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

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 an 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 (CIIOO) 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.

Table 1 | Financing Approach of State-Based Exchanges[1]

Assessment on Plans Offered Through Exchange Only	Broad-based Assessment (On and Off the Exchange)	State Appropriation	TBD
1. California 2. Hawaii* 3. Idaho 4. Massachusetts 5. Minnesota 6. Nevada* 7. Oregon* 8. Washington	1. Colorado 2. Connecticut 3. DC 4. Kentucky 5. Maryland 6. New Mexico*	1. New York 2. Vermont	1. Rhode Island

* 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.

[1] http://www.commonwealthfund.org/publications/blog/2015/may/state-marketplaces-and-financing-stability

Table 2 | State Based Marketplaces, Funding Mechanisms[2]

State	Percent of Premium		Per Member Per Month (PMPM) On Exchange	Other	Federal Funds, 2010-14 ($s in Mil)
	Inside Only	Inside & Outside			
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[3]%				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[4]	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");

3. 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

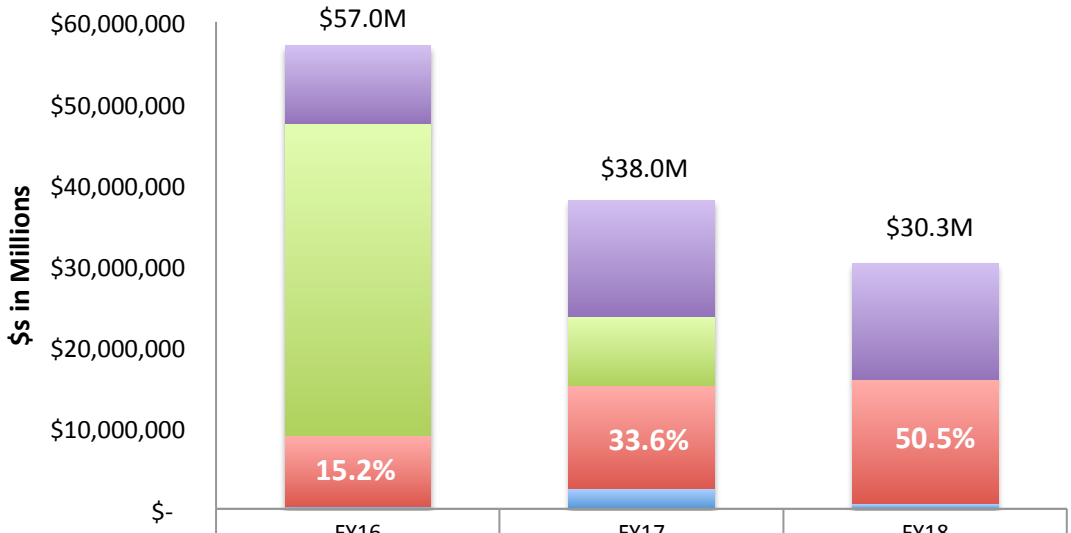
[2] Commonwealth Fund, May 2015: http://www.commonwealthfund.org/publications/blog/2015/may/state-marketplaces-and-financing-stability

[3] 2016 assessment. 2015 assessment was 1.5%

[4] Revenue generated from "covered lives assessment" – a tax on private insurance.

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.[5]

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



	FY16	FY17	FY18
DHS Reimb.	$9,608,860	$14,343,632	$14,351,000
CCIIO Grants	$38,391,615	$8,436,357	$-
Withhold Rev.	$8,682,297	$12,779,459	$15,284,000
Forward Balance	$345,965	$2,467,529	$617,458

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.[6]

[5] 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
[6] Ibid

Table 3 | MNsure Enrollment and Premium Projections

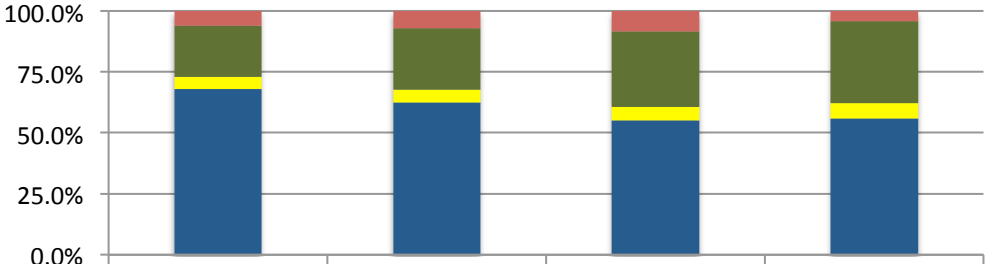
	Enrollment		Premium		Withhold Revenue
	Member Months	% Growth	Average Premium	% Growth	
FY2016	717,310		$346.50[7]		$8.6M
FY2017	911,945	+27%	$399.75[8]	+15%	$12.8M
FY2018	1,038,981	+14%	$419.74[9]	+5%	$15.3M
AVERAGE		**+21%**		**+10%**	

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[10].

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



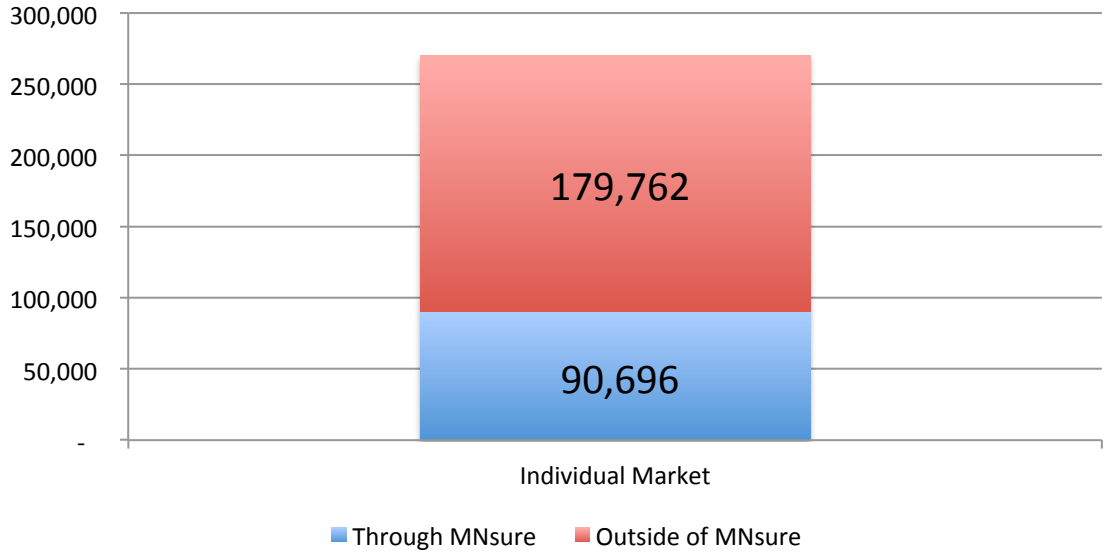
	2001	2007	2013	2015
Uninsured	6.1%	7.2%	8.2%	4.3%
Public	21.1%	25.2%	31.1%	33.6%
Non-Group	4.8%	5.1%	5.4%	6.3%
Group	68.1%	62.5%	55.2%	55.9%

[11]

[7] Calculated by 6 months at $303.00 in EY15 and 6 months at $390.00 in EY16
[8] Calculated by 6 months at $390.00 in EY16 and 6 months at $409.50 in EY17
[9] Calculated by 6 months at $409.50 in EY17 and 6 months at $429.98 in EY18
[10] "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
[11] Ibid.

In addition, the Minnesota Council of Health Plans (MCHP) recently released a report[12] 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.[13]

- 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.

[12] 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/

[13] Roughly 3.2 member months on the individual market and the FY16 average premium (per MNsure budget assumptions) is $346.50.

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.

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.[14]

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

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% (+/- .15%) 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

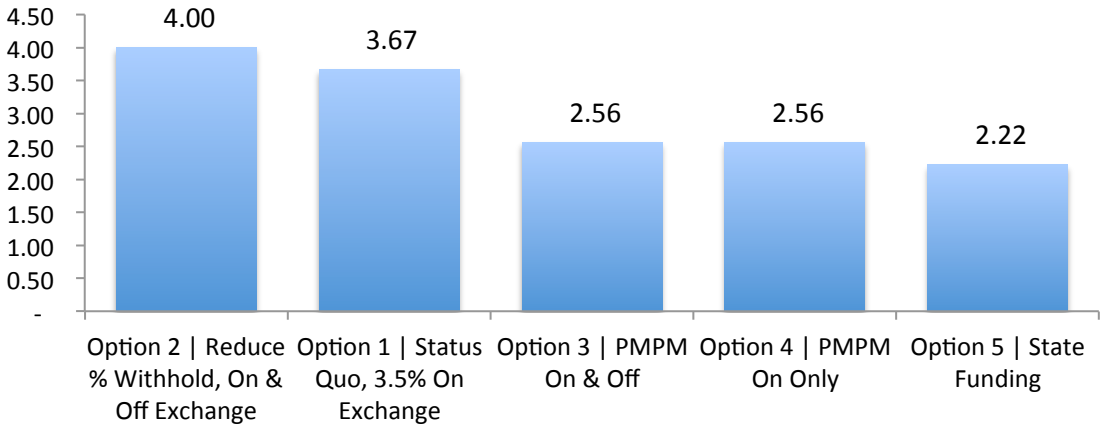
5. Replace the current 3.5% withhold with state funding to support MNsure operations that are not supported with current DHS funds (i.e., operations related to Qualified Health Products – QHPs).

[14] 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.

Preliminary Assessment

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

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% (+/- .15%) 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.

Option 1 | Status Quo – Maintain current 3.5% Withhold to Plans Sold On MNsure Only	
Advantages	**Disadvantages**
1. No legislative action required 2. Consistent with federal exchange withhold 3. Tax applied to plans receiving benefit of participating on MNsure.	1. Application of tax to plans in Minnesota is not transparent 2. Consistent revenue for MNsure depends on growth of enrollees using MNsure. 3. Consistent revenue depends upon a stable number of plans offered through MNsure. 4. Perceived incentive to direct consumers off MNsure to avoid tax.

Option 2 | Reducing Percent Withhold and Assessing to Plans sold on MNsure and Off MNsure in the Individual Market	
Advantages	**Disadvantages**
1. Provides MNsure with a reliable funding source that is relatively easier to project into the future. 2. Easier for the industry to understand the revenue mechanism. 3. Dis-incents managed care organizations from selling plans off MNsure to avoid paying withhold.	1. Increase in rates for current plans sold off of MNsure. 2. Impact on "grand-fathered" plans that remain in Minnesota.

Recommendations

- **The HIAC recommends ….**
- **Vote**
- **Dissenting opinion**
- **Other issues to consider**