State Based Exchange / Reinsurance Initiative Frequently Asked Questions



Overall Initiative

Who will benefit from this initiative?

This initiative is constructed to improve stability and affordability of health insurance coverage in the individual market. The individual market provides coverage to those that are unable to access coverage through other means such as through their employer or a public program like Medicare or Medicaid. Currently, over 400,000 Pennsylvanians receive coverage through this market.

How much will this initiative save consumers?

Based on an actuarial analysis, consumers would experience health insurance premiums 5-10% lower than what they would otherwise pay.

What will this cost the Commonwealth?

This initiative will require \$0 from the General Fund. This initiative is designed to more efficiently use the dollars currently in our health care system to save consumers money, not to add dollars to the system.

What is the timeline for implementation?

If the General Assembly were to pass legislation by the end of June 2019, both the state-based exchange (SBE) and reinsurance program could be in operation for coverage that would begin on January 1, 2021.

If this will not cost the Commonwealth anything, how does the Wolf Administration intend to fund implementation costs?

The Administration has identified a number of strategies that will ensure successful implementation without additional costs to the Commonwealth:

<u>Strategic contracting</u>: The Insurance Department engaged a respected consulting firm and has conferred with similarly situated states regarding the availability of SBE technology through private vendors. Vendors appreciate that states are not able to fund the initial SBE costs until the SBE can be operational, and therefore collect a user fee. Such vendors have already built a considerable amount of the necessary technology for implementation an SBE, and therefore are able to bear the transition costs and forego invoicing the state until the SBE is operational (i.e., 2021 for Pennsylvania).

<u>A partial transition for 2020</u>: There is an option called a state-based exchange on the federal platform (SBE-FP) that allows a state to take on some exchange functions while still leveraging the federal information technology (IT) infrastructure. Pennsylvania already assumes a number of these functions, including performing the full and comprehensive review of insurance products to be sold on the exchange and conducting an annual marketing and outreach campaign to promote open enrollment. Any additional responsibilities the Commonwealth would need to assume to become an SBE-FP are minimal and can be performed leveraging existing funding. Under the SBE-FP model, the federal government would collect only 2.5% of premium instead of 3%. If Pennsylvania were to keep the user fee level at 3% as assumed by this initiative, 0.5% of premium (an estimated \$14 million in 2020) can be remitted to the state by the federal government and used to pay for any unexpected transition costs.



<u>Leveraging other federal funding streams</u>: The Wolf Administration has identified other federal funding opportunities that could assist in covering interim costs. For example, a federal grant funded the actuarial modeling that analyzed the impact of a reinsurance program in Pennsylvania.

We understand the federal Department of Health & Human Services (HHS) will have to approve both the transition to the SBE and a waiver to allow Pennsylvania to implement the reinsurance program. Have you had conversations with HHS and do you anticipate they will provide the necessary approvals?

From the initial contemplation of this initiative, the Wolf Administration has engaged with the federal government, which plays a high-level role of approving the SBE transition and waiver while also remaining crucial to the nuanced operational aspects of the initiative. The numerous conversations with HHS about this initiative have all been very positive, and the Wolf Administration anticipates HHS will approve both the SBE transition and the 1332 waiver for reinsurance, as the initiatives embody HHS's aim to empower states to implement state-specific strategies for their health insurance markets. Currently, HHS is encouraging states to explore innovative solutions that will empower them to improve their health care system outside of a one-size-fits all federal construct, particularly through the 1332 state relief and empowerment waivers, the waiver the Wolf Administration intends to use to leverage federal dollars to implement a reinsurance program.

What will happen to the SBE and reinsurance program if the Affordable Care Act (ACA) is struck down?

If either the U.S. Congress repeals, or the U.S. Supreme Court invalidates the ACA, the legislative proposal includes a sunset provision for the SBE and reinsurance program.

Who should we contact if we have questions?

Please contact the Insurance Department's Legislative Director, Abdoul Barry, at any time. Abdoul can be reached by email at abbarry@pa.gov or by phone at (717) 783-2005.

State-Based Exchange

Pennsylvania previously considered running an SBE and decided against it. What has changed?

Pennsylvania opted not to pursue an SBE previously largely due to the anticipated costs and operational burden association with building and implementing new SBE technology. Since that time, vendors have developed SBE technology that is proven and in use in other states. As such, today a state can pay to use this technology, rather than paying to build their own. This was not an option at the time of the prior conversations, and fundamentally changes the financial analysis a state should undergo in considering a transition to an SBE.

How will the SBE be funded?

Just as the exchange is funded today, the SBE will be funded through a user fee assessed as a percent of premium of the health insurance plans sold through the SBE. Currently, this same type of user fee is charged, but is paid to the federal government for operations of the federal exchange. For 2019, the federal government will collect an estimated \$94 million from Pennsylvania's insurers to operate the federal exchange.



Do you plan to implement additional taxes, fees or assessments on health insurers to implement the exchange?

The SBE will be operationalized by continuation of the current user fee which is assessed as a percent of premium of the health insurance plans sold through the SBE. The user fee will remain equal to or less than the federally facilitated marketplace's user fee and used exclusively for the purposes of running the SBE and funding the state contribution to the reinsurance program.

How much will it cost the Commonwealth to run an SBE?

Leveraging the expertise of nationally-renowned consultants, the Wolf Administration conservatively estimates an SBE can fully operate at \$30-35 million per year, much less than Pennsylvania currently pays to the federal exchange. This estimate was calculated by a national health care consulting firm familiar with exchange funding and the availability of SBE technology through vendors based on discussions with other states currently operating an SBE or transitioning to an SBE. Under this initiative, the SBE would continue to charge the same user fee as the federal government, but operate at a third of the costs, and therefore be able to leverage these savings to fund the state contribution to the reinsurance program.

How will the SBE budget be allocated?

The SBE budget includes funding for staffing the SBE based on organizational models deployed in other states, including leadership such as an Executive Director, Chief Financial Officer, Chief Technology Officer, and Chief Counsel, as well as human resources, communications, and project management staff. Office space, IT expenses, and the funding for vendor contracts are also included in the budget. The budget likewise includes funding for the navigator program, as well as increased funding for outreach and enrollment efforts.

Does the Wolf Administration anticipate that insurers will face significant costs or other administrative burdens to integrate with the SBE?

No, the Wolf Administration intends to construct the SBE technology such that it replicates the systems and connections the insurers currently use with the federal exchange. Some resources will be needed to form and test connections with the SBE, but those resources should be very minimal. The Administration intends to work closely with the on-exchange insurers through the development of the SBE to ensure they are comfortable with the approach and aware of any expectations for their organizations.

What would the governance structure of the SBE be? Will it be housed within a state agency?

The draft legislative proposal envisions the SBE to be a state-affiliated authority and would not be housed within an existing state agency. The Wolf Administration considered the various existing governance models of SBEs in other states and concluded that housing the SBE outside of an existing state agency allows for autonomy that prioritizes the operational success of the SBE and protects against conflict of interests.

The SBE would have an executive director that answers to a governing board and an advisory council that would facilitate robust input from a broader group of stakeholders. The legislative proposal anticipates that the governing board would be comprised of gubernatorial appointees or their representative, legislative appointees from each caucus or their representative, representatives of insurers offering coverage through the SBE, and consumers or consumer organizations.



Will there be any impact on the Department of Human Services (DHS) or the health care programs it runs?

DHS has been involved in the Wolf Administration's discussions about this initiative and the Secretary of Human Services will be represented on the governance board of the SBE. The SBE will need to work closely with DHS, as individuals applying either to the SBE or DHS's health care programs may need to be referred to the other depending on their income and what type of coverage they may be eligible for. However, from an operational and technological standpoint, the Administration anticipates the SBE will interact with DHS just as the federal exchange does today, minimizing any operational impact to DHS.

Have other states done this? What has their experience been?

In addition to the states that have run their own exchanges since the first year of operation in 2014, the Wolf Administration is aware of four other states that are currently in the process of transitioning to an SBE for either 2020 or 2021. One of these states has completed their procurement process, which demonstrated the savings that can be achieved through this transition.

Reinsurance Program

What is reinsurance and how does it work?

Reinsurance is "insurance for insurers": it allows insurers to price their products lower by limiting their exposure to very high, unpredictable medical expenses incurred by their members by covering some of those expenses when they exceed a certain threshold. If an insurer's member incurs a claim that is within the parameters of the reinsurance program, the insurer will report the claim to the state reinsurance program, and the reinsurance program will pay the insurer a contribution toward the claim costs. By removing some of an insurer's need to build financial protections into premiums for the costs attributed to whether an insurer's member will incur very high medical claims cost, insurers can calculate lower premiums for their products.

How will the reinsurance program be funded?

Securing the section 1332 waiver from the federal government allows the reinsurance program to receive a significant federal contribution in addition to the existing user fees paid by insurers. When premiums are lowered by the reinsurance program, the federal government also realizes a savings because they pay less in subsidies to individuals securing coverage through the exchange – subsidies are proportional to premiums. The federal government then shares this saving with the state to use for state-specific needs. In Pennsylvania, the federal government is expected to fund 75% of the reinsurance programs costs. The remaining 25% of the costs are paid by the state. The state contribution will be generated by converting to an SBE but continuing to assess a user fee that is equal to or less than the federal user fee.

Who will administer the reinsurance program?

The reinsurance program will be administered by the actuarial experts in the Insurance Department. Possible additional support may be provided by contracted actuarial experts.



How are the administrative costs of the reinsurance program going to be paid?

The administration of the reinsurance program will primarily require the calculation of the parameters for the reinsurance program, complying with requisite routine reporting to the federal government, and performing the reconciliation of claims following the experience year to remit to insurers the proper reinsurance payment. Such administrative costs are limited and can be included in the Insurance Department's existing budget without issue.

Will the legislation specify the parameters of the reinsurance program?

The parameters of the reinsurance program, including the attachment point, the co-insurance corridor, and the cap, will reflect the anticipated costs of the individual market's enrollment and therefore may change annually as enrollment, among other factors, changes. Since flexibility is necessary for the parameters, the legislative proposal does not prescribe the parameters. Rather, the legislative proposal seeks to establish a timeline so that insurers can have certainty regarding the parameters to properly price their products.

Have other states done this? What has their experience been?

Seven states have secured section 1332 waivers for purposes of administering a reinsurance program and have experience premium reductions from 6%-43.4% attributed to the program in the first year of enactment. Some states have faced an unexpected challenge when receiving less federal funding than anticipated. However, the U.S. Treasury and the federal Department of Health and Human Services have since provided additional information about how they calculate their financial contribution that has alleviated much of this concern and those agencies continue to diligently work to ensure states have predictability and prevent this circumstance affecting forthcoming section 1332 reinsurance waiver implementation.

What would happen if the claims eligible for reinsurance payments exceed what was estimated and what funds are available?

If the claims eligible for reinsurance payments exceed estimated funds, the legislative proposal allows for appropriate action to be taken to allocate the existing reinsurance program funding in a pro rata manner. We remain open to engaging with stakeholders to explore other approaches as well.