



**FINANCE SUBCOMMITTEE
CONNECTICUT HEALTH INSURANCE EXCHANGE
(ALSO KNOWN AS ACCESS HEALTH CT)**

Conference Center
280 Trumbull Street, 2nd Floor
Hartford, Connecticut
Tuesday, May 7, 2013

Meeting Minutes

Members Present: Dr. Robert Scalettar, Vicki Veltri, Secretary Benjamin Barnes,

Members by Phone: None

Members Absent: Commissioner Roderick L. Bremby, Deputy Commissioner Ann Melissa Dowling

Other Participants: Access Health CT Staff - Kevin Counihan, Steven Sigal, Virginia Lamb, Tricia Brunton, Ann Marie Chatman, Jeff, DiGirolamo, Kelly Shane, Linda Phillips, Joshua Booth, Department of Insurance Staff - Peter Zelez, Legal Consultant – Matt Friedman

Call to Order and Introductions

Secretary Barnes called the meeting to order at 3:34 PM.

Mr. Sigal directed the subcommittee members' attention to the agenda on the screen. The meeting will include discussion of the Policy for Acquiring Operating Funding, the procedure relating to the policy, and a presentation on 2014 Financial Sustainability. Also a recommendation will be needed from the Finance Subcommittee on a 2014 transitional assessment.

With regard to the minutes of the March 6, 2013 meeting, he asked that the approval of those minutes be deferred until the next meeting tentatively planned for June 11, 2013, when the Subcommittee meets to approve the Fiscal 2014 budget. He pointed out that due to an oversight the minutes were not provided to the members prior to this meeting.

Overview of Sustainability Options

Mr. Sigal presented the Executive Summary. The procedure for acquiring operating funding will be addressed later. The Policy for Acquiring Operating Funding was the policy that was presented to the Finance Subcommittee in March and was put forward to the full Board of Directors at the March meeting and approved as it stood. Notice was provided on the Connecticut Law Journal for thirty (30) days of public comment. No comments were received.

Also in the Summary are the transitional revenue requirements and the estimate of marketplace premium from those plans that are capable of participating on the Exchange. Finally recommendations and next steps will be discussed.

Policy for Acquiring Operating Funding

Mr. Sigal indicated that as noted in prior discussions, AHCT must be self-sustainable by January 1, 2015, and that the purpose of this meeting was to consider commencement of a transitional market assessment for 2014. He stated that the estimated annual run-rate operating costs for the Exchange approximate about \$35M. That estimate assumes ongoing operating costs excluding further development of the Access Health CT website and system for the Exchange. This level is similar to other marketplaces of similar size such as Maryland. He stated that funding for 2014 operating expenses will be a hybrid as we exhaust the remaining Level II grant funds that expire on December 31, 2014. He explained that the Exchange is in a very high-paced environment right now as it is resolving issues that require decisions as October 1, 2013 approaches. Rapid changes in cost estimates occur as relationships are established with vendors that hadn't originally been anticipated or encounter unexpected tasks that have to be added to our operations. These things are making it challenging to define an absolute expense level but there is comfort with the \$35M level. Given that 2014 is a transitional year it is necessary to start garnering operating funds to build a reserve.

Dr. Scalettar referred to the discussion at the March meeting regarding the variation that other Exchanges were having as to what their operating costs were with regard to things like call center and outsourcing or staffing up. He asked "ultimately aren't all of those things operating expenses whether we insource them or outsource them"? Mr. Sigal replied that they were. He offered a couple of examples such as AHCT assuming the billing and collection for the QHPs, which would have been very expensive for the Exchange to do and the QHPs were much more capable of doing that. By the QHPs doing the billing and collection there wouldn't be much of an increase in their administrative expenses but if the Exchange assumed that task only a slight decrease in premium might be reflected. He also noted that California was building their own call center and that it was going to cost them a great deal of money, because the population of the state was so large and they have different requirements that they are going to have to meet

to satisfy the population. Mr. Sigal reiterated that AHCT chose to compare itself to Maryland because the size of their target population was similar to Connecticut's. He emphasized that the AHCT management team was challenging all expenses they had to deal with, but recognize that the fast pace to October 1 is also creating the necessity to engage some expenses that are hopefully only temporary versus permanent.

During this transitional phase, Access Health CT desires to establish the Market Assessment Rate for 2014 in order to facilitate self-sustainability. Because data sources are available later than what is needed to set this market assessment rate at this point in time, a reasonable proxy for these data sources was developed..

Ms. Veltri asked if this affects the final rates.

Mr. Sigal responded that it will but the need to make the decision and get the information out is important. His understanding is that the Insurance Department is asking the carriers to file what is known as an index rate that gives them many of the components but ignores certain administrative expense components so they can start their rate filings.

The Procedure is based on the use of official data from valid sources. There is not a lot of publicly available information available on dental premiums that are being assessed at the State level. So in order to build that part of the assessment, inquiries from the Carriers will be required. The Procedure has late payment and penalty provisions. The actual timing of the data in a non-transition year will be available in due course in a normal year so that the assessment can be set and then included in the rate filings.

Market Assessment Rate Review

Mr. Sigal directed everyone's attention to the Operational Expense Breakout showing the run-rate into 2014 and 2015 for SHOP, the Call Center, Marketing, capital investments, depreciation of equipment, hardware and software, as well capitalized software. He explained that use of consultants would decrease, while salaries, and maintenance and operations (M&O) for the website, and other expenses would stabilize. He also explained how the expenses for the relationship with the Department of Social Services (DSS) will be handled. Secretary Barnes asked if the \$12M for the Call Center and M&O could be reduced to the extent that the reimbursement is not achieved. Mr. Sigal responded in the affirmative because part of the volume is based on the anticipated Medicaid volume. Mr. Sigal also advised that the decision had been made that grievances and appeals were going to be performed by DSS and that expenses had been built into the expense base to reimburse DSS for that. There are joint printing expenses that Access Health CT is incurring that DSS will have to pay their share of. There is also expense built in for calls that Xerox takes as people find their way to the Exchange. He explained that the breakout was as comprehensive as could be anticipated at this point in

time. Ms. Veltri asked to clarify that DSS would be performing Medicaid grievances and appeals, not all grievances and appeals. Mr. Sigal responded in the affirmative that DSS would be performing only grievances and appeals associated with Medicaid and Advanced Premium Tax Credits (APTCs) and that expense was reflected in the breakout.

Ms. Veltri questioned how the assessment would be calculated for the transitional assessment beginning January 1 since individual and small group plans are on a fiscal year. Mr. Sigal explained that the assessment will be based on their prior calendar year premium. Mr. Zelez from CID asked to clarify that when people are referring to 2014 it is a calendar not fiscal or grant year. He explained that essentially the assessment billing in the fall of 2013 is based on calendar year 2012 data to fund 2014. Mr. Sigal agreed.

Secretary Barnes asked Mr. Sigal that, if this is a \$35M operation, did he envision that some of the areas such as the Call Center and certain kinds of marketing costs would be considered start-up costs in the first couple of years and decrease in the subsequent years. Mr. Sigal replied that he and Mr. Counihan envisioned that when Access Health CT was more stable and mature the expenses would be more in the neighborhood of \$30M or less. Some of the Call Center and SHOP expenses are fixed and some are based on incremental membership. As the Exchange stabilizes they anticipate those expenses might go down. Mr. Counihan shared that on the Marketing expenses, that part of the goal going forward is a retention plan requiring outreach and marketing as well.

Dr. Scalettar asked if the Market Assessment would be revisited annually. Mr. Sigal responded that the way the Policy and Procedures are written, the Assessment is uniquely set each year based on the Board approving the budget of the Exchange. It is definitely the current approach and at some point, as has been previously discussed, a user fee may be considered but that is being deferred in this unstable start-up time. Dr. Scalettar asked if there is something built-in for some allocation for reserve build-up. Mr. Sigal noted that in 2014 they would try to build reserves as grant money would still be used for operations. Secretary Barnes suggested that reserve policies for the organization should eventually be established but that it might be a little premature right now. Mr. Sigal agreed.

Mr. Sigal presented two Expense Recovery scenarios. Scenario I illustrated how much of the expenses would be funded by the grant with an assessment for the balance of approximately \$13.8M. It is the intention of Access Health CT to file for a Level II Supplement, which is illustrated at a 25% level of the Level II award. The award allows for, not automatically, a request for up to 25% more without much resistance because the Federal government understood that when they made the grants that it was the best estimate of what was going to be needed and so they allowed for a 25% increase, which Access Health CT intends to file a supplemental grant application for. The funding application would also include a no cost

extension of time to go beyond December 31, 2014. Therefore, an assessment of about \$14M is necessary without the Level II Supplement funds. If the supplemental funding is received it would fill the “gap” in operating expenses. But for purposes of starting the assessment process on a transitional basis and building up some reserves an assessment of about \$14M is needed. Scenario II illustrates a 75% assessment of about \$35M over the next couple of years. That would be what staff recommends. Obviously the two scenarios result in two different assessment rates.

Secretary Barnes asked what happened to the Level II grant money in Scenario II. Mr. Sigal replied that the Level II grant money would still be used but a much larger reserve would be built if the Level II Supplement grant was awarded. The reserve would reduce some of the risk if the Level II Supplement and time extension was either reduced or not awarded. Mr. Counihan remarked that there is some political risk that the award of the Level II Supplement may be subject to some cutbacks.

Ms. Veltri asked what the difference in the assessment would look like on a per person basis to the consumer. Mr. Sigal referred her attention to the page titled Marketplace Premium for that question. He explained that the 2012 Medical Premiums are based on Individual and Small Group earned premiums reported in the 2011 CMS MLR Reports (Section 1, Line 1.4) plus a 10% year over year growth rate. The 2012 data won't be available until after June 1. Mr. Sigal believes that the numbers are within an acceptable range and pointed out that the dental premium has the most variability. He explained that there was not a lot of information about Connecticut dental premiums although some single state carriers like ConnecticutCare and Anthem were able to provide state only amounts.

Secretary Barnes asked if this included self-insured clients and, if not, did we have the ability to include them. Mr. Sigal replied that it did not. He explained that we didn't have the current capability because legislation was passed that said those qualified and capable of being on the Exchange and self-insured plans do not meet that definition. He also explained that the self-insured market is bifurcated in that there are self-insured plans with the insurance companies and there is also a sizeable block with third party administrators for which explicit authority to assess does not exist. Also, there is not a lot of accurate data available from official sources. Secretary Barnes asked if the State assessed self-insured for the vaccine program? Mr. Zelez responded to this question stating that when the Connecticut Insurance Department (CID) calculated the vaccine assessment it was based on covered lives. He explained that the Third Party Administrators (TPAs) were receiving basically just a management fee for managing self-insured health plans not a premium. He added that the CID has very limited information on self-insured at this time.

Mr. Sigal continued stating that assessing \$14M on the base of \$2B of premium would be about 72 basis points. Using this scenario shows going for the full amount of \$34.5M would be almost a 1.8% assessment. Going for 75% would be about 25% less or about 125 basis points. The staff recommendation to the Finance Subcommittee was to assess 72 basis points since this was a transition year and that would allow for building up reserves, if the Supplemental application was successful and would preclude assessing at 180 basis points for 2015. He asked the Subcommittee for further comments.

Ms. Veltri asked if it had to be one or the other or if there were any other options. Mr. Sigal responded that perhaps a different assessment rate for dental versus medical was one option. Another consideration was a minimum assessment for new entrants that could be exercised under the special assessment possibilities that were in the Policy and Procedure.

Ms. Veltri asked how risky the Level II Supplement was. Mr. Counihan responded that he thought there would be budget pressure from the Congressional Budget Office to reduce the amount that was originally planned for Level II Supplements. Ms. Veltri asked if the 25% of the original \$107M was the maximum that we could get. Mr. Sigal responded affirmatively and that there was a fairly substantial list of items that would need to be done that were never contemplated in the original grant request and that Access Health CT was going to submit those in the Level II Supplement request.

Dr. Scalettar expressed his concerns regarding the risk of not getting the Level II Supplement and the increase of expenses and suggested that the Subcommittee should give serious consideration to Scenario II and the greater assessment recognizing that the Health Carriers would receive relief from the high-risk pools which would be a good thing for them.

Secretary Barnes asked what the assessments were for the high risk pools. Mr. Sigal replied that he didn't know but referred the question to Mr. Friedman. Mr. Friedman responded that when he served on the Board the assessments were a function of claim volume. Discussion ensued regarding the high risk pool assessments. Mr. Sigal noted that the pools were being absorbed into the Exchange and that the pre-existing conditions pool ends January 1, 2014, and the other two, Health Reinsurance Association and Connecticut Small Employer Reinsurance Pool, would begin transition beginning in 2014.

Secretary Barnes stated that he agreed with Dr. Scalettar's general take but expressed concern about having enough to cover expenses in the years following 2014 and build up a reserve, as well as the necessity to possibly have to increase assessments to meet the demands of the Exchange. Mr. Sigal noted that in developing the numbers it was difficult to separate out development expenses versus operating expenses and that there are a lot of gray areas such as

marketing and call center activity. Dr. Scalettar reiterated his belief that having a sufficient reserve as the grants expires was most desirable.

Secretary Barnes inquired about the anticipated membership volume being added to the marketplace. Mr. Counihan responded 130,000 including Medicaid. Ms. Veltri asked Mr. Counihan whether the earned premium included the Federal subsidy. Mr. Sigal responded that the subsidy was included in the premium. Discussion continued regarding the premiums.

Secretary Barnes suggested setting the assessment at a level for the first three years of operations that might meet the steady-state requirement of the budget. Mr. Sigal asked if he intended for the reserve to be maintained at the \$35M level over the three years. Secretary Barnes replied that it would enable the Exchange to develop strong reserves. Mr. Counihan shared that most of the other states were seeking a six to nine month reserve level. Based on considerable discussion regarding cost allocations with the Department of Social Services, the assessment rate, and the Exchange budget through 2016, Mr. Sigal suggested that setting an assessment based on 75% of expected needs would accomplish the accumulation of reserves. Secretary Barnes indicated that he would be comfortable making that recommendation.

Discussion ensued regarding the timing of the billing of the assessment and assessment payments. Mr. Sigal explained that the assessment billing would be sent out in November 2013 for 2014 and that payment was due within thirty days. Mr. Sigal offered that payments could be made quarterly and the consensus was that that payment schedule would be more acceptable.

Secretary Barnes noted that there needed to be a way to deal with new entrants. He suggested that a user fee at the same rate as the assessment because they weren't subject to the assessment. The user fee would be waived to the Carriers who have paid the assessment. He noted that they should be paying the same amount as the Carriers and should not be given some future competitive advantage. He also noted that it would be favorable to the insurance companies and they would appreciate that. Discussion ensued regarding the user fee rate.

Mr. Sigal confirmed that the Subcommittee agreed to an assessment of 75% of Scenario II. He also noted that there would be no change to the Policy as published in the Law Journal for which no comments were received. He also noted that the Procedure would be changed so the payment schedule would be periodic versus once a year.

Mr. Sigal asked for a motion.

Motion made by Secretary Barnes and seconded by Dr. Scalettar to recommend to the Board: adoption of the "Policy: Acquiring Operating Funding"; approval of the "Procedure: Acquiring Operating Funding"; subject to revising the payment schedule as discussed and, approval of a

market assessment rate based on 75 percent of the Exchange's \$34.5M operating budget for 2014. Motion passed unanimously.

Secretary Barnes suggested that when the procedure is presented to the full Board, Mr. Sigal should raise the subject of an appropriate special assessment mechanism for new entrants. Mr. Sigal agreed.

Adjournment motion made by Dr. Scalettar and seconded by Secretary Barnes.

Meeting Adjourned at 5:02PM

Resources:

- Finance DRAFT SubCom Minutes Final 05092013
- Finance Subcommittee Deck Final 050713
- Rev(4) 3-1-13 POLICY – ACQUIRING OPERATING FUNDING
- CONNECTICUT HEALTH INSURANCE EXCHANGE Procedure R3