CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Financial Statements with Independent Auditors' Report

Year ended June 30, 2018

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

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CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Health Benefit Exchange (Covered California) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Covered California's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions on these financial statements based on our audit. We conducted our audit 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. 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 opinions.

To the Board of Directors
California Health Benefit Exchange
Sacramento, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Covered California, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 5(b) to the financial statements, in 2018 Covered California adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the Net Pension Liability, the schedule of plan contributions, and the schedule of proportionate share of the net OPEB liability be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 on our consideration of Covered California'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 Covered California'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 Covered California's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Sacramento, California
March 27, 2019

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Management's Discussion and Analysis (Unaudited)

June 30, 2018

The following discussion and analysis of the California Health Benefit Exchange's (Covered California) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with Covered California's financial statements that follow this section.

Financial Statements

These required statements offer short-term and long-term financial information about Covered California. The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of Covered California's operations over the past year. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about Covered California's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as sources of cash and uses of cash. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles.

Accounting Changes

During fiscal year 2017-18 Covered California implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to address new accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB) by state and local governments. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB. This Statement replaces the requirements for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The implementation of GASB 75 resulted in Covered California recognizing a net OPEB liability of $308.1 million as of June 30, 2018. During the fiscal year 2017-18 Covered California recognized a non-cash OPEB expense of $19.3 million, deferred outflows of $12,000, and deferred inflows of $30.3 million. More information on Covered California's OPEB liability can be found in note 5.

Notes to Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 21 through 36 of this report.

The required supplementary information section includes pension schedules, related to Covered California's proportionate share of net pension liability and pension contributions, as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The required supplementary information section also includes Other Postemployment Benefits Other Than Pensions (OPEB) liabilities schedules, related to Covered California's proportionate share of net OPEB liability and contributions as required by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Condensed Summary of Net Position

A summary of Covered California's net position is presented below:

		June 30, 2018	June 30, 2017
Current and other assets	$	433,013,966	392,992,988
Capital assets		173,415,538	201,261,120
Total assets		606,429,504	594,254,108
Deferred outflows of resources		61,604,825	34,903,415
Total assets and deferred outflows of resources		668,034,329	629,157,523
Current liabilities		36,385,775	50,050,960
Noncurrent liabilities			
Other noncurrent liabilities		20,797,275	3,104,974
Net OPEB liabililty		308,148,000	29,491,918
Net pension liability		176,047,944	165,589,315
Total noncurrent liabilities		504,993,219	196,186,207
Total liabilities		541,378,994	248,237,167
Deferred inflows of resources		31,949,996	380,221
Total liabilities and deferred outflows of resources		573,328,990	248,617,388
Investment in capital assets		173,415,538	201,261,120
Unrestricted		(78,710,199)	179,279,015
Total net position	$	94,705,339	380,540,135

(Continued)

Condensed Summary of Changes in Net Position

A summary of Covered California's change in net position is presented below:

		June 30, 2018	June 30, 2017
Operating revenues	$	334,843,602	263,241,195
Operating expenses		335,782,995	326,299,656
Operating loss		(939,393)	(63,058,461)
Nonoperating revenue		4,792,679	2,656,654
Changes in net position		3,853,286	(60,401,807)
Total net position - beginning of year		380,540,135	440,941,942
Cumulative effect of accounting change		(289,688,082)	-
Total net position - end of year	$	94,705,339	380,540,135

The requirements of GASB 75 were effective for financial statements for fiscal years beginning after June 15, 2017. At the time provisions of GASB 75 were adopted, Covered California was not able to determine the amounts of all deferred inflows of resources and outflows of resources related to Other Postemployment Benefits Other Than Pensions (OPEB), so it was not practical to restate prior period financial statements.

Fiscal Year 2017-18

Financial Highlights

Covered California ended fiscal year 2017-18 in a strong financial position. Revenues were $334.8 million, which is an increase of 27.2 percent from last fiscal year actual of $263.2 million. Increased enrollment and a change of plan assessment methodology were among the top factors. This significantly improved Changes in Net Position (Net Income) of a positive $3.8 million in FY 2017-18 from a negative $60.4 million in FY 2016-17.

Total net position decreased to $94.7 million for fiscal year ended 2017-18. This was due to a required end of year retroactive change in accounting procedures for OPEB. OPEB represents health and dental benefits for active and retired employees. The amount recorded is the current year's actuarial value of those benefits as allocated to the California Health Trust Fund by the State Controller's Office. OPEB liabilities are now fully included in the financial statements and a net $289.7 million adjustment was made. This is a point-in-time liability posting and is expected to decrease over time by pre-funding OPEB.

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The Board approved operating budget (Budgetary Legal Basis) for FY 2017-18 was $319.6 million. The expenditures (before GAAP adjustments) for FY 2017-18 were $305.8 million, $13.7 million lower than the Board approved operating budget.

In FY 2017-18, Covered California successfully transferred $10.0 million to Capital Projects Reserve. Covered California established a Capital Projects Reserve, which is intended to be used to pay for capital assets that are facility related. This was a prudent measure in anticipation of the significant facilities costs associated with the impending expiration of lease agreements beginning in 2019.

Covered California ended fiscal year 2017-18 with a reserve of approximately $295.6 million. This represents 10.4 months of reserve to support the FY 2018-19 operating budget. These amounts are consistent with the direction provided by the Covered California board to implement a reserve strategy that maintains reserves at a level of nine to twelve months in the near term, which provided sufficient time to make fiscal adjustments in the event of a decline in enrollment.

Covered California maintained a stable market with a good risk mix — which is 1.4 million actively enrolled consumers in Covered California and an additional 1.1 million in the individual market that are part of the common risk pool. Maintaining this market, meant lower costs to those who do not receive subsidies and lower costs to the federal government by reducing the cost of subsidies, requires ongoing investments in marketing, outreach and customer service.

Under the statute that established Covered California, it cannot rely on State of California General Funds to support operations. In accordance with state law, Covered California assesses enrollment fees on health insurance companies for policies sold to individuals and small businesses.

Fiscal Year 2017-18 Forecast

The Fiscal Year 2017-18 multi-year Base Enrollment Forecast, is displayed in Table 1. Revenues, which included both the individual and CCSB markets, were calculated on a cash basis that reflected the actual timing of the collection of revenue.

Table 1

Dollars in Millions

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Effectuated Enrollment (fiscal year end)	1,371,949	1,321,919	1,305,646	1,311,360	1,333,280
Opening Balance	$325.1	$292.0	$286.8	$295.6	$306.6
Plan Assessments-Cash Basis	$242.1	$314.4	$325.8	$331.0	$331.9
Expenditures Projected[1]	($275.2)	($319.6)	($317.0)	($320.0)	($323.0)
Year-End Operating Reserve	$292.0	$286.8	$295.6	$306.6	$315.5
Number of months of reserve	**11.0**	**10.9**	**11.1**	**11.4**	**11.6**

Plan Year	**2018**	**2019**	**2020**	**2021**
Plan Assessment Rate	4.00%	3.75%	3.50%	3.25%
Plan Assessment Rate On/Off Exchange	2.49%	2.33%	2.17%	2.03%
Premium Growth Assumptions	9.00%	7.00%	7.00%	7.00%

1. FY 2016-17 is an actual expenditure. All future years are projected

(Continued)

The multi-year forecast reflected a $319.6 million budget in FY 2017–18 and assumed budgets of between $317.0 million and $323.0 million for FY 2018–19 through FY 2020–21. While revenues from plan assessments were forecasted to fall slightly short of expenditures in FY 2017-18 if Covered California spent all of its budgeted amounts, in past years it has generated savings from planned budgets. Consistent with Covered California's long standing multi-year strategy, revenues were expected to exceed expenditures in FY 2018-19 and beyond. The plan provided an operating reserve of approximately 11 months through FY 2020–21. It reflected modest increases in operating expenses over the next few fiscal years to allow programs to maintain necessary service levels and to solicit and retain membership.

The plan assessment was at a level of 4 percent of premium for 2018, at 3.75 percent in 2019, 3.5 percent in 2020 and 3.25 percent in 2021. CCSB plan assessments are at a level of 5.2 percent of premium. The forecast included revenue from family dental coverage, which was assessed at the same rates as the medical coverage offered on the individual and CCSB markets. To the extent enrollment varies from the Base Enrollment Forecast, Covered California would be able to adjust its revenue by increasing or decreasing the plan assessment, or by adjusting its budgeted expenditures.

Results of Operations

For FY 2017-18, Covered California's budget and expenditures were aligned with the overall mission and vision, as well as with our strategic pillars:

- Affordable Plans – Consumers purchase and keep Covered California products based on their perception that this is a good value for them.
- Getting Needed Care – Consumers receive the right care at the right time.
- Outreach and Education – Consumers understand what Covered California offers and have a positive attitude about Covered California.
- Positive Consumer Experience – Consumers have a positive experience from initial enrollment to keeping their coverage.
- Organizational Excellence – Covered California has the right tools, processes and resources to support its team to deliver on the exchange's mission.

These five pillars are supported and complemented by the following crosscutting initiatives:

- Innovating for the long term and being nimble in the present.
- Using Covered California's experience to inform policy in California and nationally.
- Working in partnership with others to promote changes in care delivery that benefit all Californians.

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Effectuated Enrollment

Individual Market

Effectuated enrollment for the individual market of 1.39 million at the end of the FY 2017-18 was ahead of the FY 2017-18 forecast and the prior year actual by 5.3 percent and 4.3 percent, respectively. For FY 2017-18, billed member months totaled 16.12 million, which was 240,000 (1.5 percent) higher than projected.

While the fiscal year began with enrollment that was 21,000 lower than projected, using settled fiscal year data through March 2018, the number of effectuated plan selections were 40,000 higher than forecasted, the year-to-date effectuation rate of 67 percent exceeded the forecasted rate of 64.4 percent, and compared to a year-to-date rate of 62.8 percent for the same period last year. Additionally, dis-enrollments are 19,000 lower than forecasted, with year-to-date disenrollment rate of -4.3 percent compared to -4.5 percent in the forecast and to -4.4 percent for the same period last year.

Covered California for Small Business

Effectuated enrollment for the small business market of 46,604 at the end of the FY 2017-18 was ahead of the FY 2017-18 forecast and the prior year actual by 6.1 percent and 35.7 percent, respectively. For FY 2017-18, billed member months totaled 492,835, which was 24,858 (5.3 percent) higher than projected.

Revenue

Individual Market Revenue (earned basis)

Plan assessment revenues were $324.0 million, which is an increase of 26.6 percent from last fiscal year actual of $256.0 million. The increase is primarily a result of three factors: Increased enrollment, change of assessment method, and increased premium for the Silver plans.

Effective January 1, 2017, Covered California switched from a flat per-member-per-month fee ($13.95 per member) to a percentage of premium (4 percent) assessment. For FY 2017-18, plan assessment revenue increased based on higher enrollments as well as a full 12 months of assessments based on percent-of-premium fee as opposed to only 6 months in FY 2016-17. The average premium was $501 on a fiscal year basis, which was $20 or 4.2 percent higher than projected.

In 2018, the health plan premiums for Silver plans increased 15 percent (silver-loading). The surcharge was added because the federal government decided not to fund the Cost Sharing Reductions (CSR) that reduced the cost of co-pays and deductibles for consumers on certain Silver plans. Because the surcharge is only applied to Silver plans, nearly four out of five consumers saw their net premiums stay the same or decrease, since the amount of premium assistance increased in relation to the premium increase. The CSR payments were intended to lower

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copayments and deductibles for exchange enrollees with annual incomes below 250 percent of the federal poverty level. As a result, when premiums for Silver plans rose sharply, federal subsidies rose along with them.

Covered California for Small Business Revenue

The Covered California for Small Business revenues for FY 2017-18 were $10.8 million, which is an increase of $3.7 million or 48.9 percent from prior year actual. This is a result of three factors: An increase of 117,000 or 31 percent of member-months enrollments. An increase of average premium from $401 to $422, which is a $22 or 5.4 percent increase. And lastly, effective January 2017, a change in assessment rate methodology from $18.60 per plan to 5.2 percent of premium assessment.

Budgetary Legal Basis Operating Expenditures Summary

For Fiscal Year 2017-18, the Board approved operating budget for FY 2017-18 was $319.6 million and 1,373 positions to ensure that our organization has the right tools, processes and resources to deliver on its mission.

The Budgetary Legal basis expenditures (before GAAP adjustments) for FY 2017-18 were $305.9 million, which was $13.7 million below budget. Personal Services expenditures were $101.1 million, which was $5.1 million below budget. This is in addition to the 12 percent salary savings assessment that was included in the budget. Operating expenditures and equipment expenditures were $204.8 million, which was $8.6 million below budget. Savings were realized due to lower than expected expenditures on contracts and consultant expenditures. With realized savings, a separate reserve for capital projects was also created in the amount of $10.0 million.

Pro Rata charges in FY 2017-18 were $13.9 million compared to $4.7 million in prior fiscal year. This stems from the reduction of the Statewide Cost Allocation Plan (SWCAP) (federal funds) which triggered an increase in Pro Rata (state funds). The lower prior year assessment was based on the proportion of state funds to federal funds, as Covered California transitioned to sustainability funding from grant funding.

Pro Rata (for California Health Trust Fund/state funds) and SWCAP (federal funds) represent General Fund recoveries of statewide general administrative costs such as budgeting, accounting, auditing, and payroll for central service agencies that are supported by the General Fund (i.e., indirect costs incurred by such as Department of Finance, State Controller's Office, and California Department of Human Resources).

Capital Project Reserve

In FY 2017-18, Covered California established and transferred $10.0 million to Capital Projects Reserve from its realized operating budget savings. It is intended to be used to pay for capital assets that are facility related, i.e., building improvements, infrastructure assets and ancillary items. Covered California leases space in numerous locations to accommodate its administrative office, service centers and some field sales operations. In anticipation of the significant facilities costs associated with the impending expiration of these lease agreements beginning in 2019, and to lessen fiscal year budget fluctuations, it was prudent that Covered California establish a Capital Projects Reserve.

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Analysis of Net Position (Liquidity)

Covered California's assets exceeded liabilities by $94.7 million and $380.5 million at the close of the fiscal years ended June 30, 2018 and 2017, respectively. The Net Position for FY 2017-18 was significantly impacted by the implementation of GASB 75 in FY2017-18.

GASB 75 required the recognition of the net adjustment to the Other Post-Employment Benefits (OPEB) Obligation on the Statement of Net Position. The OPEB is the actuarial value of health and dental benefits for active employees and retirees on an accrual basis. In the past, OPEB was recognized on a pay-as-you-go basis. Effective July 1, 2018, both employee and employer are prefunding OPEB which will decrease Covered California's liability over time.

The Net Position includes noncurrent liabilities for pension and OPEB for State employees, which are an obligation of the State rather than Covered California.

The current ratio of Covered California is 11.9 ($433.0 million/36.4 million), which demonstrates high cash liquidity to meet its obligations to creditors. For FY2017-18, total current assets were $433 million. Increases in assets are related to the increase of generated revenue and corresponding cash, accounts receivable and earned interest. Current liabilities included accounts payable for unpaid goods and services of $36.4 million.

Covered California's total net investment in capital assets was $173.4 million and $201.3 million at June 30, 2018 and 2017, respectively. The $27.8 million (13.8 percent) net change in capital assets represents the additions of $14.5 million in assets and the decrease of $42.4 million for depreciation.

Depreciation includes a cost allocation methodology for the share of the cost consistent with longstanding federal policy and practice and as set forth in Office of Management and Budget (OMB) Circular A-87, in those cases where Covered California shares functionalities with Medicaid and the Children's Health Insurance Program (CHIP). Those programs are required to pay their share to develop and implement the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS).

Previously, for FY 2013-14, the cost allocation was 82 percent Covered California and 18 percent Department of Health Care Services (DHCS). For FY2014-15, the cost allocation was changed to 17.9 percent Covered California and 82.1 percent DHCS effective October 1, 2014. For FY2015-16, the cost allocation was changed to 13.97 percent Covered California and 86.03 percent DHCS effective October 1, 2015. There was no change in cost allocation for FY 2016-17. In FY 2017-18 the cost allocation changed again to 12.14 percent Covered California and 87.86 percent DHCS effective October 1, 2017. Covered California's depreciation was $42.4 million and $40.8 million at June 30, 2018 and 2017, respectively. Additional costs will be capitalized and depreciated as Covered California improves CalHEERS functionality.

Outlook for Enrollment and Revenue in the Individual Market

Covered California's FY 2018-19 individual market enrollment and revenue projections were developed in a climate of considerable uncertainty. They were guided by analyses and surveys that provided a range of estimates of the potential impacts of recent federal policy changes.

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Covered California drew on a broad range of resources to project the "most likely" multi-year enrollment figures in the context of upper and lower boundary extremes. Recognized health insurance experts from PricewaterhouseCoopers (PwC) were consulted to conduct background research and provide observations about the potential impact of the loss of the mandate penalty, as well as other factors that could affect Covered California enrollment and premiums. PwC was also consulted to project potential changes in California's health insurance market generally. In addition to their own expertise, PwC's recommendations were informed by analyses of other prominent experts, such as the UCLA Center for Health Policy Research and the UC Berkeley Center for Labor Research and Education.

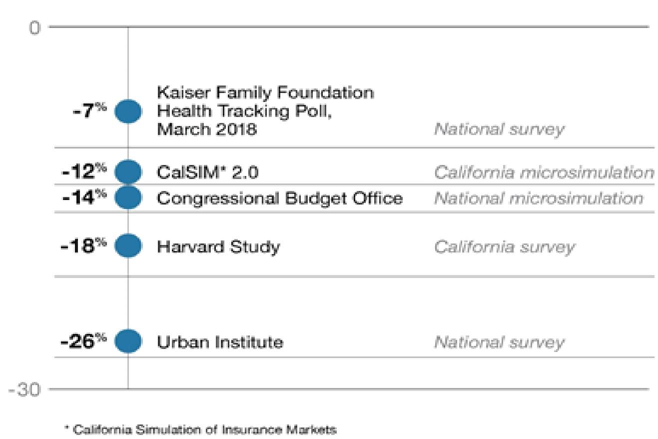
The resulting forecasts reflected Covered California management's consideration of a variety of estimates and the insights of external and internal experts on health insurance enrollment in the individual market in California. Because Covered California's plan assessments are based on both enrollment and gross premiums, the impact on both variables were projected.

The most significant federal policy action taken that affects California in 2019 is the elimination of the penalty for failure to satisfy the individual shared responsibility provision of the Affordable Care Act. The penalty was designed to provide an incentive for people to enroll who may not otherwise purchase health insurance. By sustaining the number of people in the individual risk pool with low or minimal health care costs, average medical costs and thus premiums would be lower than would otherwise be the case.

Forecast Uncertainties

Based on PwC observations, five notable analyses from highly regarded sources informed the FY 2018-19 enrollment and revenue outlook. The estimated loss of enrollment in individual health plans due to the removal of the mandate penalty ranges from 7 to 26 percent, as illustrated in Figure 1. Each analysis is unique and there is diversity as to the method used (survey or microsimulation), the geographic scope (national or California), the enrollment estimate granularity (on- or off-exchange, or the entire individual market) and the time required for the impact to play out.

Figure 1



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The Base Enrollment Forecast reflected an estimated 12 percent loss, which is essentially the midpoint of the most optimistic (high), and most pessimistic (low) estimates. It is also consistent with the estimate derived from CalSIM version 2.0 and similar to the loss estimated by the Congressional Budget Office.

The high, or optimistic, enrollment alternative forecast reflects a 7 percent loss of enrollment based on the consistent results of the two most recent Kaiser Family Foundation Tracking polls.

The low**,** or pessimistic, enrollment alternative reflects a more significant 18 percent enrollment loss as indicated by the Harvard Study. Even though the Urban Institute survey indicates that 26 percent of respondents were "likely" to drop health insurance coverage in the absence of a penalty, only 10 percent would be "very likely" and 16 percent would be "somewhat likely," with a midpoint of 13 percent. The contrast in responses reduces the confidence of this reference point as a basis for the highest loss estimate.

The impact of the elimination of the mandate on enrollment is summarized in Table 2.

Table 2
Projected Potential Impact of the Elimination of the Individual Mandate Penalty on California's Individual Market Enrollment for the Low, Base and High Enrollment Scenarios

Potential Percentage Decrease in Enrollment

	2019	2020	2021	2022
Low	-18%	-9%	-4%	-2%
Base	-12%	-6%	-3%	-1%
High	-7%	-4%	-2%	-1%

The PwC report also summarizes expert predictions of the impact of the penalty on premiums, which ranged from it causing increases of 5 to 10 percent. Covered California also used these analyses and guidance to inform its projection of the impact of the elimination of the mandate on premiums. The projected premium growth rates for the Low, Base and High Enrollment Scenarios (Table 3), illustrate the potential impact of key factors on the average rate of growth of premiums used to develop the revenue projections. For 2019, the range of premium increases attributed to the elimination of the mandate penalty fall within the range of impacts estimated by PricewaterhouseCoopers (PwC), which noted studies that found potential impacts ranging from 5 to 13 percent in 2019 followed by lesser increases in subsequent years.

The Base forecast projected, based on all factors, premiums in 2019 would grow 11 percent on average across all carriers. As with any "average," an overall market average of an 11 percent increase would likely reflect a range of increases among Covered California's contracted health plans — with individual carriers likely varying from the estimate by plus or minus 2 to 5 percentage points. These assumptions reflect premiums for policies sold in California and are not indicative of growth rates expected in other states.

(Continued)

Table 3

Projected impacts to Premium growth rates for the Low, Base and High Enrollment Scenario's

		2019	2020	2021	2022
Low					
	Mandate Elimination	8%	5%	3%	1%
	Medical Cost Trend	7%	7%	7%	7%
	HIPF Moratorium	-2%	2%	0%	0%
	Total	**13%**	**14%**	**10%**	**8%**
Base					
	Mandate Elimination	6%	4%	2%	1%
	Medical Cost Trend	7%	7%	7%	7%
	HIPF Moratorium	-2%	2%	0%	0%
	Total	**11%**	**13%**	**9%**	**8%**
High					
	Mandate Elimination	5%	3%	1%	0%
	Medical Cost Trend	7%	7%	7%	7%
	HIPF Moratorium	-3%	3%	0%	0%
	Total	**9%**	**13%**	**8%**	**7%**

Covered California projects a potential total premium increase at the "high" level of 13 percent and a "low" level of 9 percent. The range of potential premium increases for 2019 of 9 to 13 percent is substantially lower than the PwC estimates of potential increases nationally due to California's starting point of having a relatively healthy risk mix in the on- and off-exchange individual market and Covered California's continued plans to invest in marketing to keep costs down for all enrollees. The premium projections detailed for 2020 and beyond are not relevant for FY 2018-19 but are used to inform the multi-year forecasts.

Potential annual premium increases in 2020 and beyond have a far greater range of possibilities — both on the high side and low side — than is reflected in Table 2. These increases depend on federal and state policy actions or other variables that could affect premiums (e.g., the institution of a state or federal reinsurance program, enactment of a state mandate penalty program or dramatic changes in enrollment due to limited-benefit plans having a large effect on siphoning "good risk" out of the individual market's common risk pool). Those factors are beyond the scope of the analysis conducted for Covered California's forecasting process and will be subject to further analysis on an ongoing basis.

Covered California for Small Business Forecast

The enrollment outlook of Covered California for Small Business (CCSB) continues to build on recent operational improvements (e.g., timely commission payments, quickly resolving account issues and better support from agents and brokers). In December 2017, CCSB enrollment surpassed 40,000 for the first time, and it is projected to grow in 2019. The focus continues to be on improving and expanding agency-level agreements, strategic technology implementations and improving communication outreach.

Due to these anticipated improvements and the trends seen over the past year, overall CCSB enrollment is expected to rise modestly through FY 2020-21. The Base Enrollment Forecast considers the overall size and expected growth of the small business exchange market in California, of which CCSB currently holds a 9 percent share.

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Covered California's Multi-Year Forecast and Reserves

Covered California began FY 2018-19 with an operating reserve of approximately $295.6 million, together with a Board approved reserve for Capital Projects of approximately $20.0 million.

The multi-year forecast prepared in conjunction with the FY 2018-19 planning process reflected the estimated impact of current market uncertainties on Covered California's enrollment. Most notable is the impact of the individual mandate penalty elimination. Covered California modeled the potential impact of these events and estimates that on-exchange losses could potentially range from 94,000 to 243,000 effectuated enrollees in 2019. Additionally, the losses would be weighted to individuals with better health status, which could lead to a deterioration in the risk mix and a possible 5 to 8 percent incremental increase in premiums, over the increase in medical costs. The impact of these changes would also be felt in lesser amounts in the following years.

The budget for FY 2018-19 used the Base Enrollment Estimate, as displayed in Table 4. Revenues, which include both the individual and CCSB markets, are calculated on a cash basis that reflects the actual timing of the collection of revenue.

Table 4
Covered California
Multi-Year Financial Forecast Base Enrollment Estimate

Dollars in Millions	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**
Effectuated Enrollment (fiscal year end)	1,355,520	1,201,447	1,148,049	1,131,528
Opening Reserve Balance	$303.0	$313.6	$314.5	$296.7
Plan Assessments-Cash Basis	$326.3	$351.1	$339.2	$343.2
Projected Operating Expenditures	($305.6)	($340.2)	($347.1)	($342.7)
Margin Contribution - Cash Basis	$20.7	$10.9	($7.9)	$.5
Capital Projects Reserve	($10.0)	($10.0)	($10.0)	($10.0)
Year-End Operating Reserve	$313.6	$314.5	$296.7	$287.1
Number of months of reserve	**11.1**	**10.9**	**10.4**	**9.9**

Base Enrollment Estimate

The estimated impact of the elimination of the individual mandate penalty on enrollment and average premiums in the Base Enrollment Estimate includes reductions of effectuated on-exchange enrollment of approximately 162,000 in 2019, 72,000 in 2020 and 34,000 in 2021. The estimated impact also includes potential overall reductions in enrollment on- and off-exchange of approximately 316,000 in 2019, 149,000 in 2020 and 73,000 in 2021. Additionally, it reflects projections of increases in average premiums, including the growth in medical costs, of 11 percent, 13 percent and 9 percent, in 2019, 2020 and 2021. Consequently, the multi-year forecast projects assessment revenues of $351.1 million in FY 2018-19, $339.2 million in FY 2019-20 and $343.1 million in FY 2020-21. The forecast reflected a $340.2 million operating budget in FY 2018-19 and assumes operating budgets of $347.1 million for FY 2019-20 and $342.7 million for FY 2020-21.

(Continued)

Revenues from plan assessments are projected to be slightly higher than operating expenditures in FY 2018-19. Due to the need to continue to budget for initiatives that maximize the enrollment opportunity (conducting more-focused marketing, maintaining a favorable risk mix, improving the consumer experience and reducing health care costs), the plan reflects operating expenditures that may exceed revenues in FY 2019-20 and at a moderated rate beyond that. The plan provides an operating reserve of approximately 10 to 11 months through FY 2020-21.

The plan assessment rate reflected the reduction to 3.75 percent of premium for 2019, with possible reductions to 3.5 percent in 2020, and a further reduction to 3.25 percent in 2021. Covered California for Small Business plan assessments are at a level of 5.2 percent of premium for the duration of the forecast. The forecast did include revenue from family dental coverage, which was assessed at the same rates as the medical coverage offered on the individual and CCSB markets. To the extent enrollment varies from the Base Estimate Forecast, Covered California would be able to adjust its revenue by increasing or decreasing the plan assessment, or by adjusting its operating expenditures.

It is important to note that each year a new multi-year forecast will be completed based on the most current information.

2019 Enrollment and Premium Update

As of January 30, 2019 more than 1.5 million consumers selected a health plan for 2019 coverage during the most recent open-enrollment period (ending January 15, 2019), a figure in line with last year's total. There was a 7.5 percent increase in the number of existing consumers renewing their coverage and a 23.7 percent drop in the number of new consumers signing up for 2019.

The total number of net plan selections for 2019 is 1,513,883, which reflects 1,217,903 consumers having their coverage renewed and 295,980 consumers who newly signed up for coverage during open enrollment. Overall, there is a difference of 7,641 fewer plan selections compared to 2018, a decrease of 0.5 percent.

Consumers in both Covered California and off-exchange in the individual market saw an overall average statewide rate increase of 8.7 percent to their gross premiums if they renewed coverage in the same plan for 2019. The recent federal decision to eliminate the penalty for the individual mandate increased costs for the federal government and all consumers in the individual and employer-sponsored markets.

The 2019 rates, mean those who received a subsidy to help purchase coverage are paying an average of 6 percent more if they renewed in the same plan in 2019, which translates to an estimated monthly premium of $123 after tax credits. Subsidized consumers account for 88 percent of Covered California's enrollment, and those subsidies rise along with rates to help offset any increases.

Consumers, both on and off the exchange, continue to benefit from Covered California's competitive marketplace, which allows them to shop for the best value and save money if they switch plans. The average rate change for consumers who shopped and switched to the lowest-cost plan in the same metal tier is -.07 percent, which means that many Californians paid the same rate as they did in 2018, or a little less, if they shopped and switched.

(Continued)

Current Healthcare Proposals in California that will impact Covered California

On February 1, 2019, Covered California presented an extensive report, "Options to Improve Affordability in California's Individual Health Insurance Market" to state leaders. The report is the result of months of work with leading economists and stakeholders as California looks to continue to lead the way on implementing the Patient Protection and Affordable Care Act and improving access to quality care for its residents.

The report was prepared pursuant to California's 2018-19 budget trailer bill (Assembly Bill 1810, Chapter 34, Statues of 2018), which required Covered California to, in consultation with stakeholders and the Legislature, develop and submit to the Legislature by Feb. 1, 2019, options to improve affordability for low- and middle-income consumers. Covered California developed two approaches, with each approach containing different options for implementation.

The approaches include expanding the amount of premium and cost-sharing support for consumers, reinstituting a state-based individual mandate penalty and establishing a state reinsurance program.

The report estimates that, depending on the approach and options taken, more than 750,000 Californians could gain coverage compared to likely enrollment in 2021 without the adoption of these policies. The various approaches and increase in enrollment would also potentially allow consumers to save thousands of dollars in health care costs.

Covered California's report examined several different scenarios to illustrate how Silver plan consumers could potentially benefit from reduced premiums and lower deductibles. The report highlights the personal experience of individuals and families at different income levels, living in different parts of the state to illustrate how the policies would affect Californians.

Governor Newsom and the Legislature have already proposed significant policy changes that would expand financial support for Californians to get and keep coverage and reverse coverage losses that are already beginning due to the federal elimination of the individual mandate penalty.

While not explicitly modeled in the report, Governor Newsom's proposed budget recognizes the need to improve health coverage affordability and would increase subsidies to individuals with incomes between 250 and 400 percent of the federal poverty level, and it would expand subsidies for individuals with incomes between 400 and 600 percent federal poverty level. Under the Governor Newsom's proposal, the increased subsidies would be funded by revenues generated by establishing a state individual mandate.

Prudent Reserve Position

Covered California ended FY 2017-18 with a reserve of approximately $295.6 million, representing 10.4 months of the FY 2018-19 operating budget. These amounts are consistent with the direction provided by the Covered California board to identify the appropriate level of reserves necessary to provide sufficient time to make fiscal adjustments in the event of a decline in enrollment

(Continued)

The board's direction has been that given the ability to adjust revenue by increasing the assessment, or to reduce contractual and personnel expenditures (the latter primarily through attrition), Covered California should implement a reserve strategy that maintains reserves at a level of nine to 12 months in the near term.

Given the uncertainties facing Covered California's enrollment outlook, this reserve strategy has provided Covered California with the opportunity to execute its core strategies and make appropriate adjustments to revenues and expenditures in future years.

Covered California reports can be found here:

Fiscal Year 2017-18 Budget http://hbex.coveredca.com/financialreports/

Fiscal Year 2018-19 Budget http://hbex.coveredca.com/financialreports/

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statement of Net Position

June 30, 2018

Assets and Deferred Outflows	**2018**
Current assets:	
Cash and cash equivalents	$ 386,326,313
Receivables:	
Enrollment fees (net of allowance for cancelled enrollments)	39,874,364
Other receivables	1,630,291
Total receivables	41,504,654
Other current assets	5,182,998
Total current assets	433,013,966
Noncurrent assets:	
Capital assets, net	173,415,538
Total assets	606,429,504
Deferred Outflows of Resources:	
Deferred Outflows of Resources - Pension	61,592,825
Deferred Outflows of Resources - OPEB	12,000
Total Deferred Outflows of Resources	61,604,825
Total assets and deferred outflows of resources	668,034,329
Liabilities and Deferred Inflows	
Current liabilities:	
Accounts payable	27,760,309
Accrued liabilities	289,932
Deferred revenue	3,691,542
Compensated absences	4,643,992
Total current liabilities	36,385,775
Noncurrent liabilities:	
Compensated absences	2,948,222
Other liabilities	512,053
Interfund Loan Payable	17,337,000
Other postemployment benefits	308,148,000
Net pension liability	176,047,944
Total noncurrent liabilities	504,993,219
Total liabilities	541,378,994
Deferred Inflows of Resources:	
Deferred Inflows of Resources - Pension	1,642,996
Deferred Inflows of Resources - OPEB	30,307,000
Total Deferred Inflows of Resources	31,949,996
Total liabilities and deferred inflows of resources	573,328,990
Net Position	
Net investment in capital assets	173,415,538
Unrestricted	(78,710,199)
Total net position	$ 94,705,339

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2018

		2018
Operating revenues:		
Enrollment fees-individual	$	324,035,211
Enrollment fees-CCSB		10,808,392
Total operating revenues		334,843,602
Operating expenses:		
Salaries, wages, benefits		123,167,613
Operating expenses and equipment		26,760,965
Professional services		120,154,224
Enrollment assistance fees		15,831,002
Facilities operations		7,163,448
Communications		317,879
Depreciation expense		42,387,865
Total operating expenses		335,782,995
Operating loss		(939,393)
Nonoperating revenues:		
Interest income		4,602,031
Other income		190,648
Total nonoperating revenues		4,792,679
Change in net position		3,853,286
Total net position – beginning of year, as previously stated		380,540,135
Cumulative effect of accounting change		(289,688,082)
Total net position - beginning of year, as restated		90,852,053
Total net position – end of year	$	94,705,339

See accompanying notes to financial statements.

CALIFORNIA HEALTH BENEFIT EXCHANGE

(COVERED CALIFORNIA)

Statement of Cash Flows

Year ended June 30, 2018

		2018
Cash flows from operating activities:		
Receipts from enrollment fees	$	325,408,896
Payments to employees and for employee benefits		(101,106,704)
Payments to suppliers		(185,726,350)
Net cash used in operating activities		38,575,842
Cash flows from noncapital financing activities:		
State - reimbursements		213,086
Net cash provided by noncapital financing activities		213,086
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(14,542,284)
Net cash provided by capital and related financing activities		(14,542,284)
Cash flows from investing activities:		
Interest income		4,125,346
Net increase in cash and cash equivalents		28,371,990
Cash and cash equivalents – beginning of year		357,954,323
Cash and cash equivalents – end of year		386,326,313
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss		(939,393)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		42,387,865
Changes in assets and liabilities:		
Increase in accounts receivable		(9,434,706)
Increase in other assets		(4,093,561)
Decrease in pension obligations		4,868,365
Decrease in accounts payable		(11,405,271)
Decrease in accrued liabilities		(262,247,230)
Increase in compensated absences		742,421
Increase in other postemployment benefits		278,656,082
Increase in other liabilities		41,270
Net cash used in operating activities		38,575,842
Supplemental disclosure of non-cash activities:		
Capital asset purchases included in accounts payable	$	5,675,202

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The California Health Benefit Exchange (Covered California) was created on September 30, 2010 as an independent public entity with the passage of Assembly Bill 1602, enacting the federal Patient Protection and Affordable Care Act (Affordable Care Act). Under the Affordable Care Act signed into law in March 2010, states were required to decide whether to create a state-based health insurance exchange or participate in the federal multistate health insurance exchange. The State of California (the State) elected to establish a state-based health insurance exchange. In 2010, State law was enacted to implement the provisions of the Affordable Care Act to reduce the number of uninsured Californians by creating an organized, transparent marketplace for Californians to purchase affordable, quality healthcare coverage offered in four categories, or tiers, each with a metal rating of Bronze, Silver, Gold, and Platinum.

Covered California is not a component unit of the State. Covered California is a related organization.

(b) Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

(c) Revenue Recognition

Revenues are classified as operating or nonoperating in the accompanying Statement of Revenues, Expenses and Changes in Net Position. Operating revenues began in fiscal year 2013-14, and result from monthly enrollment fees assessed on health insurance companies for policies sold through the marketplace for the individual and Covered California for Small Business (CCSB) markets.

Effective January 2017, Covered California's assessment fee switched from a flat per-member-per-month fee to a percent assessment on total premiums paid.

For the fiscal year 17-18, in the individual market, Covered California charged the health insurance carriers a 4 percent assessment fee on total premiuns paid for both medical and dental enrollees.

For the fiscal year 17-18, in the CCSB market, Covered California charged the insurance carriers a 5.2 percent fee on total premiums paid for both medical and dental enrollees.

Covered California recognizes individual and CCSB enrollment fee revenues when effectuated enrollment occurs and the fees are earned from the health insurance carriers. All revenues received that are not part of the ongoing operations, such as interest income, are classified as nonoperating revenues.

(d) Cash and Cash Equivalents

Cash and cash equivalents represent cash deposited in the Surplus Money Investment Fund (SMIF) and cash on hand with the State Treasurer.

(e) Receivables

Receivables represent amounts owed from health insurance carriers for enrollment fees and small businesses for premiums in the amount of $39.9 million, and amounts due from employees of $201,377, and amounts due from the Surplus Money Investment Fund (SMIF) of $1.4 million.

(f) Capital Assets

Capital assets are defined as assets which have a unit cost of $5,000 or greater and a useful life of more than one year. Capital assets are stated at cost. Depreciation on equipment is calculated using the straight-line method over the estimated useful life ranging from 2 to 20 years. Depreciation on internally generated software and purchased software is calculated using the straight-line method over the estimated useful life of 10 and 5 years, respectively. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the lease term or the useful life.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*, Covered California has recorded internally generated computer software that went live on October 1, 2013. Intangible assets are considered internally generated if they are created or produced by Covered California or an entity contracted by Covered California, or if they are acquired from a third party but require more than minimal incremental effort on the part of Covered California to begin to achieve their expected level of service capacity. The preliminary project stage was completed in June 2012. Application development costs incurred from July 1, 2017 through June 30, 2018 were $13.0 million. Depreciation of the intangible assets began on October 1, 2013, and totaled $42.3 million for fiscal year 2017-18.

(g) Accounts Payable

Accounts payable represents amounts owed by Covered California to third parties.

(h) Compensated Absences Payable

Vacation balances are accrued as a liability.

(i) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Pensions

Covered California has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 revises existing standards for measuring and reporting

(Continued)

pension liabilities. This statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

For purpose of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information contained within Covered California has been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office and the State Controller's Office.

(k) Deferred Outflows of Resources and Deferred Inflows of Resources

Changes in net pension liability or other postemployment benefits (OPEB) not included in pension expense or OPEB are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability or net OPEB liability are reported as deferred outflows of resources. The unamortized net difference between projected and actual earnings on investments are recorded as deferred inflows of resources.

(l) Other Postemployment Benefits (OPEB)

During the year ended June 30, 2018, Covered California adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 revises existing standards for measuring and reporting other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to OPEB. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Due to the adoption of GASB Statement No. 75, Covered California reduced its beginning net position, as shown on the statement of revenues, expenses, and changes in net position, by $289.7 million.

(2) Cash and Cash Equivalents

Cash and cash equivalents are held as cash on hand in pools and managed by the State Treasurer. They are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances.

		2018
State treasury	$	60,347,313
Surplus money investment fund (SMIF)		325,979,000
Total	$	386,326,313

(Continued)

As of June 30, 2018, the carrying value of deposits in the SMIF represents the fair value. The SMIF consists of the available cash of all special funds of the State which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance.

All of the resources of the SMIF are invested through the Pooled Money Investment Account (PMIA). By law, PMIA monies can be invested only in the following categories: U.S. Government securities; securities of federally sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposits; and loans to various bond funds.

At June 30, 2018, the allocation of the deposits held by Covered California in the SMIF was estimated as follows:

		Covered California's Share of SMIF
U.S. Treasury Securities	$	155,165,040
Federal Agency Debt		58,760,074
Supranational Debentures		2,530,959
Bank Notes		3,303,320
Certificates of Deposit		58,083,384
Commercial Paper		27,522,755
Time Deposits		17,919,559
AB 55 and General Fund Loans		2,693,909
Total	$	325,979,002

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2018, this difference was immaterial to the valuation of the deposits held by Covered California in the SMIF.

Covered California's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 1.378 percent for the year ended June 30, 2018.

(Continued)

Additional disclosures regarding investment risks, interest rate risk, credit risk, custodial credit risk and concentration of credit risk, are presented in the financial statements of the State of California for the year ended June 30, 2018.

(3) Capital Assets

Changes in capital assets for the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Depreciable assets-development costs:				
Internally developed software	$ 266,128,688	$ 12,935,533	$ -	$ 279,064,221
Hardware	23,266,933	-	-	23,266,933
Licenses and purchased software	42,013,496	19,612	-	42,033,108
Total depreciable assets development costs	331,409,117	12,955,145	-	344,364,262
Depreciable capital assets:				
Office furniture and equipment	6,973,937	1,419,299	(18,563)	8,374,673
Leasehold improvements	2,875,491	167,840	-	3,043,331
Total depreciable capital assets	9,849,427	1,587,139	(18,563)	11,418,003
Less accumulated depreciation:				
Asset development costs	(135,248,937)	(40,269,678)	-	(175,518,615)
Office furniture and equipment	(3,638,833)	(1,703,407)	18,563	(5,323,677)
Leasehold improvements	(1,109,655)	(414,781)	-	(1,524,435)
Total accumulated depreciation	(139,997,425)	(42,387,865)	18,563	(182,366,727)
Total capital assets, net	$ 201,261,120	$ (27,845,581)	$ -	$ 173,415,538

(4) Leases

Covered California leases office space for its headquarters and Service Centers under operating leases. The lease terms vary, with the oldest expiring June 30, 2026.

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The future minimum lease payments under current operating leases as of June 30, 2018 are as follows:

For the year ending June 30:	
2019	$ 6,561,715
2020	5,581,405
2021	3,970,894
2022	3,265,020
Thereafter	$ 1,388,827

Rental expense for operating leases totaled $6.3 million for the year ended June 30, 2018.

(5) Retirement Planning and Other Postemployment Benefits

(a) Retirement Plan

Covered California adopted GASB 68 during the 2014-15 fiscal year. GASB 68 requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation date (VD)	June 30, 2016
Measurement date (MD)	June 30, 2017
Measurement period (MP)	July 1, 2016 to June 30, 2017

At the time provisions of GASB 68 were adopted, Covered California did not have the necessary pension information to determine the amounts of all deferred outflows and inflows of resources related to pensions, so it was not practical to restate the prior period financial statements.

Plan Description, Benefits Provided, and Employees Covered

Covered California contributes to the Public Employees' Retirement Fund administered by the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. Covered California has employees who are enrolled in the State Miscellaneous Plan (First Tier and Second Tier). CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute.

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service or age 55 with at least ten years of service, depending on the plan selected by the employee. However, the Public Employees' Pension Reform Act, or PEPRA, was passed in 2012 and went into effect on January 1, 2013. This new law changed the terms

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of the pension plan for state workers first hired after January 1, 2013. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 or 36 consecutive months' average compensation. Healthcare and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Section 20814 (c) of the California Public Employees' Retirement Law (PERL) requires that the

employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the Miscellaneous Plan measurement period ended June 30, 2017, the active employee contribution rate is 8 percent to 10 percent of annual pay for Tier 1 and 3.75 percent of annual pay for Tier 2, and the employer's contribution rate is 28.43 percent of annual payroll for Tier 1 and for Tier 2. These rates reflect PERL Section 20683.2, which mandates that certain employees contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any employer-paid member contributions or situations where members are paying a portion of the employer contribution.

Discount Rate

In preparation for implementing GASB 68, CalPERS prepared the GASB 68 Accounting Valuation Reports (AVRs) for the State of California for the eight plans (including the State Miscellaneous Plan) in which the State participates. CalPERS utilized a discount rate of 7.15 percent, which includes the plans' administrative expenses.

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for the State Miscellaneous Plan, to provide Covered California's net pension liability and related GASB 68 accounting elements. Covered California's calculated percentage was 0.481857 percent for the State Miscellaneous Plan. Covered California's net pension liability for the State Miscellaneous Plan was $165.6 million at the beginning of the measurement period (MP) and $176.0 million at the end of the MP.

As of the start of the measurement period, July 1, 2016, the net pension liability was $165,589,315.

For the measurement period, June 30, 2017 (the measurement date), Covered California incurred a non-cash pension expense of $20,377,758.

As of the measurement date of June 30, 2017, Covered California had deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	$ 35,345,764	$ -
Difference Between Expected and Actual Experiences	771,292	(1,642,996)
Change in Assumptions	20,481,993	-
Net Difference In Projected and Actual Earnings on Pension Plan Investment	4,993,776	-
Total	**$ 61,592,825**	**$ (1,642,996)**

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	$ 6,915,823
2019	11,808,393
2020	8,425,277
2021	(2,545,428)
2022	-
Thereafter	-
Total	$ 24,604,065

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liability was based on an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68

(Continued)

Amortization Method/Period:	Actuarial Policy ACT-96-05E specifies that all changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. In addition, all gains or losses are tracked and the net unamortized gain or loss is amortized as a rolling 30-year amortization with the exception of gains and losses in fiscal years 2008-09, 2009-10 and 2010-11 in which years' gains or losses will be isolated and amortized over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization). Also, if a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability. Finally, all plans are subject to a minimum employer contribution rate equal to the employer normal cost plus a 30-year amortization or surplus, if any.
Asset Valuation Method:	Fair Value
Inflation:	2.75%
Salary Increases:	Varies by entry age and service
Payroll Growth:	3.00%
Investment Rate of Return:	7.15%
Retirement Age:	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality Rate Table:	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.
Post Retirement Benefit Increase:	Contract cost of living adjustment up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

The Mortality Rate Table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the Mortality Rate Table, please refer to the 2014 experience study report.

(Continued)

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability. An expected inflation rate of 2.5 percent was used for real return years 1-10. For real return years 11+, an inflation rate of 3.0 percent was used.

Asset Class	Current Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global equity	47.00%	4.90%	5.38%
Global fixed income	19.00%	0.80%	2.27%
Inflation sensitive	6.00%	0.60%	1.39%
Private equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	(0.40%)	(0.90%)
Total	100.00%		

Change in Assumption

In December 2016, the CalPERS Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.65 percent to 7.15 percent (including administrative expenses) effective July 1, 2017, over a three year period. As shown in the table below, a similar reduction to the discount rate in accordance with GASB 68 will increase the net pension liability. This increase will be amortized over the expected remaining service lives of all employees provided with benefits through the pension plans.

(Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of Covered California as of June 30, 2017, calculated using the discount rate of 7.15 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate -1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan	$240,851,703	$176,047,944	$121,813,161

Pension Plan Fiduciary Net Position

Each plan's fiduciary net position disclosed in the accounting valuation report provided by CalPERS may differ from the plan's assets reported in the funding actuarial valuation report due to several reasons; the accounting valuation report must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation report.

(b) Other Postemployment Benefits

Covered California adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) during the 2017-18 fiscal year. GASB 75 requires that the reported results pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes were used:

Valuation date (VD)	June 30, 2017
Measurement date (MD)	June 30, 2017
Measurement period (MP)	July 1, 2016 to June 30, 2017

At the time provisions of GASB 75 were adopted, Covered California was not able to determine the amounts of all deferred outflows and inflows of resources related to OPEB, so it was not practical to restate the prior period financial statements.

Plan Description, Benefits Provided, and Employees Covered

Postretirement healthcare benefits are also provided to Covered California retirees through the programs sponsored by the State as administered by CalPERS and the California Department of Human Resources (CalHR). As the postretirement healthcare plan is sponsored by the State, it is considered a single-employer plan. Prior to FY17-18, the total other postemployment benefits (OPEB) actuarial accrued liability was reported at the State level.

Healthcare and dental benefits may be provided to members depending on the date hired and the member's years of credited service. Postretirement health benefits include medical, prescription drug, and dental benefits and were previously funded on a pay-as-you-go basis. Effective July 1, 2018

(Continued)

(FY18-19), both the employer and the employee are pre-funding OPEB. Employer contributions for health premiums during fiscal year 2017-18 maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The monthly contribution maximums are $707 for a single enrollee, $1,349 for an enrollee and one dependent, and $1,727 for an enrollee and two or more dependents. Dental premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the legislature of the State. If members are not fully vested, the healthcare and dental contributions will be prorated based on the years of service.

Contributions

Covered California paid approximately $13.9 million for postretirement health and dental benefits for retired members for the year ended June 30, 2018. For the measurement date ended June 30, 2017, Covered California's cash contributions were approximately $4.7 million in total payments, which were recognized as a reduction to the OPEB liability.

Net OPEB Liability

Covered California's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Valuation Date:	June 30, 2017
Measurement Date:	June 30, 2017
Actuarial Funding Method:	Entry age normal cost, level percent of pay
Actuarial Valuation Method:	Market value of assets
Actuarial Assumptions:	
Discount rate	7.28%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.28%

Mortality rate	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries
Pre-retirement turnover	The post-retirement turnover information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.
Healthcare trend rate	The 2018 trend rates are based on actual premium increases from calendar 2017 and 2018. The PPO per capita claim costs is assumed to be 5.0% for Pre-Medicare costs and 6.0% for Post-Medicare costs. For 2019 and beyond an initial trend rate of 8.0% for Pre-Medicare costs decreasing over the next seven years until the ultimate rate of 4.5% is reached. For Post-Medicare costs, the trend rate is 8.5%, decreasing to 4.5% over the next eight years.
Retirement Age:	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are delveloped for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Current Target Allocation	Long-term expected real rate of return
Global Equity	59.00%	5.00%
Fixed Income	25.00%	5.00%
Treasury Inflation-Protected Securities (TIPS)	5.00%	3.00%
Real Estate Investment Trusts (REITs)	8.00%	5.00%
Commodities	3.00%	3.00%
Cash	0.00%	2.00%
Total	100.00%	

(Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 7.28 percent. The projection of cash flows used to determine the discount rate assumed that Agency contributions will be made at rates equal to the actuarilly determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016	$ 322,896,000	$ -	$ 322,896,000
Change in the year:			
Service cost	13,400,000	-	13,400,000
Interest on total OPEB liability	11,022,000	-	11,022,000
Employer contributions	-	7,063,000	(7,063,000)
Changes of assumptions	(32,107,000)	-	(32,107,000)
Benefit payments	(7,060,000)	(7,060,000)	-
Net changes	**(14,745,000)**	**3,000**	**(14,748,000)**
Balance at June 30, 2017	**$ 308,151,000**	**$ 3,000**	**$ 308,148,000**

The above Net OPEB liability of $322,896,000 as of June 30, 2016 measurement date is the restated amount per the implementation of GASB Statement No. 75. Under GASB Statement No. 45, the reported amount of Net OPEB liability as of June 30, 2016 measurement date was $29,491,918.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of Covered California as of June 30, 2017, calculated using the discount rate of 7.28 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.28 percent) or 1 percentage-point higher (8.28 percent) than the current rate:

Discount Rate -1% (6.28%)	Current Discount Rate (7.28%)	Discount Rate + 1% (8.28%)
$363,235,614	$308,148,000	$264,196,494

(Continued)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Trend Rates

The following presents the net OPEB liability of Covered California as of June 30, 2017, calculated using health care cost rates that are 1 percentage-point lower or 1 percentage-point higher than the current rate:

Health Cost Trend Rate -1%	Current Health Cost Trend Rate	Health Cost Trend Rate + 1%
$260,939,102	$308,148,000	$368,637,751

OPEB Plan Fiduciary Net Position

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB

The State Controller's Office (SCO) used a calculated percentage based on Covered California's share of the pensionable compensation to the State's total pensionable compensation amounts for each bargaining unit or valuation group, to provide Covered California's net OPEB liability and related GASB 75 accounting elements.

For the measurement period, June 30, 2017 (the measurement date), Covered California incurred a non-cash OPEB expense of $19,263,000.

As of the measurement date of June 30, 2017, Covered California had deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions Subsequent to Measurement Date	$ 12,000	$ -
Change of Assumptions	-	(27,460,000)
Difference Between Expected and Actual Contributions	-	(2,847,000)
Total	**$ 12,000**	**$ (30,307,000)**

(Continued)

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources related to OPEB will be recognized in future pension expense as follows:

Measurement Period ended June 30:		Deferred Outflows/(Inflows) of Resources
2018	$	(4,472,383)
2019		(4,472,383)
2020		(4,470,575)
2021		(4,467,781)
2022		(4,467,781)
2023		(4,320,781)
2024		(3,522,017)
2025		(113,299)
Total	$	(30,307,000)

The actuarial valuation report for OPEB can be obtained by writing to the Office of the State Controler, P.O. Box 942850, Sacramento, California 94250 or by visiting the State Controller's website at www.SCO.ca.gov.

(6) Commitments and Contingencies

As of June 30, 2018, Covered California has outstanding commitments of $52.6 million related primarily to information technology projects.

(7) Risk Management

Covered California is self-insured through the State Department of General Services (DGS) Office of Risk and Insurance Management (ORIM) for risks of employee errors and omissions, business interruption, and comprehensive insurance. The ORIM provides risk management and insurance services to state and other public entities on an ongoing or project-specific basis. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claims are on a "pay-as-you-go" basis.

Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits. The liability for workers' compensation is not material to the financial statements as a whole.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2018

SCHEDULE OF COVERED CALIFORNIA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2015	2016	2017	2018
Covered California's Proportion of the Net Pension Liability	0.224583%	0.428616%	0.500055%	0.481857%
Covered California's Proportionate Share of the Net Pension Liability	$ 53,473,665	$ 121,049,500	$ 165,589,315	$ 176,047,944
Covered California's Covered Payroll	$ 22,502,642	$ 45,608,536	$ 55,957,084	$ 55,854,234
Covered California's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	237.63%	265.41%	295.92%	315.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.17%	70.68%	66.81%	66.42%

(1) Amounts presented were determined as of June 30th of the prior fiscal year.
(2) Data is being accumulated annually to present 10 years of the reported information.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2018

SCHEDULE OF PLAN CONTRIBUTIONS - PENSION

	2015	2016	2017	2018
Actuarially Determined Contribution	$ 11,090,990	$ 14,066,553	$ 14,920,905	$ 35,345,764
Contribution in Relation to the Actuarially Determined Contribution	(11,090,990)	(14,066,553)	(14,920,905)	(35,345,764)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll	$ 22,506,125	$ 45,608,536	$ 55,957,084	$ 55,854,234
Contributions as a Percentage of Covered-Employee Payroll	49.28%	30.84%	26.66%	63.28%

(1) Data is being accumulated annually to present 10 years of the reported information.

Notes to Schedule:

Valuation Date:	June 30, 2015
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal cost method
Amortization method/period	Level percentage of payroll, closed
Assets valuation method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20%
Payroll Growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2018

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

		2018
Total OPEB Liability		
Service cost	$	13,400,000
Interest on the total OPEB liability		11,022,000
Changes in benefit terms		-
Difference between expected and actual experience		-
Employer contributions		(7,060,000)
Changes in assumptions		(32,107,000)
Benefit payments		-
Net change in total OPEB liability		**(14,745,000)**
Total OPEB liability - beginning		**322,896,000**
Total OPEB liability - ending (a)	**$**	**308,151,000**
Plan Fiduciary Net Position		
Contribution - employer	$	7,060,000
Net investment income		-
Benefit payments		(7,060,000)
Administrative expense		3,000
Net change in plan fiduciary net position		**3,000**
Plan fiduciary net position - beginning		**-**
Plan fiduciary net position - ending (b)	**$**	**3,000**
Net OPEB Liability/(Assets) - ending (a) - (b)	**$**	**308,148,000**
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%
Covered payroll	$	55,854,234
Net OPEB liability as a percentage of covered-employee payroll		551.70%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule:

Changes in assumptions: The discount rate used to measure the total OPEB liability was 7.28 percent for the measurement period ended June 30, 2017.

CALIFORNIA HEALTH BENEFIT EXCHANGE
(COVERED CALIFORNIA)

Required Supplementary Information

June 30, 2018

SCHEDULE OF CONTRIBUTIONS – OPEB

	2018
Actuarially Determined Contribution	$ 12,000
Contribution in Relation to the Actuarially Determined Contributions	(12,000)
Contribution Deficiency (Excess)	$ -
Covered payroll	$ 55,854,234
Contributions as a percentage of covered-employee payroll	0.02%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contribution for Fiscal Year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Funding Method	Entry age normal cost, level percent of pay
Actuarial Valuation Method	Market value of assets
Inflation	2.75%
Payroll Growth	3%
Investment Rate of Return	7.28%
Healthcare cost-trend rates	calendar 2017 and 2018. The PPO per capital claim costs is assumed to be 5.0% for Pre-Medicare costs and 6.0% for Post-Medicare costs. For 2019 and beyond an initial trend rate of 8.0% for Pre-Medicare costs decreasing over the next seven years until the ultimate rate of 4.5% is reached. For Post-Medicare costs, the trend rate is 8.5%,
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.