

MAINE STATE LEGISLATURE

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

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

September 1, 2023

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” or “MGARA”) is required to make an annual report to the Joint Standing Committee on Health Care, 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 (“Original Plan”). 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. Pursuant to such suspension, MGARA filed an Amended Plan of Operation with the Superintendent of Insurance on June 5, 2014 pursuant to 24-A M.R.S. §3962, which required MGARA to file with the Superintendent for approval an Amended Plan of Operation (“Suspension Plan”) within 6 months following the implementation of 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.

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 current prospective model to a retrospective model effective as of January 1, 2022 (“Retrospective Model”).

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. (referred to as the “Pooled Market”) for plan years 2023 through 2027. The MGARA Plan of Operation has been amended and restated to give effect to this Pooled Market with such changes operational as of January 1, 2023.

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.

Beginning January 1, 2023, MGARA further transitioned to include coverage for the Small Group Market due to the merge between the Individual and Small Group markets. The following table describes the historical progression from a prospective model to the current retrospective model working within a merged market.

Year	Low / High Thresholds	Coinsurance	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%	\$36.9 million**	Merged Market with Retrospective Model Begins
2024	\$135k / \$275k	75%	\$32.7 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).*

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 6% of Individual Market premiums. MGARA's actuary (Milliman) estimates the end of year risk-based capital (RBC) percentage of approximately 470%. Their risk-based capital calculations are approximations of the NAIC models, modified to be suited for MGARA's reinsurance program.

At the time of this report there remains uncertainty in claims projected for 2023 in Maine's newly merged market. Since claims are submitted quarterly and the program has only two quarters of claims submissions at this time. The 2023 year-end results are important as they will establish the amount of starting surplus available in 2024. We also highlight an inflationary and evolving economic climate, which could impact the market MGARA serves. There is also the potential for enrollment changes in the merged market during an extended Special Enrollment Period scheduled to start in 2023 and extend into 2024.

Alongside these sources of uncertainty, the transformation of MGARA's operations, due to coverage of the merged market, led the Board to approve leaner MGARA parameters for 2024

that may be more reflective of MGARA's longer term value. Merging the Small Group Market with the Individual Market adds additional MGARA claims expenditures without an additional source of revenue. Neither the pass-through funding nor the assessments are increased to offset the additional claims from the Small Group population. The result is a material increase in MGARA's risk exposure and reduction in its impact on the Individual Market relative to prior years of operation.

In setting the 2023 parameters, MGARA's board used the favorable surplus built over previous years to increase value to the merged market. The surplus effectively became a temporary source of revenue to drive down premium levels in the market. We project 2023's thresholds and coinsurance parameters will create a loss of \$16.9 million in 2023.

While MGARA's revenue streams are largely similar between 2022 and 2023, the reinsurance coverage is now provided to about 70% more members (i.e., the Small Group members within the merged market). 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. As stated earlier in the report, no additional funding is generated from the Small Group enrollees although they have become a significant portion of the reinsured population.

The 2023 anticipated year-end net surplus of \$27.5 million and resulting RBC of about 470% is on the low end of desired RBC in periods of uncertainty, as previously directed by MGARA's Board. 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 in an uncertain fiscal environment.

Continuing to operate at the loss projected for 2023 is not sustainable for MGARA over the intermediate to long term, and providing meaningful value to the Individual and Small Group Markets will become challenging. One of the implications of the prior year's draw down in surplus, and the resulting reduction in premiums, is a robust savings in government funded subsidies, which is 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 excess surplus to draw from to increase program value the resulting grant revenue will substantially less in amount and MGARA's ability to lower future premiums in the combined Individual and Small Group markets will be diminished.

II. FINANCIAL SUMMARY:

Financial Highlights

- Total assets decreased by \$2,767,184 from \$111,387,710 in 2021 to \$108,620,526 in 2022. Total assets increased by \$25,367,094 from \$86,020,616 in 2020 to \$111,387,710 in 2021.
- Cash and cash equivalents decreased by \$1,937,443 from \$ 14,618,847 in 2021 to \$ 12,681,404 in 2022. Cash and cash equivalents decreased by \$27,869,094 from \$42,487,941 in 2020 to \$14,618,847 in 2021.
- Premium receivable declined substantially from \$3,420,680 in 2021 to \$16,419 in 2022.

- Investments increased by \$2,502,644 from \$84,973,324 in 2021 to \$87,475,968 in 2022. Investments increased by \$54,445,040 from \$30,528,284 in 2020 to \$84,973,324 in 2021.
- Incurred claims increased by \$22,501,148 from \$70,665,828 in 2021 to \$93,166,976 in 2022. Incurred claims increased by \$1,518,952 from \$69,146,876 in 2020 to \$70,665,828 in 2021.
- Grant revenue increased by \$4,483,758 from \$39,315,869 in 2021 to \$43,754,627 in 2022. Grant revenue increased by \$13,023,898 from \$26,291,971 in 2020 to \$39,315,869 in 2021.

Overview of the 2022 Audited Annual Financial Statements

This overview is intended to serve as an introduction to the Association's annual financial statements attached hereto as Exhibit A (2022 Audited Statements"). Reference is made to the 2022 Audited Statements for greater detail regarding MGARA's financial position as reported therein.

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 the 2022 Audited Statements.

Financial Analysis

Financial Analysis

	2022	2021	2020
Assets			
Cash and cash equivalents	\$ 12,681,404	\$ 14,618,847	\$ 42,487,941
Premium receivable	16,419	3,420,680	5,357,263
Assessments receivable	7,963,750	7,740,576	7,436,904
Accrued interest receivable	482,985	634,283	210,224
Investments	87,475,968	84,973,324	30,528,284
	<u>108,620,526</u>	<u>111,387,710</u>	<u>86,020,616</u>
Liabilities			
Accounts payable	89,001	195,266	197,033
Claims payable	29,699,923	14,327,342	14,806,289
Estimated liability for claims incurred but not reported	15,800,000	12,200,000	15,000,000
	<u>45,588,924</u>	<u>26,722,608</u>	<u>30,003,322</u>
Restricted Net Position	<u>\$ 63,031,602</u>	<u>\$ 84,665,102</u>	<u>\$ 56,017,294</u>

The Association's assets are concentrated primarily in its cash and cash equivalents and investments, which together represented 92.2% of the Association's assets in 2022 and 89.4% of the Association's assets in 2021. 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.

	2022	2021	2020
Operating Revenues			
Premiums earned	\$ 110,880	\$ 33,310,413	\$ 40,748,475
Regular assessments	28,957,561	28,196,350	28,864,378
Less claims incurred	<u>(93,166,976)</u>	<u>(70,665,828)</u>	<u>(69,146,876)</u>
	(64,098,535)	(9,159,065)	465,977
Operating Expenses	<u>792,956</u>	<u>1,071,526</u>	<u>1,110,283</u>
Loss from Operations	(64,891,491)	(10,230,591)	(644,306)
Nonoperating Income (Expense)			
Grant revenue	43,754,627	39,315,869	26,291,971
Interest income	2,115,339	2,726,241	1,022,610
Loss on investments	<u>(2,611,975)</u>	<u>(3,163,711)</u>	<u>(543,679)</u>
	<u>43,257,991</u>	<u>38,878,399</u>	<u>26,770,902</u>
Change in Net Position	<u>\$ (21,633,500)</u>	<u>\$ 28,647,808</u>	<u>\$ 26,126,596</u>

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 an 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 and non-operating revenues exceeding operating expenses attributable largely to elimination of premiums and increased claims costs.

Economic Factors and Next Year's Results

Changes are anticipated in the Association's financial performance in 2023 due to another statutory change in the Association's enabling legislation and its Amended and Restated Plan of Operation. Beginning January 1, 2023, Maine's individual and small group markets will be merged onto a single market and the Association's reinsurance program will be expanded to serve the small group health insurance market in addition to the individual market (the "Merged Market").

Revenue: In 2023 revenue is expected to be ahead of 2022 due to an increase in the Association's Section 1332 Grant revenue of approximately \$17,600,000 to an estimated \$61,412,276. Assessment revenue is anticipated to remain stable. Total revenues are estimated to be approximately \$88,400,000.

Expenses: Management expects an increase in claims incurred of approximately \$10,000,000 to an estimated amount of \$104,200,000 due to the Merged Market.

Change in Net Position: The Association is expecting a decline in its net position in 2023, projecting a loss of an estimated \$16,600,000 and 2023 anticipated year-end net surplus of \$27.5 million, which results in an RBC of about 470%, which as indicated above, is on the low end of desired RBC in periods of uncertainty, as previously directed by MGARA's Board.. That result is an intentional draw down of surplus to support the Merged Market.

III. OPERATIONS SUMMARY: MGARA operations executed according to plan without any operational issues. Beginning with the 2022 year, the MGARA reinsurance program was converted from a prospective program to a retrospective program reimbursing carriers at an annually specified coinsurance rate for claims that meet or exceed an annually specified attachment point and are not in excess of a specified reinsurance limit. MGARA's reinsurance thresholds for 2022 were set at an attachment point of \$90,000 and a limit of \$275,000, with a 100% coinsurance rate. These reinsurance thresholds are determined annually by the MGARA Board, subject to approval by the Superintendent. Beginning in 2023 the MGARA program has been extended to the Small Group Market, as discussed above. MGARA's reinsurance thresholds for 2023 were maintained at 2022 levels with an attachment point of \$90,000 and a limit of \$275,000, with a 100% coinsurance rate; however, significant change in reinsurance thresholds is required for 2024 in order to maintain appropriate levels of reserves and RBC.

Exhibit A
2022 Audited Statements

(See Attached)



Financial Statements
December 31, 2022 and 2021

Maine Guaranteed Access Reinsurance Association

Maine Guaranteed Access Reinsurance Association

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December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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 audit 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 opinions.

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 opinion. 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 on pages 4 through 7 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 July 31, 2023, 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.



Boise, Idaho
July 31, 2023

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, 2022 and 2021.

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.

Financial Highlights

- Total assets decreased by \$2,767,184 from \$111,387,710 in 2021 to \$108,620,526 in 2022. Total assets increased by \$25,367,094 from \$86,020,616 in 2020 to \$111,387,710 in 2021.
- Cash and cash equivalents decreased by \$1,937,443 from \$ 14,618,847 in 2021 to \$ 12,681,404 in 2022. Cash and cash equivalents decreased by \$27,869,094 from \$42,487,941 in 2020 to \$14,618,847 in 2021.
- Premium receivable declined substantially from \$3,420,680 in 2021 to \$16,419 in 2022.
- Investments increased by \$2,502,644 from \$84,973,324 in 2021 to \$87,475,968 in 2022. Investments increased by \$54,445,040 from \$30,528,284 in 2020 to \$84,973,324 in 2021.
- Incurred claims increased by \$22,501,148 from \$70,665,828 in 2021 to \$93,166,976 in 2022. Incurred claims increased by \$1,518,952 from \$69,146,876 in 2020 to \$70,665,828 in 2021.
- Grant revenue increased by \$4,438,758 from \$39,315,869 in 2021 to \$43,754,627 in 2022. Grant revenue increased by \$13,023,898 from \$26,291,971 in 2020 to \$39,315,869 in 2021.

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 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.

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.

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

Maine Guaranteed Access Reinsurance Association
Management's Discussion and Analysis
December 31, 2022 and 2021

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

	2022	2021	2020
Assets			
Cash and cash equivalents	\$ 12,681,404	\$ 14,618,847	\$ 42,487,941
Premium receivable	16,419	3,420,680	5,357,263
Assessments receivable	7,963,750	7,740,576	7,436,904
Accrued interest receivable	482,985	634,283	210,224
Investments	87,475,968	84,973,324	30,528,284
	<u>108,620,526</u>	<u>111,387,710</u>	<u>86,020,616</u>
Liabilities			
Accounts payable	89,001	195,266	197,033
Claims payable	29,699,923	14,327,342	14,806,289
Estimated liability for claims incurred but not reported	15,800,000	12,200,000	15,000,000
	<u>45,588,924</u>	<u>26,722,608</u>	<u>30,003,322</u>
Restricted Net Position	<u>\$ 63,031,602</u>	<u>\$ 84,665,102</u>	<u>\$ 56,017,294</u>

The Association's assets are concentrated primarily in its cash and cash equivalents and investments, which together represented 92.2% of the Association's assets in 2022 and 89.4% of the Association's assets in 2021. 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.

Maine Guaranteed Access Reinsurance Association

Management's Discussion and Analysis

December 31, 2022 and 2021

Cash and cash equivalents decreased by \$27,869,094 from \$42,487,941 in 2020 to \$14,618,847 in 2021. The decrease is due principally to movement of cash to investments in an effort to generate more investment income while also maintaining appropriate matching of liquidity to cash requirements. Investments increased by \$54,445,040 from \$30,528,284 in 2020 to \$84,973,324 in 2021. The increase is also attributable largely to the conversion of the Association's cash to investments. Both premium receivable and assessments receivable remained relatively stable year over year with a decrease in premium receivable of \$1,936,583 from \$5,357,263 in 2020 to \$3,420,680 in 2021, and an increase in assessments receivable of \$303,672 from \$7,436,904 in 2020 to \$7,740,576 in 2021. There were no grant receivables in 2021 or 2020.

There was a reduction in claims payable at year end from \$14,806,289 in 2020 to \$14,327,342 in 2021 due to lower claims incurred in 2021 compared to 2020. There was little change in IBNR year over year with a slight decrease from \$15,000,000 in 2020 to \$12,200,000 in 2021.

	2022	2021	2020
Operating Revenues			
Premiums earned	\$ 110,880	\$ 33,310,413	\$ 40,748,475
Regular assessments	28,957,561	28,196,350	28,864,378
Less claims incurred	(93,166,976)	(70,665,828)	(69,146,876)
	(64,098,535)	(9,159,065)	465,977
Operating Expenses	792,956	1,071,526	1,110,283
Loss from Operations	(64,891,491)	(10,230,591)	(644,306)
Nonoperating Income (Expense)			
Grant revenue	43,754,627	39,315,869	26,291,971
Interest income	2,115,339	2,726,241	1,022,610
Loss on investments	(2,611,975)	(3,163,711)	(543,679)
	43,257,991	38,878,399	26,770,902
Change in Net Position	\$ (21,633,500)	\$ 28,647,808	\$ 26,126,596

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 was a result of operating expenses exceeding operating and non-operating revenues attributable largely to elimination of premiums and increased claims costs.

The Association experienced a reduction in premiums earned of \$7,438,062 from \$40,748,475 in 2020 to \$33,310,413 in 2021 due principally to a decrease in ceded lives from member insurers. Regular assessments decreased \$668,028 to \$28,196,350 in 2021 vs. \$28,864,378 in 2020, which is consistent with management's expectations regarding assessment levels. There was an increase of \$1,518,952 in incurred claims for 2021 from \$69,146,876 in 2020 to \$70,665,828 in 2021. Management attributes the change to the reduction in ceded lives and some continued under-utilization of medical services due to the continuation of the COVID-19 pandemic. The decrease in ceded lives was likely attributable in part to the continued uptake in the State of Maine's Medicaid expansion. There was little change in operating expenses year over year with a decrease of \$38,757 in 2021 from \$1,110,283 in 2020 to \$1,071,526 in 2021. This change is the result of a decrease in administrative fees due to lower claims volume and reduction in professional fees due to the slightly reduced demand for analysis related to delay in expansion of the Association's reinsurance program to the small group market. Overall, there was an increase in net position of \$28,647,808 in 2021 and \$26,126,596 in 2020. The increases were a result of operating and non-operating revenues exceeding operating expenses.

Economic Factors and Next Year's Results

Changes are anticipated in the Association's financial performance in 2023 due to another statutory change in the Association's enabling legislation and its Amended and Restated Plan of Operation. Beginning January 1, 2023, Maine's individual and small group markets will be merged onto a single market and the Association's reinsurance program will be expanded to serve the small group health insurance market in addition to the individual market (the "Merged Market").

Revenue: In 2023 revenue is expected to be ahead of 2022 due to an increase in the Association's Section 1332 Grant revenue of approximately \$17,600,000 to an estimated \$61,412,276. Assessment revenue is anticipated to remain stable. Total revenues are estimated to be approximately \$88,400,000.

Expenses: Management expects an increase in claims incurred of approximately \$10,000,000 to an estimated amount of \$104,200,000 due to the Merged Market.

Change in Net Position: The Association is expecting a decline in its net position in 2023, projecting a loss of an estimated \$16,600,000 and an ending surplus of \$37 million, reducing the Association's Risk Based Capital ratio to approximately 528%, which is below the target level set by the Board of 900%. That result is an intentional draw down of surplus to support the Merged Market.

Maine Guaranteed Access Reinsurance Association
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 12,681,404	\$ 14,618,847
Premium receivable	16,419	3,420,680
Assessments receivable	7,963,750	7,740,576
Accrued interest receivable	482,985	634,283
Investments	<u>87,475,968</u>	<u>84,973,324</u>
	<u>\$ 108,620,526</u>	<u>\$ 111,387,710</u>
Current Liabilities		
Accounts payable	\$ 89,001	\$ 195,266
Claims payable	29,699,923	14,327,342
Estimated liability for claims incurred but not reported	<u>15,800,000</u>	<u>12,200,000</u>
Total current liabilities	45,588,924	26,722,608
Restricted Net Position	<u>63,031,602</u>	<u>84,665,102</u>
	<u>\$ 108,620,526</u>	<u>\$ 111,387,710</u>

Maine Guaranteed Access Reinsurance Association
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Premiums earned	\$ 110,880	\$ 33,310,413
Regular assessments	28,957,561	28,196,350
Less claims incurred	<u>(93,166,976)</u>	<u>(70,665,828)</u>
Deficiency of premiums and assessments under claims	<u>(64,098,535)</u>	<u>(9,159,065)</u>
Operating Expenses		
Contracted management services	579,260	843,239
Professional fees	144,456	167,601
Interest and bank charges	7,682	7,203
Other administrative costs	<u>61,558</u>	<u>53,483</u>
Total operating expenses	<u>792,956</u>	<u>1,071,526</u>
Loss from Operations	<u>(64,891,491)</u>	<u>(10,230,591)</u>
Nonoperating Income (Expense)		
Grant revenue	43,754,627	39,315,869
Interest income	2,115,339	2,726,241
Loss on investments	<u>(2,611,975)</u>	<u>(3,163,711)</u>
Total nonoperating income	<u>43,257,991</u>	<u>38,878,399</u>
Change in Net Position	(21,633,500)	28,647,808
Restricted Net Position, Beginning of Year	<u>84,665,102</u>	<u>56,017,294</u>
Restricted Net Position, End of Year	<u><u>\$ 63,031,602</u></u>	<u><u>\$ 84,665,102</u></u>

Maine Guaranteed Access Reinsurance Association

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities		
Loss from Operations	\$ (64,891,491)	\$ (10,230,591)
Adjustments to reconcile change in net position to cash from (used for) operating activities		
Changes in assets and liabilities		
Premium receivable	3,404,261	1,936,583
Assessments receivable	(223,174)	(303,672)
Accounts payable	(106,265)	(1,767)
Claims payable	15,372,581	(478,947)
Estimated liability for claims incurred but not reported	<u>3,600,000</u>	<u>(2,800,000)</u>
Net Cash used for Operating Activities	<u>(42,844,088)</u>	<u>(11,878,394)</u>
Investing Activities		
Purchase of investments	(36,400,292)	(129,450,406)
Sale of investments	31,285,673	71,841,655
Interest received	<u>2,266,637</u>	<u>2,302,182</u>
Net Cash used for Investing Activities	<u>(2,847,982)</u>	<u>(55,306,569)</u>
Noncapital Financing Activities		
Proceeds from grant funding	<u>43,754,627</u>	<u>39,315,869</u>
Net Cash from Noncapital Financing Activities	<u>43,754,627</u>	<u>39,315,869</u>
Net Change in Cash and Cash Equivalents	(1,937,443)	(27,869,094)
Cash and Cash Equivalents, Beginning of Year	<u>14,618,847</u>	<u>42,487,941</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 12,681,404</u></u>	<u><u>\$ 14,618,847</u></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 2021 and 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.

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.

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, 2022 and 2021, the book balance of deposits was \$1,709,573 and \$14,618,847, respectively, and the bank balance was \$1,709,573 and \$14,618,847, respectively.

Of the 2022 bank balance, \$250,000 was covered by FDIC insurance and \$1,459,573 was uninsured and uncollateralized. Of the 2021 bank balance, \$250,000 was covered by FDIC insurance and \$14,368,847 was uninsured and uncollateralized.

The Association also had cash equivalents with a book balance of \$10,971,831 as of December 31, 2022. 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

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

	Fair Value	Cost
Cash Equivalents		
Commercial paper	\$ 10,971,831	\$ 10,932,821
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>

At December 31, 2021, the Association's investment balances were as follows:

	Fair Value	Cost
Investments		
Corporate Bonds	\$ 84,973,324	\$ 85,607,391
	<u>\$ 84,973,324</u>	<u>\$ 85,607,391</u>

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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, 2022 is as follows:

	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Investment Type				
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>

The distribution of the Association's investments by maturity as of December 31, 2021 is as follows:

	Fair Value	Less Than 1 Year	1-2 Years	2-5 Years
Investment Type				
Corporate bonds	<u>\$ 84,973,324</u>	<u>\$ 15,301,985</u>	<u>\$ 46,901,280</u>	<u>\$ 22,770,059</u>
Total	<u>\$ 84,973,324</u>	<u>\$ 15,301,985</u>	<u>\$ 46,901,280</u>	<u>\$ 22,770,059</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, 2022 and 2021, 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, 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 6%, 10%, 7%, and 8% of the total investment portfolio. As of December 31, 2021, the Association had investments in eight (8) issuers of corporate bonds that were 12%, 7%, 12%, 5%, 7%, 5%, 8% and 10% 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.

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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 table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2022:

	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	\$ -	\$ 98,447,799	\$ -	\$ 98,447,799

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.

The following table sets forth by level, within the fair value hierarchy, the Association's investments at fair value as of December 31, 2021:

	2021			
	(Level 1)	(Level 2)	(Level 3)	Total
Corporate bonds	\$ -	\$ 84,973,324	\$ -	\$ 84,973,324
Total assets at fair value	\$ -	\$ 84,973,324	\$ -	\$ 84,973,324

Maine Guaranteed Access Reinsurance Association

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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, 2022 and 2021, there was \$63,031,602 and \$84,665,102, 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, 2022 and 2021, the provision for unreported and unpaid claims for the Association was \$15,800,000 and \$12,200,000, 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, 2022 and 2021:

	2022	2021
Unpaid losses and loss adjustment expenses, beginning of year	\$ 12,200,000	\$ 15,000,000
Incurred losses and loss adjustment expenses		
Provision for insured events of the current year	94,704,944	74,950,227
Decrease in provision for insured events of prior year	(1,537,968)	(4,284,399)
Total incurred losses and loss adjustment expenses	93,166,976	70,665,828
Payments		
Losses and loss adjustment expense attributable to insured events of the current year	78,904,944	62,750,227
Losses and loss adjustment expense attributable to insured events of the prior year	10,662,032	10,715,601
Total payments	89,566,976	73,465,828
Unpaid losses and loss adjustment expenses, end of year	\$ 15,800,000	\$ 12,200,000

The provision for incurred losses and loss adjustments decreased during the years ended December 31, 2022 and 2021. 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, 2022 and 2021, was \$387,950 and \$642,649, respectively, of which \$53,700 and \$157,738, was payable at December 31, 2022 and 2021, 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.

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Notes to Financial Statements
December 31, 2022 and 2021

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 \$43,754,627 and \$39,315,869, as of December 31, 2022 and 2021, 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.

Note 9 - Subsequent Events

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 will extend 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, 2022

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, the financial statements of the business-type activities of Maine Guaranteed Access Reinsurance Association (the Association), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated July 31, 2023.

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 an 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 did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 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 results of that testing, and not to provide an opinion on the effectiveness of the Association'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 Association'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
July 31, 2023



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, 2022. 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, 2022.

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 each 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 each 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.

Report on Internal Control over Compliance

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

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

Boise, Idaho
July 31, 2023

Maine Guaranteed Access Reinsurance Association
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures
Department of Health and Human Services Centers for Medicare & Medicaid Services State Innovation Waiver	93.423	n/a	\$ 43,754,627
			<u>\$ 43,754,627</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, 2022. 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, 2022

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

None Reported

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:

No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
State Innovation Waiver	93.423
Dollar threshold used to distinguish between type A and type B programs	\$1,312,639
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

2022-001 Financial Statement Preparation
Significant Deficiency in Internal Control

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 disclosure 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 requested to draft the financial statements, 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 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 it would be if prepared by Association personnel. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost 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 generally accepted accounting principles.

Recommendation:

Management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

View of Responsible Officials:

The Board of Directors and management accept the degree of risk associated with this condition because of cost and/or other considerations.

Maine Guaranteed Access Reinsurance Association
Schedule of Findings and Questioned Costs
December 31, 2022

Section III - Federal Award Findings and Questioned Costs

None Reported