3958(1)(A-1) of the Enabling Act, as amended, the Board resolved on May 24, 2021 to convert the MGARA reinsurance program from the then current prospective model to a Retrospective Model effective as of January 1, 2022 (“Retrospective Model”). Beginning January 1, 2022, the MGARA program transitioned from a prospective model to a Retrospective Model, where a portion of claim costs for any Individual Market member whose claims fall within certain thresholds is covered by the reinsurance program. In this Retrospective Model, carriers submit quarterly claims to MGARA’s third party administrator for reimbursement, according to a revised Plan of Operations.

Pursuant to Maine Public Law 2019, Chapter 653, *“An Act To Enact the Made for Maine Health Coverage Act and Improve Health Choices in Maine,”* Maine Bureau of Insurance Rule 856 (“Rule 856”) and with the approval of the U.S. Department of Health & Human Services dated July 15, 2022, MGARA’s reinsurance program was extended to a merged Individual Market and Small Group Market, as well as quarterly adjustments for small group plans that do not renew on a calendar year basis for plan years 2023 through 2027 (referred to as the “Merged Market”). The MGARA Plan of Operation was amended and restated to give effect to this Merged Market

with such changes operational as of January 1, 2023. Beginning January 1, 2023, MGARA transitioned to include coverage for the Small Group Market in the Merged Market. The following table describes the historical progression from a prospective model to the current Retrospective Model working within a Merged Market.

Year	Reinsurance Parameters	Coinsurance Rate	Year-End Surplus	Description
2019	\$47k / \$77k	90% / *100%	\$29.9 million	Prospective Model - MGARA re-established
2020	\$65k / \$95k	90% / *100%	\$56.0 million	Prospective Model - COVID Year
2021	\$65k / \$95k	90% / *100%	\$84.6 million	Prospective Model - COVID Year
2022	\$76k / \$250k	100%	\$53.5 million	Retrospective Model Begins
2023	\$90k / \$275k	100%	\$47.0 million**	Merged Market with Retrospective Model Begins
2024	\$135k / \$275k	75%	\$43.8 million**	Merged Market with Retrospective Model
2025	\$135k/\$275k	75%	\$32.3 million**	Merged Market with Retrospective Model

**From 2019 to 2021, 100% coinsurance was applied above the high attachment point. For 2022 and later, the coinsurance coverage only applies between the low and high thresholds (i.e., 0% coinsurance above the high threshold).*

***Projected surplus*

II. 2023 RESULTS

The 2023 year was the MGARA program's 5th year of full operation under the Section 1332 Grant, its 2nd year operating based on a Retrospective Model and its 1st year reinsuring both the Individual and Small Group markets. The program is functioning according to plan with no material implementation or operational issues. For the 12 months ended 12/31/23, total revenue was \$96.5 million, consisting of \$28.9 million in assessment revenue, \$63.5 million in grant revenue, and gain on investments of \$4.1 million. Claims incurred for the period totaled \$117.8 and operational expenses were approximately \$700,000, resulting in total expense of \$118.5 million. At the time of this report, final results for the 2023 year are not definitely known due to final submissions of 2023 claims not being required until late July 2024 ("2023 Claims Run-Out"). The audited Financial Statements reflect an estimated liability for claims incurred but not reported ("IBNR") of \$20,200,000; however, MGARA has received estimates of the 2023 Claims Run-Out

from the member insurers, which if accurate, would reduce MGARA's actual claims to a level below those estimated in MGARA's IBNR for the 2023 year. The following table provides a financial summary of MGARA's results of operations and financial position for the 3-year period 2022 – 2024. The 2023 values reflect the anticipated improvement in 2023 claims based on the estimates received regarding 2023 Claims Run-Out. The 2024 values are projected.

Reinsurance Parameters	\$76K/\$250K, 100% coins	\$90K/\$275K, 100% coins	\$135K/\$275K, 75% coins
Year	2022	Proj 2023	Proj 2024
Approximate Value of MGARA	17%	15%	7%
<u>Revenue</u>			
Regular Assessment	\$29.0	\$28.9	\$27.0
Premiums from Ceded Lives	\$0.1	\$0.0	\$0.0
Grant Revenue	\$43.8	\$63.5	\$45.7
Other	(\$0.5)	\$4.1	\$0.0
Total Revenue	\$72.3	\$96.5	\$72.7
<u>Expenditures</u>			
Claims Incurred	\$87.2	\$117.8	\$75.4
Fees	\$0.8	\$0.7	\$0.6
Total Expenditures	\$88.0	\$118.5	\$76.0
MLR	121%	122%	104%
Revenue Less Expenditures	(\$15.7)	(\$22.0)	(\$3.2)
Beginning Surplus	\$84.7	\$69.0	\$47.0
Ending Surplus	\$69.0	\$47.0	\$43.8
RBC Ratio	1053%	465%	860%

For the 2023 year, MGARA operated with Reinsurance Parameters of \$90,000/\$275,000 and 100% coinsurance rate, which resulted in an estimated value of MGARA to the market of approximately 15% of premiums. MGARA operated at a currently projected loss of approximately \$22 million for the 2023 year, resulting in a projected 2023 year-end surplus of \$47 million and a Risk-Based Capital ("RBC")¹ ratio of 465% compared to a rough target of approximately 600%. Beginning in 2022, MGARA initiated an intentional draw down of its surplus in order to fund more robust reinsurance benefits and maximize Section 1332 Pass-Through Funding during transition to the Retrospective Model and the Merged Market. This targeted application of surplus generated a 17% value of MGARA in the individual market in 2022 and a 15% value for 2023, thereby providing more value to the markets it serves (Individual Market and Small Group Market).

Each year the Board carefully reviews MGARA's surplus levels in setting its reinsurance parameters for the following year with the goal of targeting a reasonable level of surplus (which provides its solvency margin) based on its then current financial resources and projected operational results for that period. Each year the Board receives a series of analyses from its actuary (Milliman) and determines its reinsurance parameters applying a series of factors. Each year, for purposes of setting reinsurance thresholds for the ensuing year, the Board establishes a "target" level of surplus. Historically, the Board has used an RBC-type ratio for determining an appropriate level of surplus. The MGARA RBC calculations are approximations of the NAIC

¹ Risk-based Capital standards are established by the National Association of Insurance Commissioners ("NAIC") as a requirement for insurance companies to hold a minimum level of capital based on the risks they are exposed to. The RBC metric is not directly applicable to a reinsurer or to the MGARA program, but Milliman has developed a metric similar to RBC for MGARA's specific needs.

models, modified to be suited for MGARA's reinsurance program. Beginning in 2023, the Board expanded that methodology to include additional factors. The following summarizes the three-prong approach adopted by the Board in 2023 for purposes of setting 2024 (and future) reinsurance thresholds:

- First, set an absolute floor surplus level that is not less than the amount required to cover approximately one standard deviation in claims.
- Second, consider additional margin to be built into surplus to address the types of risks and uncertainties not included in the natural deviation in claims accounted for in the standard deviation.
- Third, consider its RBC-based approach to determining adequate surplus levels, adjusting its reinsurance parameters to as generous a level as possible, while remaining committed to assuring MGARA solvency and sustainability over time so as to continue to serve as a mechanism for modulated rates.

This process involves an ongoing annual analysis and re-calibration of the program's reinsurance benefits to its then-current financial resources and projected operational results. The Board is charged with responsibility for managing this dynamic process over time to generate maximum benefits for the markets it serves (Individual Market and Small Group Market) while maintaining appropriate levels of surplus.

The 2023 anticipated year-end net surplus of \$47 million and resulting RBC of approximately 465% is on the low end of desired RBC compared to the Board's rough target of 600%. Nevertheless, the Board feels that this level of surplus is sufficient to continue to uphold MGARA's mission to drive value to both the Individual Market and Small Group Market, balanced with the need to retain sufficient capital to provide assurance to the member insurers that MGARA can fulfill its promised reinsurance benefits in an uncertain fiscal environment.

Continuing to provide the value to the market at the levels reflected in 2022 and 2023 is not sustainable for MGARA over the intermediate to long term, and the value to the Individual and Small Group Markets will need to be reduced over time. See Section III below addressing MGARA's 2024 and 2025 projected value to the market. One of the implications of the draw down in surplus in 2022 and 2023, and the resulting reduction in premiums, is increased savings in government funded subsidies at the federal level due to lower premiums in Maine. Savings in federal subsidies are the source of 1332 waiver revenue. The inverse of this logic is that grant revenue is diminished when MGARA is unable to drive value. Without additional sources of revenue to draw from in order to increase program value the resulting grant revenue is expected to be lesser in amount over time, thus gradually diminishing MGARA's ability to lower future premiums in the combined Individual and Small Group markets. MGARA's revenues from assessments has remained fixed at the same level since its inception in 2011 due to the statutory limit on regular assessments of \$4 per member per month ("PMPM"). Without adjustment for inflation, MGARA's assessment revenue has remained relatively constant over time at approximately \$27 million.

Attached as Exhibit A are MGARA's audited Financial Statements for 2023.

III. 2024 PROJECTED RESULTS

The MGARA board of directors approved reinsurance thresholds for 2024 of \$135,000 to \$275,000 with 75% coinsurance, resulting in an estimated value of MGARA of approximately 7% of premiums. MGARA's currently projects 2024 year-end surplus of \$43.8 million and an RBC Ratio of approximately 860%. MGARA's 2024 projections are preliminary as only the first quarter claims submissions have been received, which are of limited value in projecting full year results.

The Board considered exercising its authority to make an additional net loss assessment of up to \$2 PMPM pursuant to 24-A MRS §3957(5) to compensate for 2023 losses, but ultimately decided that these additional funds were not necessary to cover the 2023 net loss.

Maine Guaranteed Access Reinsurance Association Summary of Projected 2024 Financials – Retrospective Model and Merged Market	
Attachment Point of Thresholds	\$90,000 / \$275,000
Coinsurance	75% of claims between 90k and 275k (no coverage outside attachment point thresholds)
CMS Estimated Grant Revenue	\$45.7 million
Expected Total Assessments	\$27.0 million
Assumed Market Impact as % of Rates	About 7%
Total Revenue	\$72.7 million
Total Expenses	\$76.0 million
Net Gain / (Loss)	(\$3.2 million)
Net Surplus	\$43.8 million*
Point Estimate Risk-Based Capital	860%

The MGARA board of directors recently approved maintaining reinsurance thresholds for 2025 of \$135,000 to \$275,000 with 75% coinsurance, resulting in an estimated value of MGARA of approximately 7% of premiums. MGARA currently projects 2025 year-end surplus of \$32.3 million and an RBC Ratio of approximately 551%. MGARA's 2025 projections are highly preliminary; however, establishing 2025 reinsurance parameters by approximately the end of May is necessitated by the calendar for member insurer rate filings, which require that the impact of MGARA be taken into account in setting rates.

Maine Guaranteed Access Reinsurance Association Summary of Projected 2025 Financials with Merged Small Group and Individual Market	
Attachment Point of Thresholds	\$135,000 / \$275,000
Coinsurance	75% of claims between \$135k and \$275k (no coverage outside attachment point thresholds)
Expected Grant Revenue	\$49.2 million
Expected Total Assessments	\$27.0 million
Assumed Reductions in Market Rates	About 7%
Total Revenue	\$76.2 million
Total Expenses	\$87.7 million
Net Gain / (Loss) [Revenue less Expenses]	(\$11.4 million)
Net Surplus	\$32.3 million*
Point Estimate Risk-Based Capital	551%

In setting the 2024 and 2025 reinsurance parameters, MGARA's board reduced the value of the program from the robust levels experienced in 2022 and 2023 to account for anticipated increased loss levels and to adjust toward a more realistic long-term value to be provided to the Merged Market. The 2024 anticipated year-end net surplus is \$43.8 million with a resulting RBC of about 860%. The Board feels that this level of surplus is sufficient to continue to uphold MGARA's mission to drive value to the Merged

Market, balanced with the need to retain sufficient capital to address anticipated loss levels and market uncertainties.

In terms of revenue sources, regular assessments on commercially insured lives make up approximately \$27 million in revenue and stay relatively flat year to year. The remaining grant revenue is 1332 pass-through funding generated from savings on federal subsidies in the Individual Market. The 2024 grant revenue estimate is used as a baseline for our 2025 estimates of expected grant revenue. We note that the \$45.7 million grant revenue approved by CMS for 2024 was substantially higher than what MGARA originally projected for 2024, although still lower than the 2023 grant revenue due to the large drop in the value of MGARA starting in 2024. The Board will continue to monitor anticipated 1332 grant levels as these are MGARA's single largest source of revenue.

To the extent MGARA experiences losses in future years, the Board expects to regularly review the necessity of additional net loss assessments to supplement revenues and maximize federal Section 1332 Pass-Through Funding. Net loss assessments could increase MGARA revenues by up to \$2 PMPM bringing total assessments to \$6 PMPM. Adjusted for inflation, the original MGARA assessment levels established in 2011 would be approximately \$5.50 PMPM today and adjusted for medical inflation would be approximately \$9.00 PMPM today.

Indexing the MGARA PMPM Fee

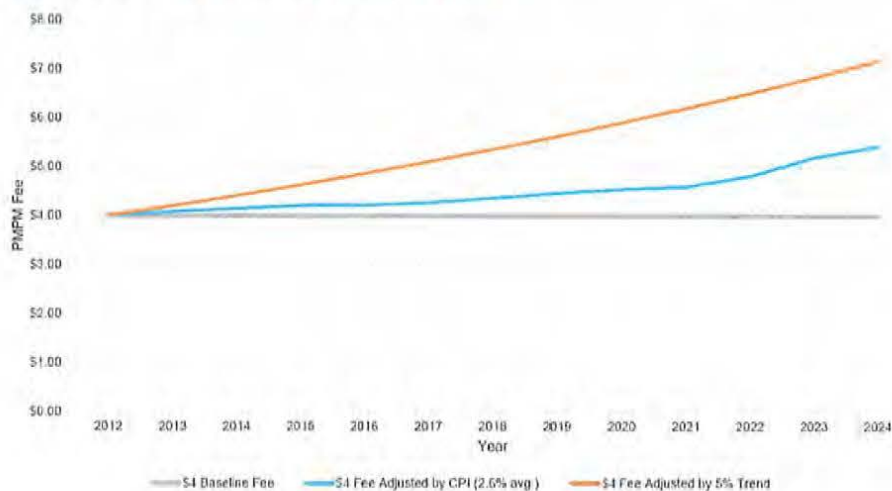


Exhibit A
2023 Audited Statements
(See Attached)



Financial Statements
December 31, 2023 and 2022

Maine Guaranteed Access Reinsurance Association

Maine Guaranteed Access Reinsurance Association
Table of Contents
December 31, 2023 and 2022

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Federal Awards Reports in Accordance with the Uniform Guidance	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance	23
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs	28



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of the Maine Guaranteed Access Reinsurance Association (the Association), a public corporation of the State of Maine, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Association, as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2024, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
April 10, 2024

Maine Guaranteed Access Reinsurance Association

Management's Discussion and Analysis

December 31, 2023 and 2022

As management of the Maine Guaranteed Access Reinsurance Association (the "Association"), we provide this narrative overview and analysis of the change in net position of the Association for the years ended December 31, 2023 and 2022.

The Association officially commenced operations on January 1, 2012 but suspended its operations effective January 1, 2014, and the final assessment was assessed in October of 2013. The Association re-initiated its reinsurance program effective January 1, 2019 in accordance with its Amended and Restated Plan of Operation dated January 1, 2019 approved by the Maine Bureau of Insurance in late December 2018. Beginning January 1, 2022 the Association's reinsurance program was converted from a prospective model to a retrospective model pursuant to changes in its enabling legislation and its Amended and Restated Plan of Operation dated January 1, 2022. Pursuant to the Made for Maine Health Coverage Act, effective January 1, 2023 MGARA's reinsurance program was expanded to cover the Small Group Market in addition to the Individual Market through a merger of those markets ("Merged Market").

Financial Highlights

- Total assets decreased by \$10,006,575 from \$108,620,526 in 2022 to \$98,613,951 in 2023. Total assets decreased by \$2,767,184 from \$111,387,710 in 2021 to \$108,620,526 in 2022.
- Cash and cash equivalents decreased by \$8,563,214 from \$12,681,404 in 2022 to \$4,118,190 in 2023. Cash and cash equivalents decreased by \$1,937,443 from \$14,618,847 in 2021 to \$12,681,404 in 2022.
- Premium receivable did not change in 2023. It declined substantially from \$3,420,680 in 2021 to \$16,419 in 2022.
- Investments decreased by \$833,568 from \$87,475,968 in 2022 to \$86,642,400 in 2023. Investments increased by \$2,502,644 from \$84,973,324 in 2021 to \$87,475,968 in 2022.
- Incurred claims increased by \$28,824,422 from \$93,166,976 in 2022 to \$121,991,398 in 2023. Incurred claims increased by \$22,501,148 from \$70,665,828 in 2021 to \$93,166,976 in 2022.
- Grant revenue increased by \$19,724,047 from \$43,754,627 in 2022 to \$63,478,674 in 2023. Grant revenue increased by \$4,438,758 from \$39,315,869 in 2021 to \$43,754,627 in 2022.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Association's annual financial statements. The Association operates as a Maine non-profit corporation created pursuant to 24-A MRS Chapter 54-A and is reported in conformity with generally accepted accounting principles as applied to government units as the Association is considered a public corporation of the State of Maine. The Association was created for the sole purpose of providing a reinsurance program for the higher risk segment of Maine's individual and small group health insurance markets in order to reduce insurance costs in those markets and assure availability of affordable health insurance to residents of the State of Maine by providing reinsurance of a portion of the coverage provided through individual and small group health insurance policies offered by its Member Insurers.

The Association's annual financial statements are comprised of two components, the basic financial statements and the notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Maine Guaranteed Access Reinsurance Association
Management's Discussion and Analysis
December 31, 2023 and 2022

Financial Statements - The financial statements are designed to provide readers with a broad overview of the Association's finances, in a manner similar to a private-sector business. The statements of net position present information on all of the Association's assets and liabilities, with the difference reported as restricted net position. The statements of revenues, expenses and changes in net position present information on all of the Association's revenues and expenses. Any excess or deficiency of revenues over expenses is reported as change in net position. The statements of cash flows present information on cash flows provided by and used in activities. The activities are classified into one of two categories: operating activities and investing activities.

Notes to Financial Statements - The notes provide additional information that is essential to obtain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 20 of this report.

Financial Analysis

	2023	2022	2021
Assets			
Cash and cash equivalents	\$ 4,118,190	\$ 12,681,404	\$ 14,618,847
Premium receivable	16,419	16,419	3,420,680
Assessments receivable	7,247,891	7,963,750	7,740,576
Accrued interest receivable	589,051	482,985	634,283
Investments	86,642,400	87,475,968	84,973,324
	<u>98,613,951</u>	<u>108,620,526</u>	<u>111,387,710</u>
Liabilities			
Accounts payable	318,984	89,001	195,266
Claims payable	41,475,189	29,699,923	14,327,342
Estimated liability for claims incurred but not reported	<u>20,200,000</u>	<u>15,800,000</u>	<u>12,200,000</u>
	<u>61,994,173</u>	<u>45,588,924</u>	<u>26,722,608</u>
Restricted Net Position	<u><u>\$ 36,619,778</u></u>	<u><u>\$ 63,031,602</u></u>	<u><u>\$ 84,665,102</u></u>

The Association's assets are concentrated primarily in its cash and cash equivalents and investments, which together represented 92.0% the Association's assets in 2023 and 92.2% of the Association's assets in 2022. Cash and cash equivalents decreased by \$8,563,214 from \$12,681,404 in 2022 to \$4,118,190 in 2023. The decrease is due principally to utilization of cash in operations. Investments decreased slightly by \$833,568 from \$87,475,968 in 2022 to \$86,642,400 in 2023. The decrease is attributable principally to market performance. Premium receivable did not change from \$16,419 in 2022 to \$16,419 in 2023. Assessments receivable remained relatively stable year over year with an decrease in assessments receivable of \$715,859 from \$7,963,750 in 2022 to \$7,247,891 in 2023.

Maine Guaranteed Access Reinsurance Association
Management's Discussion and Analysis
December 31, 2023 and 2022

There was an increase in claims payable at year end from \$29,699,923 in 2022 to \$41,475,189 at year end 2023 due to several factors: (i) the extension of the Association's reinsurance program to the Merged Market, (ii) intentionally high reinsurance parameters implying a 15% value for market premiums and (iii) continuation of adverse claims experience. There was an increase in IBNR year over year with an increase from \$15,800,000 in 2022 to \$20,200,000 in 2023.

Cash and cash equivalents decreased by \$1,937,443 from \$14,618,847 in 2021 to \$12,681,404 in 2022. The decrease is due principally to utilization of cash in operations. Investments increased slightly by \$2,502,644 from \$84,973,324 in 2021 to \$87,475,968 in 2022. The increase is attributable principally to the conversion of the Association's cash to investments. Premium receivable declined substantially from \$3,420,680 in 2021 to \$16,419 in 2022 due to the elimination of premiums resulting from conversion of the Association's reinsurance program from a prospective model to a retrospective model. Assessments receivable remained relatively stable year over year with an increase in assessments receivable of \$223,174 from \$7,740,576 in 2021 to \$7,963,750 in 2022.

There was an increase in claims payable at year end from \$14,327,342 in 2021 to \$29,699,923 at year end 2022 due largely to the conversion of the Association's reinsurance program to a retrospective model. There was a slight increase in IBNR year over year with a slight increase from \$12,200,000 in 2021 to \$15,800,000 in 2022.

	2023	2022	2021
Operating Revenues			
Premiums earned	\$ -	\$ 110,880	\$ 33,310,413
Regular assessments	28,889,529	28,957,561	28,196,350
Less claims incurred	<u>(121,991,398)</u>	<u>(93,166,976)</u>	<u>(70,665,828)</u>
	(93,101,869)	(64,098,535)	(9,159,065)
Operating Expenses	<u>915,719</u>	<u>792,956</u>	<u>1,071,526</u>
Loss from Operations	(94,017,588)	(64,891,491)	(10,230,591)
Nonoperating Income (Expense)			
Grant revenue	63,478,674	43,754,627	39,315,869
Interest income	2,503,725	2,115,339	2,726,241
Loss on investments	<u>1,623,365</u>	<u>(2,611,975)</u>	<u>(3,163,711)</u>
	67,605,764	43,257,991	38,878,399
Change in Net Position	<u><u>\$ (26,411,824)</u></u>	<u><u>\$ (21,633,500)</u></u>	<u><u>\$ 28,647,808</u></u>

The Association experienced a \$110,880 reduction in premiums earned from \$110,880 in 2022 to \$0 in 2023 due to elimination of premium being charged in 2022 as a result of the conversion of Association's reinsurance program from a prospective model to a retrospective model. Regular assessments decreased by \$68,032 to a total of \$28,889,529 in 2023 compared to \$28,957,561 in 2022. Incurred claims increased by \$28,824,422 from \$93,166,976 in 2022 to \$121,991,398 in 2023. The change is due principally to the expansion of the Association's reinsurance program to the Merged Market, intentionally high level of reinsurance benefits and continuation of adverse claims experience. There was an increase in operating expenses year over year with an increase of \$122,763 in 2023 from \$792,956 in 2022 to \$915,719 in 2023 due largely to increased activity during the year as a result of the expansion of the program to the Merged Market. Overall, there was a decrease in net position of \$26,411,824 in 2023 compared to a decrease in 2022 of \$21,633,500. The decreases were a result of operating expenses exceeding operating and non-operating revenues attributable largely to servicing the expansion to the Merged Market without additional revenue associated with the expansion, intentionally high level of reinsurance benefits and continuation of adverse claims experience.

The Association experienced a \$33,199,533 reduction in premiums earned from \$33,310,413 in 2021 to \$110,880 in 2022 due to elimination of premium being charged in 2022 as a result of the conversion of Association's reinsurance program from a prospective model to a retrospective model. Regular assessments remained stable with a slight increase of \$761,211 to a total of \$28,957,561 in 2022 compared to \$28,196,350 in 2021. There was a substantial increase in incurred claims for 2022 from \$70,665,828 in 2021 to \$93,166,976 in 2022. The change is due principally to the conversion of the Association's reinsurance program to a retrospective program. There was a reduction in operating expenses year over year with a decrease of \$278,570 in 2022 from \$1,071,526 in 2021 to \$792,956 in 2022. This change is the result of a decrease in administrative fees resulting principally from the conversion of the reinsurance program to a retrospective model. Overall, there was a decrease in net position of \$21,633,500 in 2022 compared to an increase in 2021 of \$28,647,808. The decreases were a result of operating expenses exceeding operating and non-operating revenues attributable largely to elimination of premiums and increased claims costs.

Economic Factors and Next Year's Results

Revenue: In 2024 revenue is expected to be substantially below 2023 levels due to a projected decrease in the Association's Section 1332 Grant revenue of approximately \$63,478,674 to an estimated \$29,000,000. Assessment revenue is anticipated to remain stable at \$27,000,000. Total revenues are estimated to be approximately \$56,000,000. The Association is reviewing the possibility of making a \$2 per member per month net loss assessment provided for under its enabling legislation to account for net losses incurred in 2023, which would generate an additional approximately \$13,500,000 in assessment revenue. No decision has been made as of the date hereof regarding whether to authorize a net loss assessment.

Expenses: Management expects a decrease in expenses to an estimated amount of \$80,500,000 due to a reduction in its reinsurance benefits to account for anticipated continued adverse claims experience and reductions in revenue and available surplus to offset losses.

Change in Net Position: The Association is expecting a decline in its net position in 2024, projecting a loss of an estimated \$25,500,000 and an ending surplus of \$9,500,000, assuming approximately 10% secular claims trend, extension of ARPA subsidies and no material change of enrollment in the ACA markets – approximately 68,000 individual members (62,586 on exchange) and 47,473 small group members in 2024.

Maine Guaranteed Access Reinsurance Association

Statements of Net Position

December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,118,190	\$ 12,681,404
Premium receivable	16,419	16,419
Assessments receivable	7,247,891	7,963,750
Accrued interest receivable	589,051	482,985
Investments	86,642,400	87,475,968
	<u>\$ 98,613,951</u>	<u>\$ 108,620,526</u>
Current Liabilities		
Accounts payable	\$ 318,984	\$ 89,001
Claims payable	41,475,189	29,699,923
Estimated liability for claims incurred but not reported	<u>20,200,000</u>	<u>15,800,000</u>
Total current liabilities	61,994,173	45,588,924
Restricted Net Position	<u>36,619,778</u>	<u>63,031,602</u>
	<u>\$ 98,613,951</u>	<u>\$ 108,620,526</u>

Maine Guaranteed Access Reinsurance Association
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Premiums earned	\$ -	\$ 110,880
Regular assessments	28,889,529	28,957,561
Less claims incurred	<u>(121,991,398)</u>	<u>(93,166,976)</u>
Deficiency of premiums and assessments under claims	<u>(93,101,869)</u>	<u>(64,098,535)</u>
Operating Expenses		
Contracted management services	653,278	579,260
Professional fees	191,402	144,456
Interest and bank charges	-	7,682
Other administrative costs	<u>71,039</u>	<u>61,558</u>
Total operating expenses	<u>915,719</u>	<u>792,956</u>
Loss from Operations	<u>(94,017,588)</u>	<u>(64,891,491)</u>
Nonoperating Income (Expense)		
Grant revenue	63,478,674	43,754,627
Interest income	2,503,725	2,115,339
Gain (loss) on investments	<u>1,623,365</u>	<u>(2,611,975)</u>
Total nonoperating income	<u>67,605,764</u>	<u>43,257,991</u>
Change in Net Position	(26,411,824)	(21,633,500)
Restricted Net Position, Beginning of Year	<u>63,031,602</u>	<u>84,665,102</u>
Restricted Net Position, End of Year	<u><u>\$ 36,619,778</u></u>	<u><u>\$ 63,031,602</u></u>

Maine Guaranteed Access Reinsurance Association

Statements of Cash Flows Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Loss from Operations	\$ (94,017,588)	\$ (64,891,491)
Adjustments to reconcile change in net position to cash used for operating activities		
Changes in assets and liabilities		
Premium receivable	-	3,404,261
Assessments receivable	715,859	(223,174)
Accounts payable	229,983	(106,265)
Claims payable	11,775,266	15,372,581
Estimated liability for claims incurred but not reported	4,400,000	3,600,000
Net Cash used for Operating Activities	<u>(76,896,480)</u>	<u>(42,844,088)</u>
Investing Activities		
Purchase of investments	(85,209,445)	(36,400,292)
Sale of investments	87,666,378	31,285,673
Interest received	2,397,659	2,266,637
Net Cash from (used for) Investing Activities	<u>4,854,592</u>	<u>(2,847,982)</u>
Noncapital Financing Activities		
Proceeds from grant funding	63,478,674	43,754,627
Net Cash from Noncapital Financing Activities	<u>63,478,674</u>	<u>43,754,627</u>
Net Change in Cash and Cash Equivalents	(8,563,214)	(1,937,443)
Cash and Cash Equivalents, Beginning of Year	12,681,404	14,618,847
Cash and Cash Equivalents, End of Year	<u>\$ 4,118,190</u>	<u>\$ 12,681,404</u>

Note 1 - Principal Activity and Significant Accounting Policies**Organization**

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. In 2022, the Association covered losses at 90% of claims paid at \$65,000 of loss, and at 100% of claims paid in excess of \$95,000 of loss, net of amounts recoverable from a federal high-cost risk pool. In 2023, the Association covered 100% of claims paid in excess of \$90,000 (up to \$275,000).

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. The Association re-initiated its reinsurance program effective January 1, 2019, in accordance with its Amended and Restated Plan of Operation dated January 1, 2019, approved by the Maine Bureau of Insurance in late December 2018. The Association amended its reinsurance program effective January 1, 2022, in accordance with its Amended and Restated Plan of Operation dated January 1, 2022, approved by the Maine Bureau of Insurance, to shift from a prospective to a retrospective model. Effective January 1, 2023, the Plan of Operations was amended and restated for the Association's program to be extended to a merged Individual Market and Small Group Market, referred to as the "Pooled Market". This extended the Association's coverage to small group health plans as well as individual health insurance plans.

Basis of Presentation

As a public corporation created by State Code, the financial statements of the Association have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Association is an enterprise fund, which is a proprietary fund type. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all cash and cash equivalents with an original maturity of three months or less as cash and cash equivalents.

Investments

Investments consist of corporate bonds, U.S. Treasury Securities, and commercial paper of deposit. Investments are measured at fair market value.

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. 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.

Assessments and Premiums

On an annual basis, the Board assesses 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 to cover any net loss incurred.

The premiums in the financial statements only reflect the premiums ceded by the carriers to the Association for the reinsurance. The Board determines the reinsurance premium, the attachment points, and the list of medical conditions for which ceding is mandatory. Effective January 1, 2022, premiums from participating insurance carriers were no longer a source of revenue for the Association.

Revenue and Revenue Recognition

Premium revenue and assessments are recognized when earned. The Association's federal grant is received on a reimbursement basis. Amounts received are recognized as revenue when the Association has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of net position.

Investment Income and Gains

Investment income and gains are reported as increases in net position.

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.

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. Significant estimates used in preparing the financial statements include those assumed in determining the accrued liability for claims incurred but not reported. 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.

Management believes 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. Management 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.

Note 2 - Cash Deposits

As of December 31, 2023 and 2022, the book balance of deposits was \$4,118,190 and \$1,709,573, respectively, and the bank balance was \$4,118,190 and \$1,709,573, respectively.

Of the 2023 bank balance, \$250,000 was covered by FDIC insurance and \$3,868,190 was uninsured and uncollateralized. Of the 2022 bank balance, \$250,000 was covered by FDIC insurance and \$1,459,573 was uninsured and uncollateralized.

The Association also had cash equivalents with a book balance of \$0 and \$10,971,831, as of December 31, 2023 and 2022, respectively. These cash equivalents are invested in fixed income commercial paper purchased within 3 months of maturity and held in the Association's name.

Note 3 - Investments and Fair Value Measurements

The goal of the Association's investment policy is to provide cash flow necessary to support the Association's reinsurance program and enhance the capital base of the Association. The objective of the investment policy is to provide liquidity required to satisfy the Association's reinsurance reimbursement obligations and operate its

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2023 and 2022

reinsurance program; preserve all funds held by the Association in an investment capacity so as to minimize principal risk; earn a rate of return commensurate with the first two objectives; employ multiple asset classes to allow for prudent diversification and the resultant lowering of return volatility; and conform with all federal and state regulations governing the investments of such funds.

Investment types authorized by the Association's investment policy are as follows:

- Certificates of Deposit at insured financial institutions;
- Money market funds that invest in government backed securities;
- Interest bearing deposit accounts of insured financial institutions;
- Investment grade direct obligations of the U.S., State or Municipal Governments, their agencies and instrumentalities (*i.e.*, rated BBB/Baa or above);
- Commercial Paper rated A-1/P-1 by Standard & Poors and Moody's;
- Commercial Paper backed by bank letters of credit where the long-term letter of credit rating is rated at least double A (AA, Aa) by one rating service;
- Variable rate notes where the minimum rating is A-1/P-1;
- Corporate notes with a minimum rating of investment grade (BBB) by Moody's or Standard & Poors rating services which have a current rating on the issuer;
- Equity investments are not allowed.

At December 31, 2023, the Association's investment balances were as follows:

	Fair Value	Cost
Investments		
Commercial paper	\$ 19,868,429	\$ 19,262,222
U.S. Treasury Securities	3,459,715	3,428,880
Corporate bonds	63,314,256	62,715,335
	<u>\$ 86,642,400</u>	<u>\$ 85,406,437</u>

At December 31, 2022, the Association's investment balances were as follows:

	Fair Value	Cost
Cash Equivalents		
Commercial paper	<u>\$ 10,971,831</u>	<u>\$ 10,932,821</u>
Investments		
Commercial paper	\$ 7,453,441	\$ 7,384,321
U.S. Treasury Securities	2,995,710	2,991,472
Corporate Bonds	77,026,817	78,718,979
	<u>\$ 87,475,968</u>	<u>\$ 89,094,772</u>

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2023 and 2022

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in the market will adversely impact the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Association manages its exposure to interest rate risk by purchasing short-term investments to maintain the proper amount of liquidity to meet its obligations. The Association's policy does not define the maximum weighted average maturity of the investment pool.

Information about the sensitivity of the fair values of the Association's investments to market interest rate fluctuations is provided by the following schedules that show the distribution of the Association's investments by maturity.

The distribution of the Association's investments by maturity as of December 31, 2023, is as follows:

Investment Type	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Commercial Paper	\$ 19,868,429	\$ 19,868,429	\$ -	\$ -
U.S. Treasury Securities	3,459,715	3,459,715	-	-
Corporate bonds	63,314,256	62,334,786	979,470	-
Total	<u>\$ 86,642,400</u>	<u>\$ 85,662,930</u>	<u>\$ 979,470</u>	<u>\$ -</u>

The distribution of the Association's investments by maturity as of December 31, 2022, is as follows:

Investment Type	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Commercial Paper	\$ 18,425,272	\$ 18,425,272	\$ -	\$ -
U.S. Treasury Securities	2,995,710	2,995,710	-	-
Corporate bonds	77,026,817	7,507,887	50,203,241	19,315,689
Total	<u>\$ 98,447,799</u>	<u>\$ 28,928,869</u>	<u>\$ 50,203,241</u>	<u>\$ 19,315,689</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Association's investment policy requires the overall weighted average quality of the aggregate fixed income portfolio to be A or higher. As of December 31, 2023 and 2022, all investments are in compliance with the rating policy.

Concentration of Credit Risk

The Association's investment policy does not limit the amount that can be invested in any one issuer. The Governmental Accounting Standards Board has adopted a principle that governments should provide note disclosure when five percent of the total entity's investments are concentrated in any one issuer. As of December 31, 2023, the Association had investments in three (3) issuers of commercial paper that were 8%, 6%, and 6% of the total investment portfolio and had investments in six (6) issuers of corporate bonds that were 9%, 8%, 7%, 6%, 6%, and 5% of the total investment portfolio. As of December 31, 2022, the Association had investments in three (3) issuers of commercial paper that were 6%, 5%, and 5% of the total investment portfolio and had investments in four (4) issuers of corporate bonds that were 10%, 8%, 7%, and 6% of the total investment portfolio.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Association does not have a policy restricting the amount of deposits and investments subject to custodial credit risk.

The Association minimizes exposure to custodial credit risk by requiring that investments, to the extent possible, be identified as to the Association's ownership and be held in the Association's name. All investments are held in custody by KeyBanc Capital Markets in the Association's name.

Fair Value

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2023 and 2022

Level 3 – Unobservable inputs for the asset or liability. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

All the Association's investment assets are classified within Level 2. The commercial paper are classified within Level 2 as they are traded on an active market and have quoted prices. The fixed income securities are valued by the custodians of the securities using pricing models based upon credit quality, time to maturity, stated interest rates and market rate assumptions, and are classified within Level 2.

The following tables set forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31:

	2023			
	(Level 1)	(Level 2)	(Level 3)	Total
Commercial paper	\$ -	\$ 19,868,429	\$ -	\$ 19,868,429
U.S. Treasury Securities	-	3,459,715	-	3,459,715
Corporate bonds	-	63,314,256	-	63,314,256
Total assets at fair value	<u>\$ -</u>	<u>\$ 86,642,400</u>	<u>\$ -</u>	<u>\$ 86,642,400</u>
	2022			
	(Level 1)	(Level 2)	(Level 3)	Total
Commercial paper	\$ -	\$ 7,453,441	\$ -	\$ 7,453,441
U.S. Treasury Securities	-	2,995,710	-	2,995,710
Corporate bonds	-	77,026,817	-	77,026,817
	-	87,475,968	-	87,475,968
Short-term commercial paper	-	10,971,831	-	10,971,831
Total assets at fair value	<u>\$ -</u>	<u>\$ 98,447,799</u>	<u>\$ -</u>	<u>\$ 98,447,799</u>

As of December 31, 2022, the Association had \$10,971,831 of commercial paper with maturities of three months or less. These have been classified as cash equivalents.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements

December 31, 2023 and 2022

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, 2023 and 2022, there was \$36,619,778 and \$63,031,602, respectively, available to offset future losses.

Note 5 - Provisions for Unpaid Claims and Claims Administration

In accordance with accounting principles generally accepted in the United States of America for insurance companies, 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 which are currently participating in the Association. The Association's Board of Directors monitors the estimates with assistance from actuarial consultants, and the necessary adjustments are reflected in current operations. As of December 31, 2023 and 2022, the provision for unreported and unpaid claims for the Association was \$20,200,000 and \$15,800,000, respectively. Differences between actual and estimated claims are charged to operations in the year that the differences, if any, become known.

The following represents the changes in the provision for unreported and unpaid claims for the years ended December 31, 2023 and 2022:

	2023	2022
Unpaid losses and loss adjustment expenses, beginning of year	\$ 15,800,000	\$ 12,200,000
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	129,451,361	94,704,944
Decrease in provision for insured events of prior year	(7,459,963)	(1,537,968)
Total incurred losses and loss adjustment expenses	121,991,398	93,166,976
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	109,251,361	78,904,944
Losses and loss adjustment expense attributable to insured events of the prior year	8,340,037	10,662,032
Total payments	117,591,398	89,566,976
Unpaid losses and loss adjustment expenses, end of year	\$ 20,200,000	\$ 15,800,000

The provision for incurred losses and loss adjustments decreased during the years ended December 31, 2023 and 2022. The change is primarily due to unanticipated developments during the year on losses incurred from previous years, and the corresponding change in the actuarial estimates of ultimate liabilities for incurred claims from those years.

Note 6 - Management Contract

Effective January 1, 2022, the Association entered into an administrative agreement with River 9 Consulting, Inc. (River 9). This agreement stipulates a flat monthly fee of \$15,000 per month and \$50 quarterly per individual claims processing fee. This fee applies to each person for which a claim reimbursement payment is made to a participating carrier related to that individual during the relevant calendar quarter. There is a total annual fee cap of \$400,000 for individual market.

The management service expense for the years ended December 31, 2023 and 2022, was \$377,000 and \$387,950, respectively, of which \$68,300 and \$53,700, was payable at December 31, 2023 and 2022, respectively.

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 Association is covered through commercial insurance purchased by River 9 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 and Section 1332 Waiver

The following is a brief summary of the circumstances relating to the temporary suspension of the operations of the Association and authorization of resumption of operations as of January 1, 2019:

The Association was established pursuant to an act of the Maine State Legislature. The Association's original Plan of Operation was adopted effective June 12, 2012 ("Original Plan") and the Association operated its reinsurance program during the period July 1, 2012, through December 31, 2013. Pursuant to legislative action, effective January 1, 2014, the Association's operations were suspended during the pendency of the transitional reinsurance program instituted pursuant to Section 1341 of the Patient Protection and Affordable Care Act ("Federal Program") in order to avoid redundancy with the Federal Program. Pursuant to such suspension, the Association filed an Amended Plan of Operation with the Superintendent of Insurance on June 5, 2014, pursuant to 24-A M.R.S. Section 3962, which required the Association to file with the Superintendent for approval of an Amended Plan of Operation ("Suspension Plan") within 6 months following the implementation of the Federal Program.

Maine Guaranteed Access Reinsurance Association

Notes to Financial Statements
December 31, 2023 and 2022

On July 30, 2018, the State of Maine received approval from the United States Department of Health & Human Services, Centers for Medicare & Medicaid Services ("CMS") of its Application for State Innovation Waiver under Section 1332 of the Patient Protection and Affordable Care Act ("Section 1332 Waiver Application"). On August 21, 2018, the State of Maine accepted the Section 1332 Waiver by executing and delivering to CMS the Specific Terms and Conditions of the Section 1332 Waiver ("STCs"). The Section 1332 Waiver Application and the STCs are collectively referred to as the "Section 1332 Waiver".

On August 18, 2018, the Association's Board approved the re-initiation of Association operations as of January 1, 2019, and the submission of an Amended and Restated Plan of Operation for approval by the Maine Superintendent of Insurance. On November 30, 2018, CMS confirmed in a letter to the Maine Superintendent of Insurance the estimated amount of Section 1332 pass-through funding to the State of Maine for use in operating the Association's reinsurance program at \$65,270,675. The Association's Amended and Restated Plan of Operation was submitted to and approved by the Superintendent of Insurance in December 2018. The Association received \$63,478,674 and \$43,754,627, as of December 31, 2023 and 2022, respectively.

Effective January 1, 2022, the Association's reinsurance program was changed from a prospective reinsurance model to a retrospective reinsurance pursuant to a statutory change to its enabling legislation and its Amended and Restated Plan of Operation.

Effective January 1, 2023, the Plan of Operations was amended and restated for the Association's program to be extended to a merged Individual Market and Small Group Market, referred to as the "Pooled Market". This extended the Association's coverage to small group health plans as well as individual health insurance plans.



Federal Awards Reports in Accordance with the Uniform
Guidance

December 31, 2023

Maine Guaranteed Access Reinsurance Association



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities of the Maine Guaranteed Access Reinsurance Association (the Association), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated April 10, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any

deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Association's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Association's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
April 10, 2024



Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Maine Guaranteed Access Reinsurance Association's (the Association) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Association's major federal program for the year ended December 31, 2023. The Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Association complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Association's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Association's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Association's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Association's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Association's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Association's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2023-002. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Association's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink. The signature appears to read "Eric S. Sully, Esq." followed by "LLP". The handwriting is cursive and fluid.

Boise, Idaho
April 10, 2024

Maine Guaranteed Access Reinsurance Association
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Financial Assistance Listing</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services 1332 State Innovation Waivers	93.423	n/a	\$ 63,478,674
			<u>\$ 63,478,674</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Maine Guaranteed Access Reinsurance Association (the Association) under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Association.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Association does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Maine Guaranteed Access Reinsurance Association
Schedule of Findings and Questioned Costs
December 31, 2023

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENT

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing Number</u>
1332 State Innovation Waivers	93.423
Dollar threshold used to distinguish between type A and type B programs	\$ 1,904,360
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2023-001 Financial Statement Preparation
Significant Deficiency in Internal Control within Financial Reporting

Criteria: Management should have an internal control system in place designed to provide for the presentation of the financial statements being audited. This also includes the ability to prepare the footnote disclosures required by the Governmental Accounting Standards Board (GASB).

Condition: The Association does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were required to draft the financial statements, the accompanying notes to those financial statements, and the Schedule of Expenditures of Federal Awards. Although this circumstance is not unusual for an organization of your size, the preparation of the financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as if the financial statements were prepared by management of the Association. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of costs or other considerations.

Cause: The size of the Association and the limited number of accounting personnel makes it difficult to implement this level of internal control.

Effect: Management must rely on the auditing firm to report financial data reliably in accordance with U.S. GAAP.

Recommendation: Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of costs or other considerations.

Views of Responsible Officials: The Board of Directors and management of the Association accept this degree of risk associated with the condition because of costs and/or other considerations.

Section III – Federal Award Findings and Questioned Costs

2023-002 U.S. Department of Health and Human Services
Federal Financial Assistance Listing 93.423
1332 State Innovation Waivers

Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Significant Deficiency in Internal Control in Federal Compliance

Criteria: Costs charged to the federal funds under the 1332 Waiver program must comply with the cost principles at 45 CFR Part 75, Subpart E, and any other requirements or restrictions on the use of federal funding outlined in the grant Standard Terms and Conditions.

Condition: The Association's existing controls over their IT environment for reviewing and reimbursing carriers for claims was not able to detect and prevent a claim from being reimbursed twice.

Cause: The Association began working with a new carrier, Aetna, and did not modify their IT environment for this specific carrier to ensure that claims being reimbursed were not able to be duplicated.

Effect: A claim was able to be reimbursed to a carrier twice using federal monies.

Questioned Costs: \$74,799.52

Context/Sampling: A nonstatistical sample of 60 claims out of 89,552 claims were selected for testing.

Repeat Finding from Prior Year(s): No

Recommendation: Management should implement parameters in their IT environment that allow them the ability to detect and prevent a claim being duplicated and paid out twice.

Views of Responsible Officials: Management of the Association agrees with the finding.