

West Virginia Health Benefit Exchange: Financial Sustainability Overview



Overview

- Purpose of Document
- Recommendation
- Limitations
- Overview of Approach on Enrollment
- Overview of Approach on Budget Line Items
- Key Assumptions of Budget Items
- Summary of Sustainability Scenarios
- Strategy to Refine Assumptions and Model



Purpose of Document

- This presentation provides the fiscal projections that serve as the basis for recommendation to not proceed with a state based exchange.
- The purpose of this presentation is to highlight the key approaches, limitations, and assumptions utilized in developing the WV Health Benefit Exchange sustainability scenarios.
- The presentation will outline the 9 scenarios that were developed using cost and enrollment factors and the associated PMPM figures with each scenario for operational years 2014-2016.



Source: 45 CFR Part 153 Summary



Recommendation and Considerations

- It is recommended that West Virginia not proceed with a State Based Exchange due to the projected financial burden created from IT infrastructure/administrative operations on the insurance industry, consumers, and state government.
- Relatively small population coupled with substantial market forces pressing premiums upward create significant risks for operating a state based exchange in WV in 2014.
- The Federal government has not released projected costs for operating a State-Federal Partnership Exchange or a full Federally Facilitated Exchange.
 - Two states, Delaware and Idaho, have attempted to assume cost of FFE and Partnership- both indicate that SBE is most costly model.
- CCRC Actuaries has examined the WVOIC's methodology and concluded that the projections are made on a sound basis, given available information.
- CCRC will continue to analyze more granular data to further refine projections for future years.



Source: 45 CFR Part 153 Summary



Summary of Limitations

Enrollment:

- Lack of actuarial analysis of yet to be determined EHB
- Lack of actuarial analysis for yet to be defined rules on major market reforms
- Reliance on other state take-up assumptions in determining utilization
- Uncertainty concerning impact of employer penalty/employer tax credit on marketplace

Budget:

- Reliance on other state estimates of comparable size for some line item components.
- Difficulty in interpreting WV IT RFI responses for projected operational costs.
- Work has not been finalized on state APD to determine appropriate Medicaid/CHIP cost allocation.
- Lack of decisions on policy options with budget implications.



Enrollment Approach

Exchange:

Individual

- Enrollment projections for the individual Exchange were based solely upon the total uninsured market within WV; given the minimal size of the individual market in WV, coverage transitions were not factored into the calculation for determining the total pool of potential enrollees.
- Take-up rates are similar to a Maryland Exchange report's assumptions.
- Different take-up rates were applied within the individual Exchange dependent upon whether an individual was eligible or ineligible to receive a tax credit; those above 400% FPL were assumed to use the Exchange less than those between 133% and 400% FPL.
- "Employee dumping" was not taken into consideration in determining enrollment projections.

SHOP

- Potential enrollees within the SHOP were based on MEPS employer data; internal calculations were then performed based on the number of employer insurance providers to determine an applicant pool.
- Take-up rates are similar to a Maryland Exchange report.
- It was assumed that employers currently offering insurance will continue to offer insurance with a designated percentage utilizing the Exchange; employers who do not currently offer insurance not included.



Individual Enrollment Projections

West Virginia (Based on Maryland take-up assumptions):

Estimated Insurance Status of Non-Elderly WV Residents by Income Cohort:

	<139% FPL	139-250% FPL	251-399% FPL	400% FPL +	Total
Employer	86,400	161,100	264,300	368,500	880,300
Individual					-
Medicaid	214,280	52,900	25,150	-	292,330
Other Public	35,900	-	-	-	35,900
Uninsured	135,400	44,000	38,000	25,000	242,400
Total	471,980	258,000	327,450	393,500	1,450,930

*Remaining population is either a Medicare recipient or part of the individual market (assuming no transition from Individual Market to Exchange)

Estimated Universe of Potential Exchange Enrollment:

Non-Group Subsidy Eligible (139-400%FPL)	82,000
Non-Group Non-Subsidy Eligible (400% FPL+)	25,000
Total Non-Group	107,000

Estimated Exchange Penetration Rate and Membership by Market Segment

Penetration Factors:	2014			2015			2016		
	Low	Moderate	High	Low	Moderate	High	Low	Moderate	High
NG Subsidy Elig.	40%	50%	60%	50%	70%	90%	65%	75%	95%
NG Non-Subsidy Elig.	10%	20%	30%	20%	40%	60%	30%	60%	90%
Estimated Members:									
NG<400%FPL	32,800	41,000	49,200	41,000	57,400	73,800	53,300	61,500	77,900
NG>400%FPL	2,500	5,000	7,500	5,000	10,000	15,000	7,500	15,000	22,500
Non Group Total	35,300	46,000	56,700	46,000	67,400	88,800	60,800	76,500	100,400
Total Members	35,300	46,000	56,700	46,000	67,400	88,800	60,800	76,500	100,400



SHOP Enrollment Projections

SHOP Enrollment Estimates						
Number of Employees (SB)	156,522					
% SB that Offer Health Insurance	47.60%					
Number of Employees in Firms that Offer Insurance	74,504					
% of Employees Eligible	76.10%					
Number of Eligible Employees	56,698					
% of Employees Accepting Insurance	72.60%					
Number of Employees with SB Insurance	41,163	Number of Policies	Number of Certificates	Total Premium Cost	Premiums Collected	
Percent with Single Coverage	53.00%	21,816	21,816	\$ 4,935	\$ 107,663,041.70	
Percent with Family Coverage	28.70%	11,814	35,441	\$ 10,521	\$ 124,291,816.76	
Percent with Employee + 1 Coverage	18.30%	7,533	15,066	\$ 14,194	\$ 106,920,137.70	
Total Covered Lives (Estimate)			72,323		\$ 338,874,996.16	
					\$ 8,233	
2010 MEPS Survey - Insurance Component					\$ 686.05	
Average Family Size of 3 for Family Coverage Calculation						
SHOP Projections:	2014		2015		2016	
	High	Low	High	Low	High	Low
Percentage of Take-Up	7.50%	2.50%	15.00%	5.00%	22.50%	7.50%
# of Enrollees	5,424	1,808	10,848	3,616	16,273	5,424
Using Maryland Take-Up Rates						



Enrollment Approach

Medicaid:

- Estimated Medicaid expansion figures were provided by WV Medicaid.
- Based on fiscal year projections, an OIC calculation was performed to convert figures into calendar year estimates. For example, calendar year 2014 enrollment was based upon the last 6 months of fiscal year 2014, and the first 6 months of fiscal year 2015.
- It was assumed that 50% of Medicaid’s newly eligible population would use the Exchange for enrollment.

Medicaid Projections							
	Projections	Jan 2014-June 2014	July 2014 - Dec. 2014	Jan. 2015 - June 2015	July 2015 - Dec. 2015	Jan. 2016 - June 2016	July 2016 - Dec. 2016
Fiscal Year 2014	57,697	57,697					
Fiscal Year 2015	127,758		63,879	63,879			
Fiscal Year 2016	129,427				64,714	64,714	
Fiscal Year 2017	131,097						65,549
Total Calendar Year		121,576		128,593		130,262	
		2014		2015		2016	
Enrollment Proj.		High (100%)	Low (50%)	High (100%)	Low (50%)	High (100%)	Low (50%)
Medicaid		121,576	60,788	128,593	64,296	130,262	65,131
*Based on data provided by WV Medicaid							
*Assumed 50% of total enrollment in last 6 months of year, and first 6 months of following year							



Budget Approach

- WV researched several other state budgets to gain insight into costs associated with select core areas.
- Budget line items were developed based on the guidelines associated with the Level 1 Establishment Grant core areas.
- Three different budget approaches were utilized in the financial model; a high cost, a low cost, and a moderate cost, that were then applied to each enrollment scenario.
- IT RFI responses provided a range of IT operational costs from \$2 million to \$9 million, with an average cost of \$5.5 million being applied to the moderate approach.
- Discretionary costs were analyzed and adjusted based on enrollment scenario; this included the Exchange navigator program and Exchange marketing.



Budget Assumptions

- Personnel salaries were based off of the WV personnel website, with a 3% annual cost of living increase applied to each position. Internal decisions were made regarding the number of FTEs necessary to fulfill Exchange obligations during operational years 2014-2016, with the objective to be as lean as possible.
- Total design, development, and implementation costs are estimated to be \$40 million. Operational year estimates ranged from \$2 million to \$9 million and were applied to their appropriate budget category (low, medium, high range). Hardware was assumed to be \$200,000 in all scenarios.
- Navigator costs were based on the WV high risk pool charge of \$50 per enrollee by an agent for enrollment in the high cost model. Massachusetts cost of \$500,000 per year was used for mid-cost estimates, and Delaware's estimate of \$174,000 was used for low-cost.
- Other budget item costs were derived from Level 1 Establishment Grant calculations and were then assessed a 3% inflation rate for each year, starting in 2012 to arrive at projected operational costs for 2014-2016.
- A 5% contingency was added to the subtotal expense of the core areas to arrive at a total operational expense.



Budget Assumptions

- Marketing costs were based off an analysis conducted by Maryland and a PMPY cost was calculated and applied to anticipated Exchange members. Estimates ranged from \$419,000 to \$1.8 million for operational year 1 dependent upon number of enrollees and scale of campaign.

	Basic Plan	WV Members		Basic Plan	WV Members		Basic Plan	WV Members
Enrollment	2014			2015			2016	
High	\$ 702,439	62,124		\$ 544,283	99,648		\$ 448,161	116,673
Mid	\$ 561,011	49,616		\$ 407,644	74,632		\$ 351,271	91,449
Low	\$ 419,582	37,108		\$ 271,006	49,616		\$ 254,378	66,224
	Mid Plan			Mid Plan			Mid Plan	
High	\$ 1,146,839	62,124		\$ 967,615	99,648		\$ 821,628	116,673
Mid	\$ 915,936	49,616		\$ 724,701	74,632		\$ 643,997	91,449
Low	\$ 685,032	37,108		\$ 481,788	49,616		\$ 466,359	66,224
	Full Plan			Full Plan			Full Plan	
High	\$ 1,806,272	62,124		\$ 1,451,422	99,648		\$ 1,195,096	116,673
Mid	\$ 1,442,598	49,616		\$ 1,087,052	74,632		\$ 936,723	91,449
Low	\$ 1,078,925	37,108		\$ 722,682	49,616		\$ 678,340	66,224



Call Center

- Call center estimates use a \$7 per call rate, which is based on a contact center that is expected to handle calls of high complexity, given the requirement to handle application assistance.
- The call center will be required to have a higher level of resources and training which also impacts the cost.
- The state is taking a “best-in-class” approach in developing the call center, to ensure high customer satisfaction.
- Interfaces being considered with Insurance Commission Consumer Services; Issuers; and Medicaid/CHIP for warm transfers as necessary.
- Key metrics driving cost:
 - Service level defined as 80% of calls answered in 40 seconds or less
 - Abandon call rate defined as less than 5% of all calls over 30 seconds
 - Average call handle time defined as 6 minutes
 - Call hold time defined as less than 2 minutes for 95% of those calls placed on hold



Cost Allocation of Different Service Areas for IT as a Percentage of Total IT Cost

IT Software Licensing Breakdown

Service Area	Year		
	2014	2015	2016
Eligibility Determination & Enrollment	46%	46%	46%
Plan Management	2%	2%	2%
Financial Management	2%	2%	2%
Customer Service/Call Center	3%	3%	3%
Outreach & Communications	2%	2%	2%
Oversight & Quality Management	15%	15%	15%
All Other	30%	30%	30%

IT Contractual Services Breakdown

Service Area	Year		
	2014	2015	2016
Eligibility Determination & Enrollment	31%	31%	36%
Plan Management	2%	1%	1%
Financial Management	2%	5%	7%
Customer Service/Call Center	48%	46%	36%
Outreach & Communications	2%	2%	2%
Oversight & Quality Management	10%	11%	13%
All Other	5%	5%	5%

- Percentages are estimates of distribution of total IT cost across all service areas; distribution percentages are held constant in all scenarios.



Sustainability Scenarios

- The sustainability model examines 9 different scenarios:

High Enrollment – Low Cost	High Enrollment – Mid Cost	High Enrollment – High Cost
Mid Enrollment – Low Cost	Mid Enrollment – Mid Cost	Mid Enrollment – High Cost
Low Enrollment – Low Cost	Low Enrollment – Mid Cost	Low Enrollment – High Cost

- Cost estimates ranged from \$17.7 million in high cost estimates to \$7.5 million in low cost estimates and were then applied to each enrollment scenario.
- It was assumed that operational year 2014 expenses would be covered by Level II Establishment Grant funds; this may require modification pending HHS clarification and additional revenue sources may need to be considered for the first year of operations.
- The Medicaid population for all scenarios was held constant at a 50% utilization rate of the Exchange.
- The Medicaid cost allocation assumed is one of lowest in country, approximately 5%.



Exchange Operational Years 2014-2016 Expense Summary

<u>High Cost</u>			<u>Mid Cost</u>			<u>Low Cost</u>		
2014	2015	2016	2014	2015	2016	2014	2015	2016
\$17,776,445	\$16,385,671	\$15,793,152	\$12,041,083	\$10,860,593	\$10,718,025	\$7,550,863	\$6,385,185	\$6,333,107

- It is anticipated that all costs in 2014, with the exception of navigators and those costs allocated to Medicaid, will be covered by Level II Establishment Grants.
- These costs are expected to be adjusted pending responses to the state's Actuarial and Economic Modeling RFP and the state's IT RFP, which will determine more accurate enrollment and budget figures.



Per Member Per Month Estimates

Per Member Per Month Summary Chart									
	<u>High Cost</u>			<u>Mid Cost</u>			<u>Low Cost</u>		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
<u>Enrollment</u>									
High Enrollment	\$ 27.65	\$ 16.14	\$ 13.38	\$ 18.28	\$ 10.50	\$ 8.93	\$ 10.95	\$ 5.90	\$ 5.03
Mid Enrollment	\$ 34.22	\$ 20.23	\$ 15.98	\$ 22.54	\$ 13.76	\$ 11.14	\$ 13.40	\$ 7.64	\$ 6.20
Low Enrollment	\$ 45.02	\$ 31.48	\$ 22.73	\$ 29.66	\$ 20.37	\$ 15.09	\$ 17.63	\$ 11.31	\$ 8.40

- Medicaid allocations only examined IT touch points and do not take into consideration possible funding for budget items such as marketing or navigators, thus PMPM costs for Exchange members may be inflated.
- Medicaid individuals were excluded from the calculation of PMPM costs in evaluating Exchange effectiveness.



Carrier Administrative Fee Percentages

	<u>High Cost</u>			<u>Mid Cost</u>			<u>Low Cost</u>		
<u>Membership</u>	2014	2015	2016	2014	2015	2016	2014	2015	2016
High	0.58%	3.04%	2.28%	0.17%	1.98%	1.52%	0.06%	1.11%	0.86%
Mid	0.73%	3.84%	2.76%	0.21%	2.61%	1.93%	0.07%	1.45%	1.07%
Low	0.98%	6.09%	4.04%	0.28%	3.94%	2.68%	0.10%	2.19%	1.49%

- The sustainability model utilized a break-even analysis in determining the administrative fee percentage that would be required for the Exchange to be budget neutral. The analysis does not consider other methods of revenue, such as advertising or user fees that may ultimately reduce the carrier cost.
- As previously noted, the Exchange is relying primarily of federal funding for operational year 2014, thus percentages may have to be adjusted pending clarification from HHS.



Strategy to Refine Assumptions and Models

- Actuarial analysis and economic modeling will become more precise as decisions on EHB and market reforms become available.
- The state is currently awaiting for HHS to elaborate on costs associated with utilizing federal services. Additionally, FFE sustainability model will be used for comparison.
- Assumptions will be refined based on new information about possible uses for establishment grant funding in 2014 operations.
- Further refinement of Medicaid cost allocation will be made when eligibility IT budgets are made available and upon approval of finalized APDs.
- Discussions with other states regarding assumptions made in their budget projections will greatly assist WV in aligning costs appropriately.
- An actuarial firm has been contracted to provide more detailed analysis for both projected premiums and take up rates.

