

Minnesota Health Insurance Exchange Finance Options

Minnesota Health Insurance Exchange Advisory Task Force

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Funding Options Overview

- **Background**
 - Workgroup members
 - Workgroup scope
- **Initial issues addressed by work group**
 - Review of current health care taxes and surcharges
 - Principles to consider
 - Funding mechanism options
- **Next steps**



Workgroup Background

- **Members**

- Barb Juelich, co-lead - HIX, Commerce
- Kurt Kaiser, co-lead– U of M Physicians (provider)
- Lisa Carlson – Sanford Health (Health Plans)
- Elaine Cunningham – Children’s Defense Fund (Navigator)
- Dave Dziuk – Health Partners, (Health Plan)
- Stefan Gildemeister – Minnesota Department of Health
- Jim Golden – Department of Human Services
- Dave Greeman – Department of Human Services
- Chuck Johnson – Department of Human Services
- Kate Johansen – Minnesota Chamber of Commerce (small Business)
- Margaret LeClair – Minnesota Association of Health Underwriters (Broker)
- Andy McCoy – Fairview Hospital (provider)
- Matt Schafer – American Cancer Society (Consumer Representative)
- Nora Slawik – Legislator
- Angela Vogt – Minnesota Management and Budget

Workgroup Background

- **Scope**
 - Provide technical assistance and information related to the on-going financing of a Minnesota Health Insurance Exchange.

- **Deliverables**
 - By December 21, present funding mechanism options, including pros and cons and principles to consider for the Minnesota Health Insurance Exchange to the Minnesota Exchange Advisory Task Force.
 - Other issues as requested by the Department of Commerce and Health Insurance Exchange Task Force.

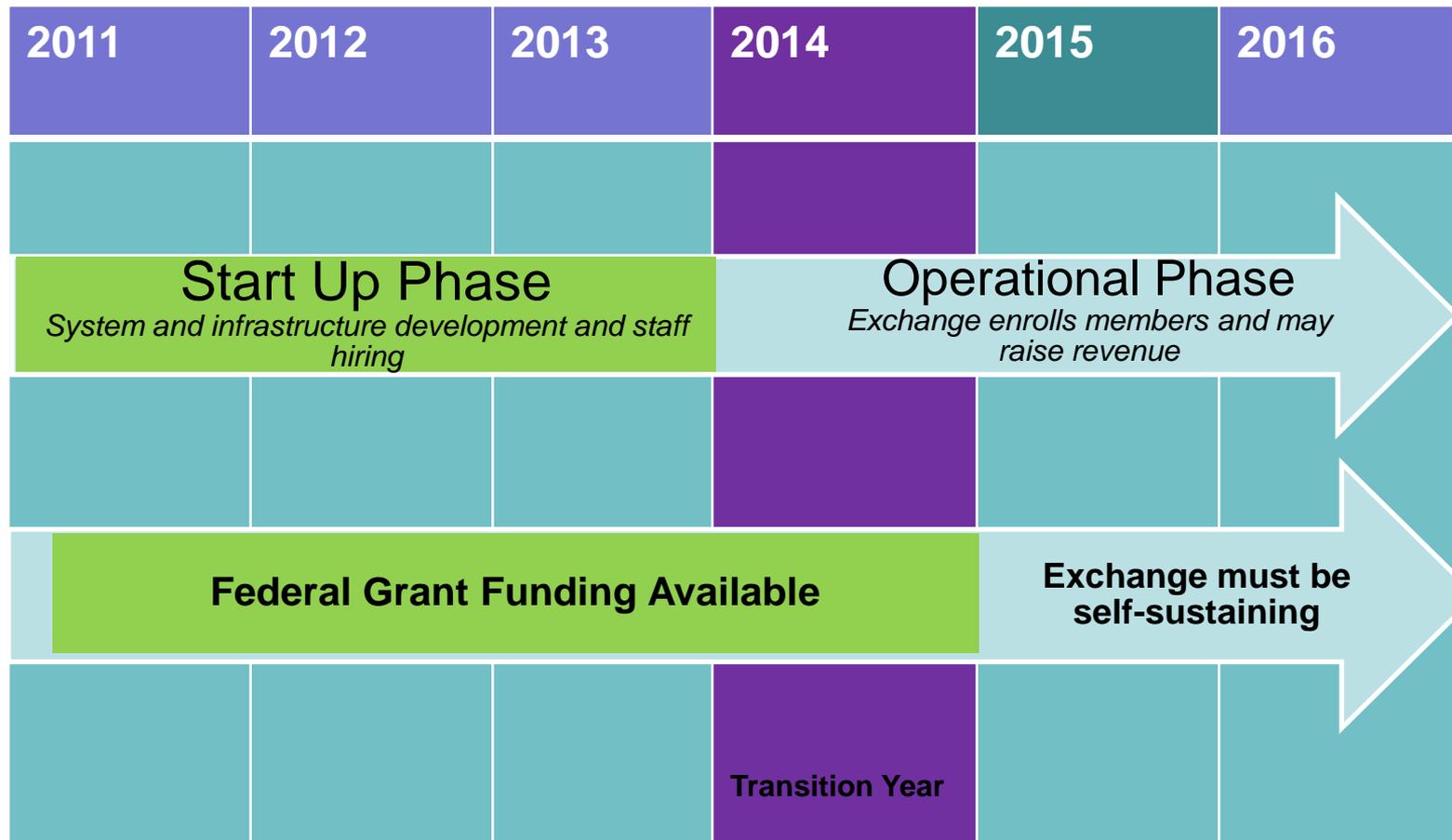


Workgroup Background

- **Knowns**

- Medicaid is required to pay for costs of operating a portion of Medicaid through the Exchange.
- Minnesota currently has a number of health care taxes and surcharges.
- Exchange financial timeline.

Exchange Financial Timeline





Workgroup Background

- **Unknowns**

- Size of the ongoing operating budget for a Minnesota Health Insurance Exchange.
- Will federal funds be allowed to be used for navigators in 2014?
- What public programs will be in Minnesota in 2014/2016 and what resources will be needed for them?
- Decision on Exchange operations that impact finance options.



Funding Mechanism Matrix

Options

- User Fee (individual)
- Portion of Premium (Exchange only)
- Portion of Premium (fully Insured Market)
- Broad based health care tax
- Broad based other tax (Sin tax)
- General fund appropriation
- Other (grants, advertisement)
- Medical Assistance

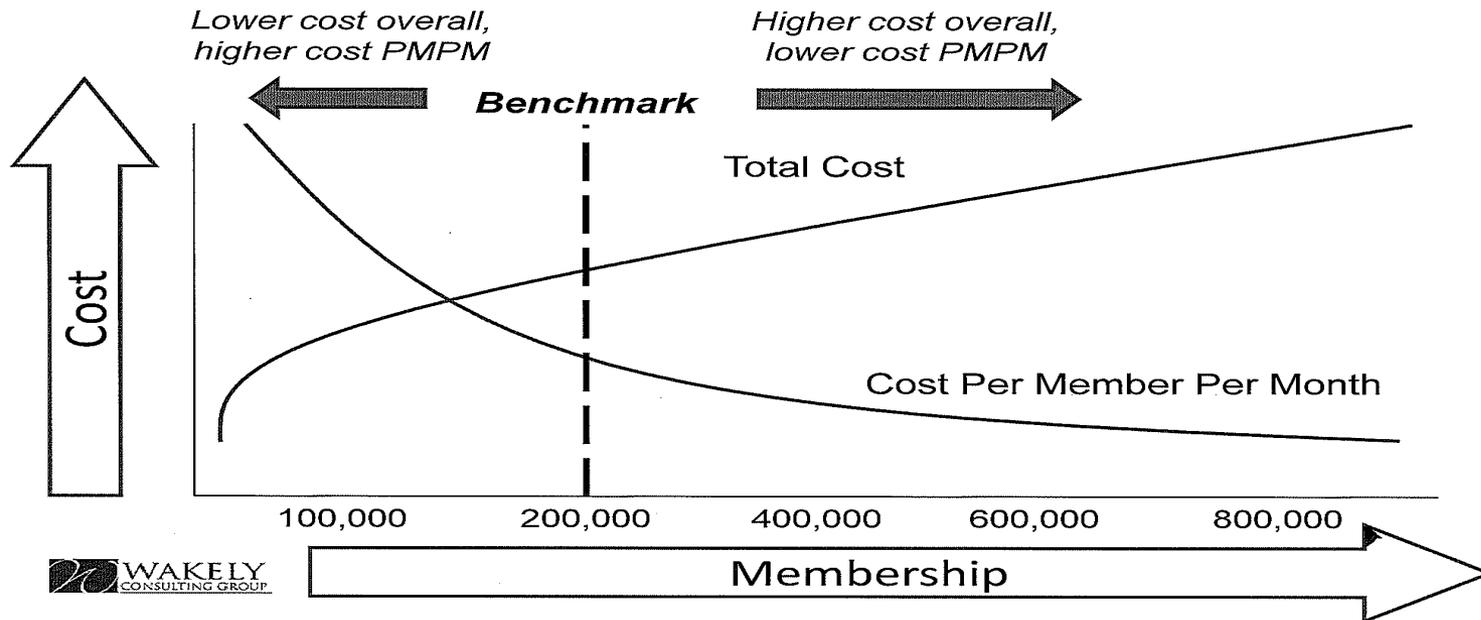
Considerations

- Governance Structure
- Equity (relationship to benefit)
- Impact of individual/payer/plan
- Impact on premiums
- Scalability
- Collection methodology
- Size of budget (fixed versus variable cost)
- Supreme court decision (potential for no mandate with guaranteed issuance)

Funding Considerations

Benchmark Methodology (cont.)

Exchange expenses are scalable based on enrollment and the relationship between fixed and variable costs.



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Exchange Financing Principles (5 categories)

- Funding mechanism should be fair and equitable to those individuals and organizations required to support the Exchange.
 - Funding mechanism should not disproportionately burden one group over another and be proportionate to the benefit received by the paying group.
 - To the extent the Exchange is a broad based public good, it should have a broad based public support.

NOTE - Workgroup discussion on who is impacted/benefits from an Exchange

- Exchange is a very dynamic multifunction entity. Who benefits over time will depend on how well the Exchange functions.
- Discussion of Individual Exchange participants, individuals outside the exchange, health plans, small employers, large group and self funded employers, hospitals/providers, Navigators, Medicaid and other public programs.

Need to explore when merge with Governance workgroup.

Exchange Financing Principles (continued)

- Market impacts should be neutral or minimized.
 - Funding mechanism should not create adverse selection.
 - Funding mechanism should not discourage product or market innovation.
 - Funding mechanism should not discourage participation in the Exchange.
 - Funding mechanism should not discourage participation in the market.
- Funding mechanism should be transparent and accountable to consumers, fee payers and the public.
 - State funding for public programs used for a portion of the Exchange need state oversight.
 - To the extent other state funding are used (appropriation), public accountability is needed.

Exchange Financing Principles (continued)

- Funding mechanism needs to meet the needs of the Exchange.
 - Funding mechanism needs to be flexible over-time, adjusting as necessary.
 - Funding mechanism needs to be predictable to the Exchange and the payer.
- Funding mechanism should be simple, not overly complex.
 - To the extent multiple funding sources are considered, need to balance against complexity.
 - If broad based revenue sources are considered, existing state resources should be considered first.
 - Funding resources should be easy to administer.



Financing Options - User Fee

Assessment on products sold through the Exchange that is charged to enrollees. Essentially an add on to the premium.

Pros

- Works in all Governance structures
- Aligns costs to direct purchasers of insurance through the Exchange
- Transparent
- Scalable to enrollment
- Collection could occur at the Exchange via premiums

Cons

- Does not reflect all of the benefits an Exchange may provide to other consumers, insurers, providers and navigators/brokers

Cons

- May discourage participation in Exchange (dependant on cost level and transparency)
- Potentially invisible to consumer if rolled into premium and looks like added costs of product (Individual premiums inside the Exchange would be larger than outside)
- Tied to enrollment - Hard to predict first few years
- Per person costs vary with number of participants and the relation of fixed and variable costs
- If no mandate, participation may be reduced causing higher costs per person (further disincentive to participate)



Financing Options - Portion of Premium

Exchange keeps some portion (percent and/or flat fee) of the total product premium.

Pros

- Works in all Governance Structures
- Would most closely relate exchange business operations and market relationships
- Premiums same inside and outside Exchange, would not discourage individual participation
- Scalable to enrollment
- Collection could occur at the Exchange via premiums
- Medical Loss Ratio considerations (possible con)

Cons

- Acknowledges some but not all of the benefits an Exchange may provide to other consumers, insurers, providers and navigators/brokers
- May discourage carriers from participating in Exchange
- Tied to enrollment - Hard to predict first few years
- Per person costs vary with number of participants and the relation of fixed and variable costs
- If no mandate, participation may be reduced causing higher costs per person (further disincentive to participate)



Financing Options: Fully Insured Market

Assessment on fully-insured products sold by insurers. Could be similar to the MCHA assessment or insurer premium tax. Could be a percentage of premium or flat fee per policy or enrollee.

Pros

- Acknowledges that some services benefit consumers that do not participate in the Exchange (risk adjustment, comparative information)
- Premiums inside and outside an Exchange the same and thus not discourage Exchange participation (individual or plan)
- Broader assessment, lower cost per person
- Predictable (known base, similar to current state revenues)
- Tied directly to estimated budget (not directly to enrollment)
- Reduced impact from Supreme Court decision on mandate
- Medical Loss Ratio considerations (possible con)

Cons

- Non-profit lack authority to assess non-participants
- Require appropriation
- Does not take into account consumers in self-funded plans and other stakeholders such as providers and navigators/brokers may also benefit from an Exchange
- Further reduces link between exchange business relationship and funding source
- Not transparent, cost shift
- Potentially creates unlevel playing field if relieves insurers within Exchange of administrative burdens
- Possibly creates competition between Exchange and other product distribution channels (brokers, plans, etc)
- Not tied to enrollment -not adjust for unexpected participation changes



Financing Options: Broad Based Market Fee

An assessment like the provider tax or redirection of current health taxes and surcharges.

Pros

- Fully acknowledges Exchange may benefit a broad base of consumers and stakeholders
- Reflects shift in market as coverage expands (potential for increased revenue from current surcharges and taxes)
- Current fees federally approved as health care financing mechanisms.
- Premiums the same inside and outside the Exchange
- Broad base – lower cost per person
- Predictable (known base - similar to current state surcharges and taxes)
- Tied directly to estimated budget (not directly to enrollment)
- Supreme court decision on mandate not impact revenue source.

Cons

- Non-profit lack authority to assess non-participants
- Require appropriation – current surcharges/taxes were not implemented for Exchange purpose
- Further reduces link between exchange business relationship and funding source
- To extent a service is not covered within the Essential benefit set, service may still be included in assessment.
- Not transparent, cost shift
- Potentially creates unlevel playing field if relieves insurers within Exchange of administrative burdens
- Potential interaction with other processes (reinsurance, rate regulation, federal caps, etc.) enhances uncertainties
- Possibly creates competition between Exchange and other product distribution channels (brokers, plans, etc)
- Not tied to enrollment - not adjust for unexpected participation changes



Financing Options: Sin tax/other broad tax

Use of a sin tax or other broad tax/fee that applies broadly to the population.

Pros

- Broad base – reduced costs per person
- Recognizes Exchange as a public good
- Spreads costs beyond health industry
- May have public health benefit
- Premiums not impacted
- Predictable – known base
- Tied directly to estimated budget (not directly to enrollment)
- Supreme court decision on mandate not impact.

Cons

- Non-profit lack authority to tax
- Further reduces link between exchange business relationship and funding source
- Amount increased for Exchange may not be large enough to impact behavior
- Require appropriation
- Raises taxes
- Not transparent, cost shift
- Potentially creates unlevel playing field if relieves insurers within Exchange of administrative burdens
- Not tied to enrollment - not adjust for unexpected participation changes



Financing Options: General Fund

General fund: Appropriation to recapture potential general fund savings

Pros

- Broad base – reduced costs per person
- Recognizes Exchange as a public good
- Spreads costs beyond health industry
- Premiums not impacted
- Appropriation is predictable
- Tied directly to estimated budget (not directly to enrollment)
- Supreme court decision on mandate not impact revenue source

Cons

- Non-profit lack authority to tax
- Require appropriation
- Further reduces link between exchange business relationship and funding source
- Not transparent, cost shift
- Potentially creates unlevel playing field if relieves insurers within Exchange of administrative burdens
- Not tied to enrollment -not adjust for unexpected participation changes
- Savings may be difficult to isolate and recapture

Financing Options: Other

Raise revenue through other mechanisms such as naming rights, website advertising, grants, etc.

Pros

- Non-profit would be able to raise revenue
- Reduce or eliminate the need for fees and assessments on consumers and stakeholders
- Exchange could directly collect revenues
- Supreme court decision on mandate not impact revenue source.

Cons

- Funding may not be predictable or stable
- Questions on who could advertise, conflict of interest concerns
- Exchange would need to compete and show value to attract funding
- Potentially creates unlevel playing field if relieves insurers within Exchange of administrative burdens
- Could potentially harm the independent nature of an Exchange
- Not tied to enrollment –not adjust for unexpected participation changes



Financing Options: Medicaid Match

Federal matching funds are available for activities necessary for Medicaid administration. Medicaid is required to pay for costs of operating a portion of Medicaid through the Exchange.

Pros

- Links costs of activities that benefit public programs to the public program (Outreach, eligibility determination, and managed care enrollment are generally accepted types of Medicaid administrative activities)
- Reduces costs for other payers
- Premiums not impacted
- Predictable – tied to Medical Assistance enrollment
- Scalable to public assistance participation in the Exchange
- Cost allocation directly to Medical Assistance

Cons

- Complexities within a non-profit structure

NOTE:

Non-federal share of Medicaid expenses may include public funds appropriated or transferred to the Medicaid agency or certified by a local unit of government as a Medicaid expenditure. Private (non-profit) spending is not directly “matchable” by Medicaid

Financing Options: Combination

Combine existing revenues, cost allocation and new assessments

Pros

- Provide flexibility and stability for the exchange
- Recognizes business and public entity sides of the exchange
- Facilitates targeting costs onto individuals and organizations that receive a benefit

Cons

- Increases complexity



State Ongoing Financing Examples

- **Massachusetts:** Connector collects a portion of the premium (3-4%) to fund ongoing operations.
- **Utah:** Ongoing operations are funded through a combination of user fees (broker and technology fees) and state appropriation.
- **California:** Ongoing operations will be funded through a portion of the premium and health plan participation fees. \$5 million loan approved for working capital.
- **West Virginia:** Ongoing operations will be funded through a portion of the premium for health plans inside and outside the exchange.

Financing Considerations: Next Steps

Timing

- Navigator/broker payments may begin as soon as fall of 2013 and may not be covered by federal grants.
- Cash flow issues for transition from federal funds to on-going revenue stream.
- When to begin funding mechanism to establish an operating reserve?
Cash Flow? Navigators?

Interdependencies

- Governance.
- Functions of Exchange, who benefits, how it impacts and links to financing methods.
- Other decisions that may impact financing of Exchange.



Financing Summary

- By 2015, Exchange must be self-sustaining. Federal start-up funding can not be used for ongoing operations.
- There is broad flexibility in the federal law regarding ongoing funding sources.
- The required and potential optional functions of the Exchange could serve a variety of consumers and stakeholders, not just those participating in the Exchange.
- A combination of funding sources will be necessary to ensure that those benefitting from an Exchange also support it.
- A funding mechanism will need to be implemented prior to 2015 in order to support an Exchange on January 1, 2015.