

**MNsure Health Industry Advisory Committee  
Financing Mechanism Policy Recommendation  
XXXXX XX 2016**

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**Issue Statement**

The MNsure Board of Directors charged the Health Industry Advisory Committee (HIAC) Task Force to develop a recommendation regarding the financing of MNsure.

Specifically, the **HIAC is to make recommendations related to the current withhold mechanism that collects 3.5% of premium revenue from Qualified Health Plans (QHPs) sold on MNsure.**

*The Health Insurance Advisory Committee (HIAC) was established by the MNsure Board under authority of Minn. Stat. § 62V.04, subd. 13(a).*

*The HIAC “will provide appropriate and relevant advice and counsel on MNsure’s duties and operations and other related issues for the benefit of the Board.”*

**Background**

Minnesota is one of seventeen (17) states that operate a state-based exchange. (27 states use a federally facilitated exchange and 7 states use a state-partnership exchange.)

Federal grants support establishing state-based exchanges through the Center for Consumer Information and Insurance Oversight (CCIIO) for the initial years of Exchange operation. In addition to federal grants, states supplement exchange operations through three main vehicles:

1. Assessments only on health plan products sold through the state exchange;
2. Assessments on health plan products sold both on and off of the state exchange; and
3. State funding.

Some states use a combination of the above as well.

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**Table 1 | Financing Approach of State-Based Exchanges<sup>1</sup>**

| Assessment on Plans Offered Through Exchange Only  | Broad-based Assessment (On and Off the Exchange)   | State Appropriation   | TBD   |
|--|--|---|---|
| <ol style="list-style-type: none"> <li>1. California</li> <li>2. Hawaii*</li> <li>3. Idaho</li> <li>4. Massachusetts</li> <li>5. Minnesota</li> <li>6. Nevada*</li> <li>7. Oregon*</li> <li>8. Washington</li> </ol> | <ol style="list-style-type: none"> <li>1. Colorado</li> <li>2. Connecticut</li> <li>3. DC</li> <li>4. Kentucky</li> <li>5. Maryland</li> <li>6. New Mexico*</li> </ol> | <ol style="list-style-type: none"> <li>1. New York</li> <li>2. Vermont</li> </ol> | <ol style="list-style-type: none"> <li>1. Rhode Island</li> </ol> |

\* States that use a “federally supported exchange.”

Financing of state-based exchanges rely on a variety of funding sources and mechanisms, sometimes in conjunction with one another. For example, Colorado and Washington use federal grants, a percentage withhold on plans and a PMPM assessment for plans sold on the exchange. Overall, the percent withhold is lower in states that apply it to products sold on and off the exchange.

In Minnesota, state statute dictates one of the MNsure revenue sources – namely the percent of premium assessment. Specifically, under Minn. Stat. § 62V.05, Subd. 2(c), MNsure:

“shall retain or collect up to 3.5% of total premiums for individual and small group market health plans and dental plans sold through MNsure to fund operations of MNsure...”

The total amount collected under the above shall not exceed 100% of the funds collected under the now-defunct Minnesota Comprehensive Health Association (MCHA) funds collected in 2012.

For federally operated exchanges, the Affordable Care Act (ACA) law provides CMS with the authority to assess an “exchange user fee” to cover the administrative costs of operating and exchange.<sup>2</sup> CMS publishes the fee – expressed as a percent of premiums – on annual basis in the Benefit and

<sup>1</sup> <http://www.commonwealthfund.org/publications/blog/2015/may/state-marketplaces-and-financing-stability>

<sup>2</sup> 45 CFR 156.50

Payment Parameters final regulations.<sup>3</sup> For 2017, the rate is 3.5% - similar to the rate in 2014, 2015 and 2016.

**Table 2 | State Based Marketplaces, Funding Mechanisms<sup>4</sup>**

| State                                     | Percent of Premium  |                       | Per Member Per Month (PMPM) On Exchange | Other                    | Federal Funds, 2010-14 (\$ in Mil) |
|---|---------------------|-----------------------|---|--------------------------|------------------------------------|
|   | Inside Only         | Inside & Outside      |   |                          |                                    |
| <b>FEDERALLY FACILITATED MARKETPLACES</b> | <b>3.5%</b>         |                       |   |                          |                                    |
| California                                |                     |                       | \$13.95                                 |                          | \$1,065.7                          |
| Colorado                                  |                     | 1.4%                  | \$1.25 (on & off)                       |                          | 178.9                              |
| Connecticut                               |                     | 1.35%                 |   |                          | 200.1                              |
| DC  |                     | 1.00%                 |   |                          |                                    |
| Hawaii                                    | 2.00%               |                       |   |                          | 205.3                              |
| Idaho                                     | 1.99 <sup>5</sup> % |                       |   |                          | 69.4                               |
| Kentucky                                  |                     | 1.00%                 |   |                          | 253.7                              |
| Maryland                                  |                     | 2.00%                 |   |                          | 171.1                              |
| Massachusetts                             | 2.50%               |                       |   |                          | 193.0                              |
| Minnesota                                 | 3.50%               |                       |   |                          | 155.0                              |
| Nevada                                    |                     |                       | \$13.00                                 |                          | 90.8                               |
| New Mexico                                |                     | % based on mkt. share |   |                          | 123.3                              |
| New York                                  |                     |                       |   | State Funds <sup>6</sup> | 451.2                              |
| Oregon                                    |                     |                       | \$9.66                                  |                          | 305.2                              |
| Rhode Island                              |                     |                       |   | TBD                      | 139.1                              |
| Vermont                                   |                     |                       |   | State Funds              | 168.1                              |
| Washington                                | 2.00%               |                       | \$4.19                                  |                          | 266.0                              |

Currently, MNSure operations are funded from **three primary revenue sources**:

1. 3.5% assessment on products sold through MNSure (“premium withhold”);
2. Federal grants (namely through the Affordable Care Act and the Center for Consumer Information & Insurance Oversight – “CCIIO grants”);

<sup>3</sup> Federal Register, Vol. 81, No. 45, Tuesday, March 8, 2016, page 12293 – sets the 2017 percent withhold at 3.5%

<sup>4</sup> Commonwealth Fund, May 2015:  
<http://www.commonwealthfund.org/publications/blog/2015/may/state-marketplaces-and-financing-stability>

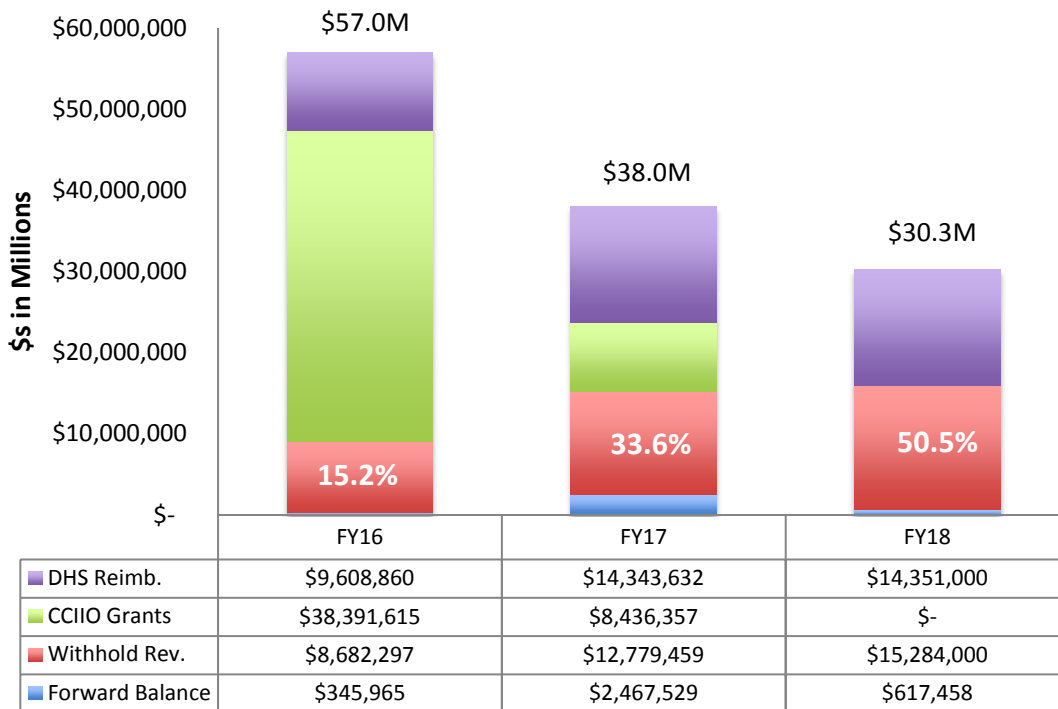
<sup>5</sup> 2016 assessment. 2015 assessment was 1.5%

<sup>6</sup> Revenue generated from “covered lives assessment” – a tax on private insurance.

- Minnesota Department of Human Services (DHS) funds to support Minnesota Health Care Program (MHCP) enrollment through MNsure (i.e., Medical Assistance and MinnesotaCare programs).

In FY16, the 3.5% premium withhold contributes \$8.7 million to MNsure’s operating budget – or 15%. With the reduction of CCIIO grants, by FY18, the premium withhold is projected to contribute roughly 50% of MNsure’s operating budget. Based on current projections, the premium withhold will generate \$15.3 million in FY18 – a 76% increase.<sup>7</sup>

**Chart 1 | MNsure Preliminary Three Year Plan  
(March 9, 2016 MNsure Board Meeting)**



### Key Assumptions

- Assumption #1 | MNsure Enrollment Projections**  
The MNsure budget assumes a 21% average annual growth in member months from FY16 to FY18. In addition, the budget assumes a 10% annual growth rate in the average premium from FY16 to FY18.<sup>8</sup>

<sup>7</sup> Budget information is based on the March 9, 2016 MNsure Board Meeting. Materials can be found at: [https://www.mnsure.org/assets/bd-2016-03-09-premium-withhold-revenue-projections\\_tcm34-194421.pdf](https://www.mnsure.org/assets/bd-2016-03-09-premium-withhold-revenue-projections_tcm34-194421.pdf)

<sup>8</sup> Ibid

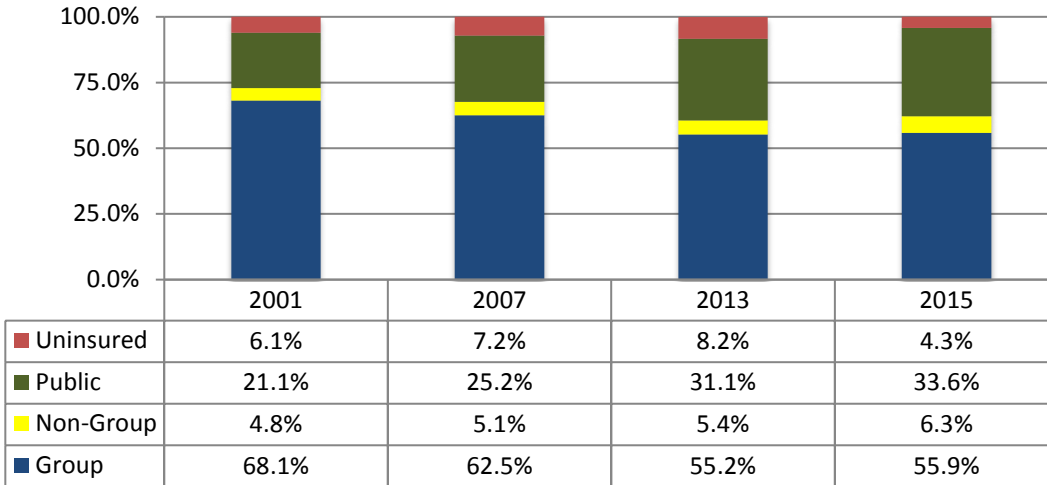
**Table 3 | MNsure Enrollment and Premium Projections**

|                | Enrollment    |             | Premium                |             | Withhold Revenue |
|----------------|---------------|-------------|------------------------|-------------|------------------|
|                | Member Months | % Growth    | Average Premium        | % Growth    |                  |
| FY2016         | 717,310       |             | \$346.50 <sup>9</sup>  |             | \$8.6M           |
| FY2017         | 911,945       | +27%        | \$399.75 <sup>10</sup> | +15%        | \$12.8M          |
| FY2018         | 1,038,981     | +14%        | \$419.74 <sup>11</sup> | +5%         | \$15.3M          |
| <b>AVERAGE</b> |               | <b>+21%</b> |                        | <b>+10%</b> |                  |

For purposes of this analysis, the HIAC will use the assumptions regarding member months and premium levels from the March 9, 2016 MNsure Board meeting as outlined in Table 3.

- Assumption #2 | Size of Minnesota’s Individual Health Insurance Market According to the Minnesota Department of Health’s (MDH) Health Economics Program, in 2015 roughly 6.3% of the state’s population received health care coverage through the non-group market<sup>12</sup>.

**Chart 3 | Sources of Health Care Coverage, MN, Select Years**



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<sup>9</sup> Calculated by 6 months at \$303.00 in EY15 and 6 months at \$390.00 in EY16

<sup>10</sup> Calculated by 6 months at \$390.00 in EY16 and 6 months at \$409.50 in EY17

<sup>11</sup> Calculated by 6 months at \$409.50 in EY17 and 6 months at \$429.98 in EY18

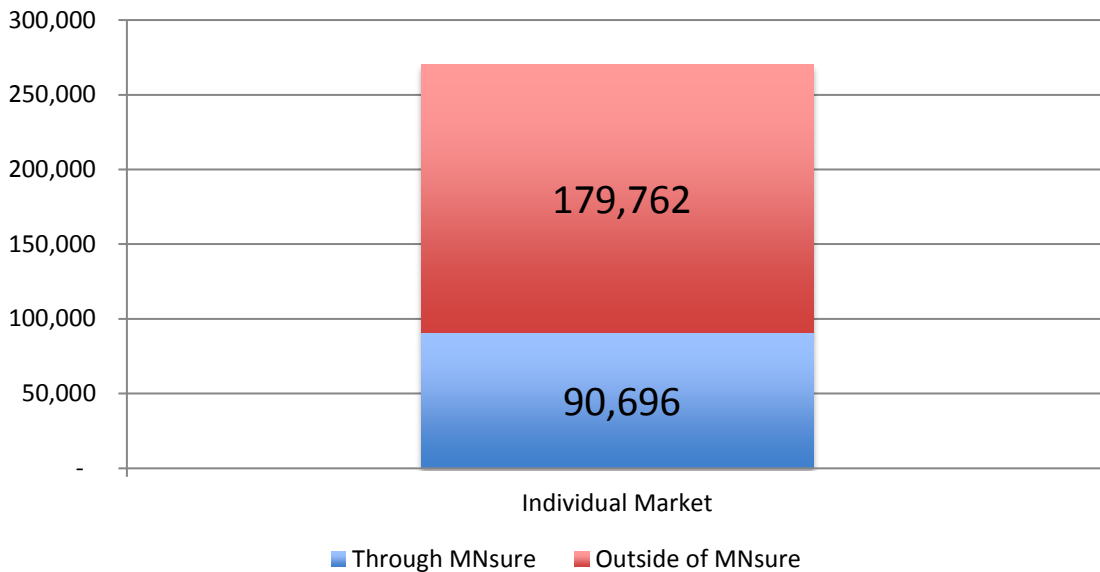
<sup>12</sup> “Health Insurance Coverage in Minnesota: Results from 2015 Minnesota Health Access Survey,” MDH, Health Economics Program, February 29, 2016.

<http://www.health.state.mn.us/divs/hpsc/hep/publications/coverage/healthinscovmnhas2015brief.pdf>

<sup>13</sup> Ibid.

In addition, the Minnesota Council of Health Plans (MCHP) recently released a report<sup>14</sup> citing that the number of Minnesotans buying insurance on their own is nearly half of what was originally predicted in 2013. According to the report, the number of Minnesotans buying health insurance on their own was 270,458 – 90,696 through MNSure and 179,762 outside of MNSure.

**Chart 4 | Estimate of Minnesota's Individual Market, 2015**



**Based on the above, the size of Minnesota’s individual market, expressed in member months, is roughly 3.2 million. Using MNSure’s assumption for the average premium, the total individual market place premium amount is \$1.12 billion.<sup>15</sup>**

- Assumption #3 | Impact of MinnesotaCare expansion  
Currently, MinnesotaCare eligibility for non-pregnant adults is between 138% and 200% of poverty. As permitted under the Affordable Care Act (ACA) law, Minnesota re-purposed MinnesotaCare as the state’s Basic Health Program (BHP). Prior to the ACA law, MinnesotaCare eligibility for specific populations was up to 275% of poverty.

The 2016 Minnesota Legislature proposed expanding MinnesotaCare back to 275% of poverty. While no proposal was enacted into law in 2016, an expansion back to 275% of poverty will impact the number of individuals in the individual market place in Minnesota.

<sup>14</sup> <http://mnhealthplans.org/nearly-260000-fewer-buy-health-insurance-on-their-own-than-expected-council-to-study-effect-of-fewer-people-buying-individual-and-family-policies/>

<sup>15</sup> Roughly 3.2 member months on the individual market and the FY16 average premium (per MNSure budget assumptions) is \$346.50.

According to estimates provided during the 2016 Minnesota Legislative session, 41,300 individuals with incomes between 200% and 275% of poverty would enroll in MinnesotaCare if eligibility were expanded. Furthermore, HIAC assumes that roughly half of these newly MinnesotaCare eligible are currently uninsured. Consequently, the member months “removed” from the individual market place in Minnesota through an expansion of MinnesotaCare would be roughly 247,800. This translates to roughly \$85 million in premiums removed from the individual market.<sup>16</sup>

**The HIAC assumes that MinnesotaCare eligibility will remain at the current eligibility levels.**

### **Issues For Further Analysis**

#### *“Grandfathered” Health Plans & Premium Assessment*

Under the Affordable Care Act (ACA) law, health plans offering coverage on the employer group market and individual market can be “grandfathered” so long as the plan was purchased on or before March 23, 2010. According to Medical Mutual (an Ohio insurance company), the exchange user fee (3.5%) is only applied to non-grandfathered health plans. However, subsequent research did not yield any definitive answer.

#### *Per Member Per Month versus Percent Assessment*

States that opt to operate a state-based exchange have broad discretion over mechanisms to achieve sustainability. According to a Commonwealth Fund issue brief:

*States may fund their marketplaces through ordinary budget appropriations, for example, or even through sale of ancillary products or website advertising. At present, however, most are financed predominately through an assessment on health plans<sup>17</sup>.*

Further analysis is needed, however, it appears that states can set their per member per month (PMPM) rate at any level and that it is not “capped” by a federal rule or regulation. State statute, like Minnesota’s, may cap the percent assessment or PMPM.

<sup>16</sup> Per 2016 legislative fiscal note on SF2541-2A, roughly 41,300 individuals would enroll in MinnesotaCare through expansion from 200% to 275% of poverty. Roughly 50% are currently uninsured. Consequently, 20,650 would be transferred from the individual market – 247,800 member months. Using the MNSure assumption of \$346.50 monthly premium, this translates to \$85.9 million in premium revenue.

<sup>17</sup> <http://www.commonwealthfund.org/publications/issue-briefs/2015/sep/state-run-marketplaces-use-healthcaregov/#20>

### State Discretion on Setting Percent Assessment and/or PMPM

Outside of specific state statute “capping” the percent assessment and/or PMPM, there does not appear to be any federal regulation that “caps” the assessment/PMPM for state-based exchanges. While further research is needed, it appears that under current Minnesota Statute, the MNSure Board could set the percent assessment at any rate 3.5% or below. To increase the percent assessment above 3.5%, a change to the Minnesota law is required, but no change to the federal law/regulation.

### **Options**

The HIAC considered the following **five options**:

1. Maintain status quo – 3.5% withhold on products sold through MNSure;
2. Reduce premium withhold to 1.75%<sup>18</sup> and apply to products sold through MNSure and individual plans sold “off MNSure;”
3. Replace current 3.5% withhold with a Per Member Per Month (PMPM) assessment on plans sold through MNSure.
4. Replace the current 3.5% withhold with a Per Member Per Month (PMPM) assessment on plans sold through MNSure and on individual plans sold “off MNSure;” and
5. Replace the current 3.5% withhold with state funding to support MNSure operations that are not supported with current DHS funds (i.e., operations related to Qualified Health Products – QHPs).

### **Preliminary Assessment**

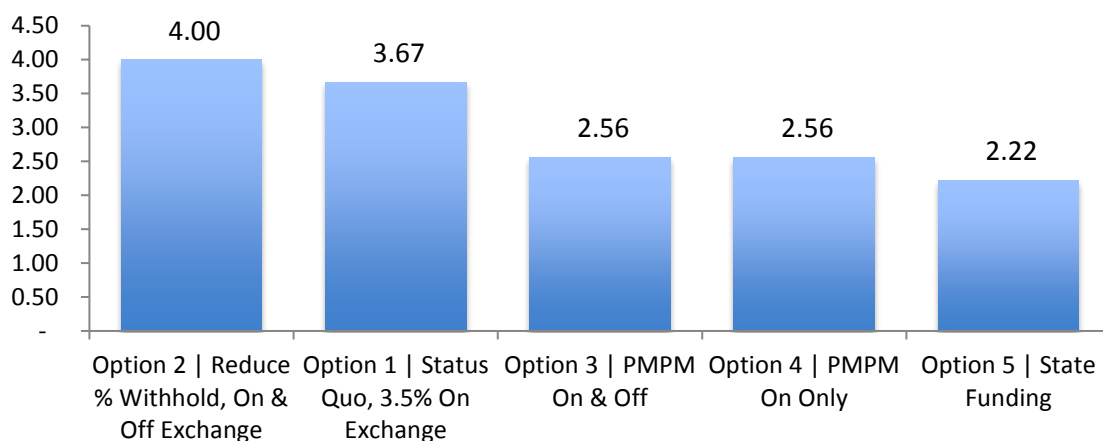
Through a “ranking process,” HIAC members assessed the above options.

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<sup>18</sup> Or a percentage that raises an equivalent amount of revenue currently collected under the 3.5%



**Chart 5 | HIAC Ranking of Options**  
(5=most support, 1=least support)



Based on those results, the HIAC identified **the following two options for further evaluation:**

1. Maintain status quo – 3.5% withhold on products sold through MNSure;
2. Reduce premium withhold to 1.75%<sup>19</sup> and apply to products sold through MNSure and individual plans sold “off MNSure;”

The HIAC identified the “advantages” and “disadvantages” of the two remaining proposals.

| <b>Option 1   Status Quo – Maintain current 3.5% Withhold to Plans Sold On MNSure Only</b>  |  |
|---|--|
| <b>Advantages</b>   | <b>Disadvantages</b>   |
| <ol style="list-style-type: none"> <li>1. No legislative action required</li> <li>2. Consistent with federal exchange percent assessment of 3.5%</li> <li>3. Assessment (tax) applied to plans receiving the benefit of participating on MNSure.</li> </ol> | <ol style="list-style-type: none"> <li>1. Application of tax to plans in Minnesota is not transparent to consumers.</li> <li>2. Consistent revenue for MNSure is dependent upon a stable/growing enrollment of Minnesotans through MNSure.</li> <li>3. Consistent revenue is dependent upon a stable/increasing number of plans offered “on” the Exchange. (I.e., Fewer plans</li> </ol> |

<sup>19</sup> Or a percentage that raises an equivalent amount of revenue currently collected under the 3.5%

| <b>Option 1   Status Quo – Maintain current 3.5% Withhold to Plans Sold On MNsure Only</b> |  |
|--|--|
| <b>Advantages</b>  | <b>Disadvantages</b>   |
|  | <p>offered on MNsure will reduce revenue.)</p> <p>4. Perceived incentive that potential enrollees are “steered” away from MNsure in order to avoid tax (assessment).</p> |

| <b>Option 2   Reducing Percent Withhold and Assessing to Plans sold on MNsure and Off MNsure in the Individual Market</b>  |   |
|--|---|
| <b>Advantages</b>  | <b>Disadvantages</b>  |
| <ol style="list-style-type: none"> <li>1. Provides MNsure with a reliable funding source that is relatively easier to project into the future.</li> <li>2. Rates for plans sold on the exchange would decrease.</li> <li>3. Easier for the participating stakeholders (e.g., health plans, brokers, navigators, consumers) to understand the revenue mechanism.</li> <li>4. Dis-incentivizes managed care organizations from selling plans off MNsure to avoid paying withhold.</li> </ol> | <ol style="list-style-type: none"> <li>1. Increase in rates for current plans sold only “off” the exchange.</li> <li>2. Impact on “grandfathered” plans that remain in Minnesota.<sup>20</sup></li> <li>3. Legislation is necessary to enact option.</li> </ol> |

### **Recommendations**

- The HIAC recommends to the MNsure Board that....
- The HIAC voted on this proposal during the week of July xx-xx, 2016. The final vote was xx-xx.

### **Dissenting opinion**

<sup>20</sup> It appears that “grandfathered” plans are not subject to an assessment (percent or PMPM).