

# MINNESOTA HEALTH INSURANCE EXCHANGE WORK GROUP REPORT

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## Finance

October 24, 2012

### Work Group Focus

The purpose of the Work Group is to provide technical assistance and information on the options related to ongoing financing of a Minnesota Health Insurance Exchange.

### Issues for Discussion

The Work Group has been tasked with providing the Advisory Task Force with information about the following issues:

- What are funding options for an Exchange, including pros and cons
  - Presented December 21, 2011
- Recommendations of funding principles
  - Presented January 10, 2012
- Who benefits from an Exchange and how does that relate to funding options
  - Presented March 30, 2012
- What specific funding options can be used to meet estimated budget needs
  - Discussion summary below.

In addition to these issues, the Task Force may refer additional issues to this Work Group for additional assistance and input.

### Meeting Update

#### **Finance work group meetings**

The workgroup has met 9 times over the last year.

- November 30, 2011 – Review funding options and current health care taxes and surcharges
- December 9, 2011 – Discuss funding matrix, pros and cons
- December 14, 2011 – Finalize funding matrix; Discussion principles of Financing the Exchange
- February 8, 2012 – Discuss benefits/beneficiaries of an Exchange
- August 9, 2012 – Review Wakely Consulting Budget Model
- August 22, 2012 – Continued discussion on budget model and finance options
- September 5 – Review member survey results on finance options
- September 19 – Finalize funding options table and discuss workgroup principles/recommendations.

#### **Task Force Presentations**

- **December 21, 2011** – Funding Options Matrix; Financing Principles; Funding Options Pros and Cons

- **January 10, 2012** – Funding Recommendations/Principles
- **March 30, 2012** – Presentation to Task Force on benefit/beneficiaries of an Exchange

### **Principles – Adopted January 2012**

Four Basic Principles were adopted by the Advisory Task Force in January of 2012. These principles are:

- Funding mechanisms should be considered against the recommended principles of equity, transparency, sustainability and simplicity, as well as avoid negative impacts. Equity being the top principle.
- Funding mechanisms should not disproportionately burden one group over another, and as much as possible be proportionate to the benefit received by the paying group.
- Funding of the Exchange should include a combination of funding sources to ensure that those benefiting from an Exchange also support it, at a minimum include Medicaid or a percent of premium mechanism (to the extent it does not discourage participation or create adverse selection). Consideration of other resources should reflect overall budget needs, overall benefits of the Exchange and other decisions yet to be made.
- Funding mechanisms should be implemented in time to meet needs of Navigator program no later than July 1, 2013, as well as cash flow and reserve needs of the Exchange to be self-sustaining beginning in 2015.

### **Funding Options**

The Finance Work Group reviewed nine funding options for potential sources to fund the Health Insurance Exchange. This included:

- Premium add-on or user fee
- Portion of premium for Qualified Health Plans sold in the Exchange
- Portion of premium for plans in the fully insured market
- Broad based health care market assessment
- Other broad based tax or sin tax with evidenced base health benefits
- General fund appropriation
- Health Care Access fund appropriation
- Other including advertisement, naming rights, and grants.
- Medicaid cost allocation

Please note the non-Medicaid options are in an order from a narrow base to a broad base and do not reflect an order of preference of the group.

The workgroups discussion of the non-Medicaid options is summarized in a set of funding options tables. The tables include:

- Pros and cons of each option,
- Links of Exchange benefits to the source of funding,
- Alignment with the principles of equity, neutrality to the market, transparency, flexibility and simplicity and

- Comments from work group members on the source funding mechanism.

The comments reflect the variety of opinions on each funding option. *See Funding Option Summary tables for more information.*

### **Budget Estimates**

The Finance Workgroup reviewed the Wakely Consulting Group budget model for operational expense projections for calendar year 2015 and 2016.

See Finance workgroup report for more detail on Wakely model.

### **WORKGROUP CONCLUSIONS**

While the workgroup agreed that Medicaid should be part of the funding solution for the Medicaid costs associated with the Exchange, the Workgroup could not come to agreement on a funding mechanism for the non-Medicaid portion. Without having decisions on a governance structure, a more defined budget estimate and the unknowns of other impacts from the Affordable Care Act, specific recommendations on funding options and other financial issues such as cash flow and reserve needs could not be made. One member described the workgroup being in “a nexus of uncertainty” and therefore unable to reach consensus.

While a specific recommendation on how to fund the Exchange was not agreed to, there was agreement that multiple options should be used. There was also a general consensus that any premium percentage or premium add-on (user fee) mechanism be used to meet the balance of costs not met by the other resources.

To the extent a percent of premium or a premium add-on is used to fund the Exchange, the workgroup members discussed two principles:

- The funding mechanism should maximize federal participation by including the fee in the calculation of the Advanced Premium Tax Credit (APTC).
- The funding mechanism should not cause a cost shift into other parts of the market.

Alignment of these principles with each other is difficult to assess due to uncertainties around these options. It is not clear if a premium add-on could be included in the APTC calculation. It is not clear how the use of a premium add-on is impacted by the federal requirement for premiums inside and outside the Exchange be the same for the same product. If the only way to include the Exchange fee in the APTC calculation is to include it as part of the premium and the premiums inside and outside the Exchange must be the same, the two principles are in conflict with each other.

To the extent premiums inside and outside the Exchange need to be the same, the costs of a portion of premium funding option will likely be spread across products of the broader market, therefore a cost shift. To address these uncertainties, the following questions have been submitted to the federal Health and Human Services staff:

- 1.) If a state pursues an individual user fee that is administered as a add-on to the premium, would the add-on be allowed to be considered part of the premium for the purposes of APTC calculations.
- 2.) How would an add-on described in question 1 be viewed in relation to the requirement that premiums inside and outside the Exchange be the same for the same product.
- 3.) If a state pursues a carrier fee that is part of the premium, is that allowed to be part of the APTC calculation?
- 4.) If a state pursues a carrier fee or individual user fee administered through the premium, how will this assessment be viewed for provider tax purposes (caps, broad base rules, etc.)

In addition to the above potentially conflicting principles, the workgroup offers the following recommendations on other issues pertaining to the financing of the Exchange.

### **Transparency**

- If premium options pursued, recommend including line item on invoice reflecting portion of premium or premium add-on that will be retained by the Exchange for Exchange operating costs.
- Recommend other markets show breakdown of premium costs to reflect proportion of administrative costs.
- Recommend annual audits and findings be posted on public website.

### **Accountability**

- Recommend revenue sources created for Exchange only is used for Exchange purposes.
- Recommend Exchange track and report revenues and expenditures
- Recommend budgets presented to board and/or legislature for review (dependant on governance structure).

### **Flexibility**

- Recommend process be developed to adjust budget as necessary to meet changing budget needs against enrollment variances. Process will depend on governance structure.
- Recommend cash flow and reserve needs be met. Process of meeting cash flow and reserve needs will depend of Governance structure. Mechanisms to meet needs are different between a state entity and a non-profit.

### **Timing**

- To the extent the funding mechanism includes a portion of premium (QHP or fully insured), it needs to be in place in time for rate filing.
- Legislative changes required to implement rate setting, cash flow or reserve needs and budgets should be implemented in the 2013 legislative session.

### **Next Steps**

The Health Insurance Exchange is continuing to refine its budget estimates.

### **Information Technology**

As work with other IT Solution vendors continues, the IT infrastructure needs are becoming clearer. We are working with Mn.IT DHS and Mn.IT Central to validate the needs estimates which include standing up developing, testing and production environments or the Exchange. One-time costs include the purchase on hardware and software as well as installation services. Ongoing cost in this area includes ongoing maintenance and support costs and license renewal.

### **Staffing**

Ongoing staffing needs are becoming clearer, as reflecting in the most recent grant application. We anticipate the need for about 50 to 60 non-IT staff for the Exchange to support program operations for SHOP, individual eligibility, plan management, provider information, customer service (call center, eligibility assistance, notification, appeals, premium billing and collection, etc) outreach as well as back office functions of finance, human resources and facilities management. Additional staff for information technology support is anticipated to be about 25 to 30 IT staff to support both the internal IT needs of the Exchange staff as well as overall IT infrastructure support for the systems.

### **Qualified Health Plan Certification**

Cost for Department of Health and Commerce for QHP certification have been identified and outlined, but will need to be adjusted for actual experience.

### **Customer Service**

While operating processes are still being defined, we can use the Wakely model to estimate costs such as eligibility in-take (in-person, mail, fax), eligibility verification and case management, in-person assisters, call center, notices, appeals and premium processes. Customer service activities continue to be defined, updated costs estimates can be made.

### **Marketing and Outreach**

Marketing and Outreach workgroup has been identifying audience profiles and outreach channels. Taking this analysis and combining it with the market research report and other research from state and national sources, the group will now assist in directing marketing dollars for optimum effectiveness in consumer outreach.

### **Navigator/Broker/Assistors**

The Navigator/Broker program development and workgroup recommendations will assist in defining the budget needs in this area.