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 ongoing 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
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</table>
| 2011 | Start Up Phase  
System and infrastructure development and staff hiring |
| 2012 | Operational Phase  
Exchange enrolls members and may raise revenue |
| 2013 | Federal Grant Funding Available |
| 2014 | Transition Year |
| 2015 | Exchange must be self-sustaining |
| 2016 | |
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.

- Lower cost overall, higher cost PMPM
- Higher cost overall, lower cost PMPM

Cost

Membership

Total Cost

Cost Per Member Per Month

100,000 200,000 400,000 600,000 800,000
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

- 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

<table>
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<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>– Provide flexibility and stability for the exchange</td>
<td>– Increases complexity</td>
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<tr>
<td>– Recognizes business and public entity sides of the exchange</td>
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<tr>
<td>– Facilitates targeting costs onto individuals and organizations that receive a benefit</td>
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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 implemented prior to 2015 in order to support an Exchange on January 1, 2015.