MGARA

Maine Guaranteed Access Reinsurance Association

Merrill's Wharf
254 Commercial Street
Portland, ME

ANNUAL REPORT TO JOINT STANDING COMMITTEE ON INSURANCE AND FINANCIAL SERVICES

March 22, 2016

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 under the heading "Continuing Operations." The suspension shall continue in force through December 31, 2016. 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, 2015. All information set forth therein is incorporated herein by reference.

IV. RE-START OF OPERATIONS

As of this writing, LD 1545 has passed both the House and Senate. Assuming LD 1545 becomes law, MGARA's operations will be suspended for an additional year, through December 31, 2017, resulting in re-start on January 1, 2018. The Association will file an amendment to its Plan of Operation detailing the specifics of the program and its re-implementation with the Superintendent of Insurance in the fall of 2016. Pursuant to the provisions of LD 1545, the Superintendent is required to make a report to the Insurance and Financial Services Committee regarding whether the Association should resume operations. That report will help inform the Superintendent's review of any amended plan filed by the Association.

Financial Statements
December 31, 2015 and 2014

Maine Guaranteed Access Reinsurance Association

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Maine Guaranteed Access Reinsurance Association
Boise, Idaho

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, 2015 and 2014, 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, 2015 and 2014, 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.

Eide Bailly LLP

Boise, Idaho
March 07, 2016

Maine Guaranteed Access Reinsurance Association
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash in bank	$ 42,170	$ 458,533
Claims receivable	-	93,174
Premium receivable	-	90,259
Prepaid expenses	-	6,000
Accrued interest receivable	14,256	10,388
Investments	5,137,105	5,561,559
	$ 5,193,531	$ 6,219,913
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 3,969	$ 24,786
Claims payable	-	883,643
Total current liabilities	3,969	908,429
Net Assets	5,189,562	5,311,484
	$ 5,193,531	$ 6,219,913

Maine Guaranteed Access Reinsurance Association
Statements of Revenues and Expenses and Changes in Net Assets – Modified Cash Basis
Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Premiums earned	$ -	$ 6,416
Refund	18,822	-
Add change in claims incurred but not reported	-	4,350,397
Less claims incurred	-	-
Total operating revenues	18,822	4,356,813
Operating Expenses		
Contracted management services	75,325	148,363
Professional fees	78,298	58,263
Interest and bank charges	620	1,455
Other administrative costs	17,294	15,893
Total operating expenses	171,537	223,974
Income (Loss) from Operations	(152,715)	4,132,839
Nonoperating Income (Expense)		
Interest income	49,189	40,703
Loss on investments	(18,396)	(8,714)
Total nonoperating income	30,793	31,989
Change in Net Assets	(121,922)	4,164,828
Net Assets, Beginning of Year	5,311,484	1,146,656
Net Assets, End of Year	$ 5,189,562	$ 5,311,484

	2015	2014
Operating Activities		
Change in net assets	$ (121,922)	$ 4,164,828
Adjustments to reconcile change in net assets to cash used for operating activities		
Loss on sale of investments	18,396	8,714
Investment income	(49,189)	(40,703)
Changes in assets and liabilities		
Change in claims receivable	93,174	(93,174)
Premiums receivable	90,259	1,347,708
Accounts payable	(20,817)	(43,960)
Claims payable	(883,643)	(7,211,557)
Estimated liability for claims incurred but not reported	-	(9,000,000)
Net Cash used for Operating Activities	(867,742)	(10,868,144)
Investing Activities		
Purchase of investments	(3,310,563)	(8,350,000)
Sale of investments	3,761,942	16,326,237
Net Cash from Investing Activities	451,379	7,976,237
Net Change in Cash	(416,363)	(2,891,907)
Cash, Beginning of Year	458,533	3,350,440
Cash, End of Year	$ 42,170	$ 458,533

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, 2015 and 2014, 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.

Subsequent Events

The Association has evaluated subsequent events through March 07, 2016, the date which the financial statements were available to be issued.

Note 2 - Cash Deposits

As of December 31, 2015 and 2014, the book balance of deposits was $42,170 and $458,533, 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, 2015 and 2014.

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

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

<u>Corporate bonds</u>: 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>U.S. agency securities</u>: Valued using pricing models maximizing the use of observable inputs for similar securities.

<u>Municipal bonds</u>: 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.

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

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

	2014			
	(Level 1)	(Level 2)	(Level 3)	Total
Money market deposit accounts	$ 14,598	$ -	$ -	$ 14,598
Certificates of deposit	-	3,798,388	-	3,798,388
US agency securities	-	744,975	-	744,975
Municipal bonds	-	500,000	-	500,000
Corporate bonds	-	503,598	-	503,598
Total assets at fair value	$ 14,598	$ 5,546,961	$ -	$ 5,561,559

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, 2015 and 2014, there was $5,189,562 and $5,311,484, 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 following represents the changes in the provision for unreported and unpaid claims for the years ended December 31:

	2015	2014
Unpaid losses and loss adjustment expenses, beginning of year	$ -	$ 9,000,000
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	-	-
Decrease in provision for a change in incurred but not reported	-	(4,350,397)
Increase in provision for insured events of prior year	-	-
Total incurred losses and loss adjustment expenses	-	(4,350,397)
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	-	-
Losses and loss adjustment expense attributable to insured events of the prior year	-	4,649,603
Total payments	-	4,649,603
Unpaid losses and loss adjustment expenses, end of year	$ -	$ -

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

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, 2015 and 2014 was $66,000 and $142,483, respectively, of which $0 and $9,458 was payable at December 31, 2015 and 2014, 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 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 and 50% of claims between $75,000 and $250,000 in 2015, 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.

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.