

Exchange Financing

Minnesota Health Insurance Exchange
Financing Workgroup

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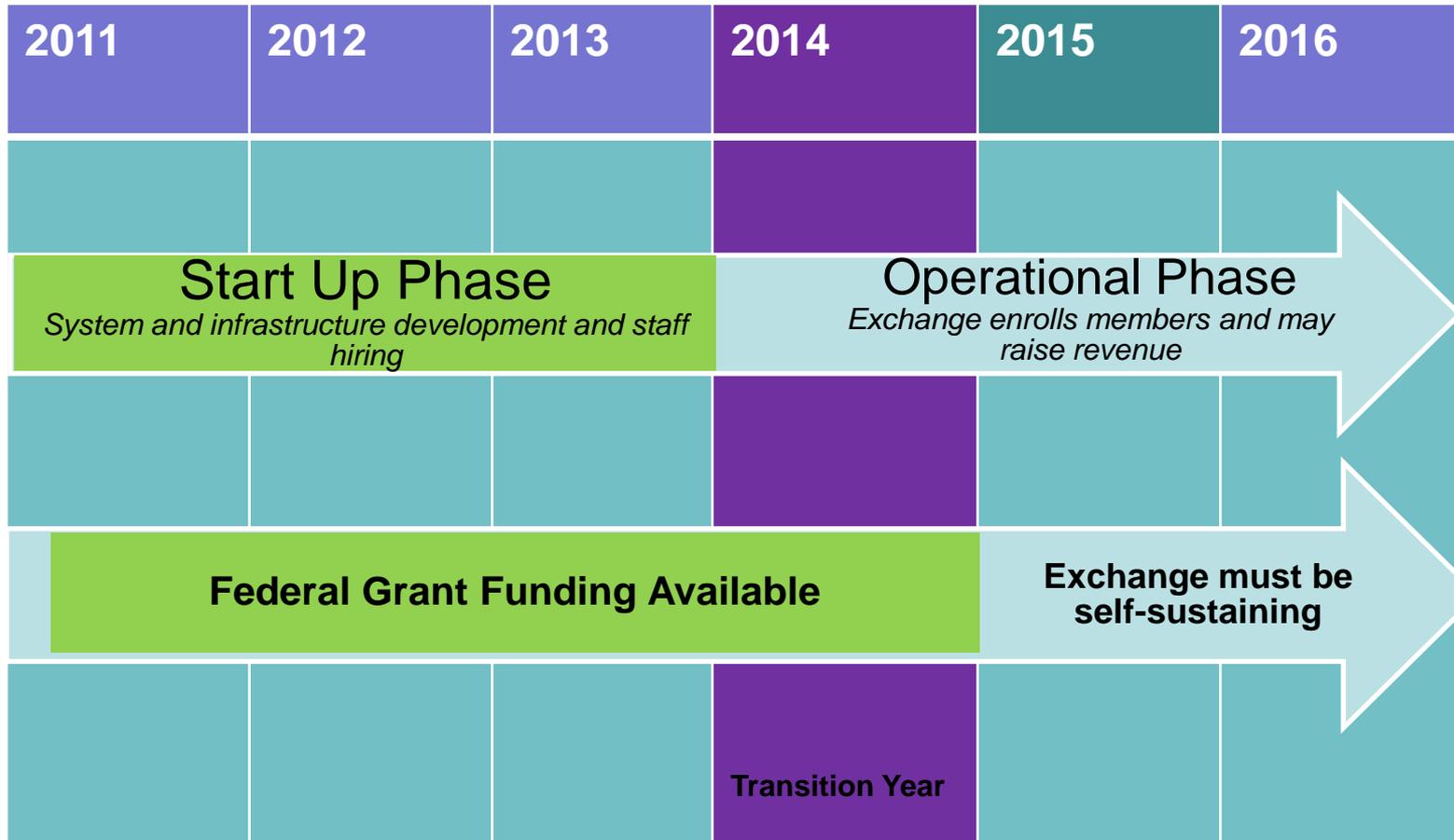
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Exchange Financing

- **Start-Up Funding:**
 - Funding is available until 2015 for start-up expenses.
 - Received \$1 million Planning Grant February 2011
 - Received \$4.2 million Establishment Grant August 2011
 - Additional funds available for future Establishment grant application for funding through 2014
 - Potential issue for Navigator funding prior to 2015
 - Funding can not be used for on-going operations.
- **On-Going Funding:**
 - Exchange must be self-sustaining by January 1, 2015.
 - May establish assessments, user fees, or other financing mechanisms.

Exchange Financial Timeline



Exchange Financing

- **Medicaid Systems Funding:**

- HHS will provide a 90% matching rate for Medicaid eligibility systems until the end of 2015 and a 75% match for maintenance after 2015.
- In order to receive this matching rate, the Medicaid system must be interoperable with the Exchange.
- Eligible Exchange activities benefiting the Medicaid program (i.e. eligibility determination) may be cost allocated to Medicaid.

Key Questions

- Should funding source be narrowly applied or broad-based?
- What criteria or principles should be used to determine an appropriate funding source?
- What are the options available to provide an ongoing funding resource for the Exchange?
 - Current state revenues or new user fees or tax
- What methodology will best mitigate the risk of revenue shortfall?
 - Cost may fluctuate based on enrollment
- When should financing options be implemented?

Considerations for Financing Sources

Required Exchange Functions and Markets Served	Exchange Private Enrollees	Exchange Medicaid Enrollees	Fully Insured Market	Population	Insurers, Providers, Navigators
Certify qualifying products	X		X		X
Provide comparative insurer and product info and ratings	X	X	X		X
Eligibility and enrollment for Medicaid and private plans	X	X			X
Administer individual and employer subsidies	X				
Determine coverage requirement exemptions	X	X	X	X	
Provide employers info on subsidy-eligible employees	X		X	X	
Electronic interchange to share info with state and federal agencies (eligibility)	X	X			
Operate telephone hotline and website	X	X			X
Navigator program	X	X			X

Considerations for Financing Sources

Optional Exchange Functions and Markets Served	Exchange Private Enrollees	Exchange Medicaid Enrollees	Fully Insured Market	Population	Insurers, Providers, Navigators
Negotiate or select health plans to be offered	X				X
Conduct risk-adjustment	X	X?	X		X
Provide comparative information on providers	X	X	X	X	X
Collect premiums (required for small group)	X				X
Aggregate multiple funding sources for enrollees, such as from multiple employers (required for small group)	X				X
Provide additional employer benefit services	X				X
Provide additional public program benefit eligibility or referral services		X		X?	

Exchange Financing Principles (Examples)

- Revenue basis should be stable, reliable and predictable
- Financing method should not discourage members or carriers from utilizing or participating in the exchange
- Financing method should provide sufficient flexibility to support exchange variability during first few years of operation or in the event of lower or higher enrollment than estimated
- Broad based revenue options should consider all stakeholders who benefit from the increase in insurance facilitated by the exchange.
- Timing of implementation should allow for appropriate cash flow in 2015 and cover costs not covered with federal sources prior to 2015.
- Adequacy of assessment should be evaluated annually

Key Considerations

- Stability/predictability/sustainability at different levels of enrollment
- Broad versus Narrow
 - Who benefits from the exchange
- Impact on payer (member, insurer, other)

Financing Options and Considerations

- **User Fee:** Assessment on products sold through the Exchange that is charged to enrollees. Essentially an add on to the premium.
 - Would fluctuate with enrollment (more enrollees, lower cost per enrollee, low enrollment, low revenue).
 - Would assess the consumers of the Exchange with the cost of running the Exchange (narrow).
 - Does not take into account that some services of the Exchange provide benefits to consumers that do not use the Exchange and to stakeholders such as insurers, providers, and navigators or brokers.
 - Would likely discourage Exchange enrollment, especially for those not eligible for subsidies and small employers, as the cost of products inside an Exchange would be higher than products outside an Exchange (fee).

Financing Options and Considerations

- **Portion of Premium:** Exchange keeps some portion (percent and/or flat fee) of the total product premium.
 - Would most closely relate exchange business operations and market relationships.
 - Would fluctuate with enrollment (more enrollees, lower cost per enrollee, low enrollment, low revenue).
 - Would allow premiums inside and outside an Exchange to be the same and thus not discourage Exchange participation.
 - Acknowledges some, but not all of the benefits an Exchange may provide to consumers that do not use the Exchange and to stakeholders such as insurers, providers, and navigators or brokers.
 - Need to consider how this option impacts the medical loss ratio (MLR) for insurers.

Financing Options and Considerations

- **Fully-Insured Market Fee:** 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.
 - Not dependant on Exchange enrollment
 - Would allow premiums inside and outside an Exchange to be the same and thus not discourage Exchange participation.
 - Would assess consumers with fully-insured products purchased outside an Exchange with cost of Exchange services that do not benefit them.
 - Acknowledges that some Exchange services may benefit consumers that do not get coverage through an Exchange (i.e. risk adjustment, comparative information, etc.), but does not take into account that consumers with self-funded plans and stakeholders such as insurers, providers, and navigators or brokers may also benefit from Exchange services.
 - Need to consider how this option impacts the medical loss ratio (MLR) for insurers.

Financing Options and Considerations

- **Broad-Based Market Fee:** An assessment like the provider tax or general fund appropriation that applies broadly to the population.
 - Further broadens the base, lowering overall rate and providing greater stability to revenue stream
 - Would allow premiums inside and outside an Exchange to be the same and thus not discourage Exchange participation.
 - Would assess some consumers with the cost of Exchange services that may not benefit them.
 - Acknowledges that some Exchange services may benefit a broad base of consumers and stakeholders.
 - May add a more political aspect to the Exchange if funding is dependent on legislative appropriation.

Financing Options and Considerations

- **Broad-Based Assessment - Other:** Use of a sin tax or other broad tax/fee that applies broadly to the population.
 - Broadest revenue source, spreading revenue across large base
 - Avoids concentrating impact of exchange revenue solely on health care industry
 - Recognizes exchange as a public good.
 - Reduces link between exchange activities and parties most directly benefited
 - Raises taxes
 - May add a more political aspect to the Exchange if funding is dependent on legislative appropriation.

Financing Options and Considerations

- **Re-purpose existing revenue stream:** Use existing revenue streams (provider tax, premium tax, surcharges, etc).
 - Revenue is predictable
 - Prevents need for new assessment or revenue source that is additive to the market costs
 - Reflects shift in market structure as coverage expands
 - Leverage new market dynamics under ACA (actual dynamics remain uncertain)
 - Interaction with other processes (reinsurance, rate regulation, etc) enhances uncertainties
 - May add a more political aspect to the Exchange if funding is dependent on legislative appropriation.

Financing Options and Considerations

- **Medicaid Match:** Federal matching funds are available for activities necessary for Medicaid administration.
 - Outreach, eligibility determination, and managed care enrollment are generally accepted types of Medicaid administrative activities.
 - Non-federal share may include public funds appropriated or transferred to the Medicaid agency or certified by a local unit of government as a Medicaid expenditure. Private spending is not directly “matchable” by Medicaid.
 - The state share is now provided by county and state funds, if this changes it is unclear if the non-federal share would need to rely solely on state funds or whether other Exchange financing could be considered the state share.

Financing Options and Considerations

- **Other:** Raise revenue through other mechanisms such as naming rights, website advertising, grants, etc.
 - Could reduce or eliminate the need for fees and assessments on consumers and stakeholders.
 - Funding may not be predictable or stable.
 - Exchange would need to compete and show value to attract funding.
 - Could potentially harm the independent nature of an Exchange.

Financing Options and Considerations

- **Combination of options:** i.e. Combine existing revenues, cost allocation and new assessments
 - Provide flexibility and stability for the exchange
 - Recognizes business and public entity sides of the exchange.
 - Increases complexity.

Financing Considerations: Timing

- Exchange must be self sustaining by 2015.
- 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
- Should revenue mechanism begin prior to 2015 to establish an operating reserve? Cash flow mechanism? Navigator funding?

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 Summary

- By 2015, Exchange must be self-sustaining. 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.
- May want to consider a variety or combination of funding sources.
- May want to consider implementing prior to 2015