

## New Mexico Health Insurance Exchange Work Group Minutes

<b>Work Group</b>	<b>Financial Sustainability</b>	<b>Date</b>	<b>12/06/2012</b>
<b>Facilitator</b>	Mark Padilla	<b>Time</b>	9:00 a.m. MT
<b>Location</b>	Conference Call/ In-Person	<b>Scribe</b>	Cicero Group

**Agenda Item**
 **Discussion Item**
 **Conclusion**
 **Action Item**

Work Group Attendees			
	Name		Name
	Mark Padilla		Lisa Shin
	Milton Sanchez		Andy Vallejos
	Jonni Pool, <i>Human Services Department</i>		Marlene Baca
	Parker Larsen, <i>Leavitt Partners</i>		Karen Lucero
	Sharon Finarelli		Peter Contichelli
	David Roddy		Dan Case, <i>Cicero Group</i>
	Susan Loubet		

### Agenda Item 1: Introduction

**Name: Mark Padilla**

DISCUSSION ITEM 1      Welcome and Review

Mr. Padilla thanked the members in attendance and conducted a roll call. He welcomed Mr. Sanchez to the meeting and invited him to give a review of Exchange developments.

Mr. Sanchez informed members that the preliminary HHS Blueprint had been completed and final recommendations solicited from Work Group members to be received by December 10<sup>th</sup>, for Blueprint submission on the 14<sup>th</sup> of December. He said that in the previous week at the Legislative Health and Human Services Committee meeting, a bill with Exchange-related intent had been presented for review. He said his office was currently studying this potential legislation to see if it accurately represents the goals of the Exchange, as held by the Office for Healthcare Reform. Mr. Sanchez assured the members that their work was crucial to Exchange development, and thanked those present for their participation.

Mr. Padilla referred to the agenda, and reminded the participants of upcoming meetings scheduled for December 13<sup>th</sup> and December 20<sup>th</sup>. He indicated that he will be absent from the meeting on the 20<sup>th</sup>, and that Mr. Sanchez and Ms. Pool were aware of this.

Mr. Padilla continued that the last meeting for this Work Group is scheduled on January 10<sup>th</sup> in Albuquerque. He expressed a hope that enough time has been scheduled between meetings for

members to conduct research into relevant issues, as needed. He stressed the importance of this Work Group in Exchange design, and called for thoughtful consideration of the goal of financial sustainability, and for consensus in reaching recommendations.

## Agenda Item 2: Items for Discussion

Name: Mark Padilla

DISCUSSION ITEM 1

What are the Financial Goals of the Exchange?

Mr. Padilla outlined the goal of the Work Group in creating a financially solvent Exchange through the collection of fees/assessments, and the challenges that lies in approaching this goal without a firm idea of costs. He felt that more information regarding projected costs must first be provided before proceeding. Mr. Padilla then reviewed the major areas of projected expenses: IT, advertising, staff, etc.; and possible sources of revenue: transaction fees on plans sold through the Exchange, website advertising, assessments on carriers operating within and/or outside of the Exchange, repurposing of existing revenue streams, and broad-based assessments charged to providers, hospitals, pharmacies, etc.

Following this, a participant asked about the \$34 million in federal grant money, and how that was to be allocated. This was explained as an estimate of the amount needed to help in the establishment of the Exchange through the introductory period.

Mr. Sanchez advised the members that the Health Insurance Alliance (HIA) board, which will transition into the Exchange board, is currently developing a budget and compiling a conservative estimate of cost projections. He indicated a willingness to invite Mike Nuñez from the HIA to address members at their next scheduled meeting and update them with numbers. He explained that federal grant money will be transitioned to the HIA as Exchange development progresses. Mr. Padilla agreed that Mr. Nuñez's input would be highly valuable. Mr. Roddy requested that Mr. Nuñez also address details on the allocation of grant money, particularly as dispersed among the IT segment of expected costs. Another member pointed out that the cost of in-person assistance did not seem to be addressed in any group recommendations.

Mr. Sanchez reminded the Work Group that the Requests for Proposal for IT and other supporting functions had been released, and responses currently being reviewed. Once personnel costs were estimated, the numbers will be provided to the members.

Mr. Vallejos expressed an interest in knowing one-time vs. fixed costs, and wondered if Leavitt Partners could provide relevant data for costs estimates from the Utah structure, as the urban/rural demographic balance resembles that of New Mexico. Although the population of the two states differs, the data was discussed as possibly relevant to recommendations. Mr. Parra also expressed a desire to see these numbers, and Mr. Larson expressed a willingness to provide

available cost data from Utah for comparative purposes.

Ms. Baca discussed the importance of knowing total enrollment numbers in the actuarial calculation of cost per member, and volunteered to provide information she may have available. Mr. Roddy enquired of Mr. Sanchez how the Public Employee Retiree Fund constructed bids and assessed and collected fees. Mr. Sanchez explained that upon legislative approval, revenue was collected from employer and employee contributions and participant payment of premiums. He said that approximately 2% of the total take was required for operating costs.

Ms. Baca emphasized the importance of assessments being implemented fairly for those carriers entering the Exchange market at the onset of implementation vs. those that delay entry or opt out of inclusion. She felt that assessments should be equally charged to all carriers so as to not discourage Exchange participation.

Mr. Padilla explained that upon receipt of the discussed information, the members could proceed with more exact recommendations. He informed the participants that he will circulate an email with links to relevant sites containing information on financial sustainability. He gave instances from other states enacting state-based exchanges: Rhode Island, for example, which expects to require \$20-30 million per annum to operate their exchange; and Nevada, which has released a budget document.

DISCUSSION ITEM 2

Should Assessments be Imposed, and How?

Mr. Padilla requested input from members regarding assessments and who should pay them. Mr. Vallejos suggested tax credits may assist in defraying costs and helping with expenses. Mr. Roddy felt that unnecessary assessments on carriers would be discouraging to market participation, and hoped instead the Exchange may collect revenue from a portion of the premium payment. A member pointed out the likelihood of the increased enrollment stimulated by Exchange implementation resulting in increased revenues for insurers, and thus defraying the costs of assessments.

Mr. Padilla asked Mr. Sanchez how assessments currently work with the HIA. Unfamiliar with the process, Mr. Sanchez agreed to have Mr. Nuñez address this at his upcoming presentation to the group. Mr. Sanchez asked Mr. Larson if he knew whether insurance companies can pass on assessment costs as part of the premium under PPACA legislation. Mr. Larson believed this was permissible.

Mr. Sanchez asked for clarification in the case where the majority of an insured's premium is paid by the federal government. Ms. Baca suggested that in addition to Mr. Nuñez' presentation, a representative from the National Medicare Education Campaign might address participants regarding subsidy policy. Mr. Parra pointed out that in order to stay compliant in fee assessment

recommendations, perhaps a representative from the DOI might also answer questions from the group.

Mr. Hennek explained in detail that there is currently within the HIA structure a system of assessments against tax-credited premiums. He said the distribution of assessments is based on the premium dollars for New Mexico as reported in Schedule C of the HIA’s annual statement, with some exemptions. He described that up to 50% premium tax credit on assessments, and a sliding scale of tax credit from 50%-75% available for both government-subsidized premiums and for premiums fully paid by consumers. The HIA uses these assessments to fund administration, with risk charges compared annually against expenses and administrative losses. A system of quarterly and annual reporting determines assessments and tax credits, which keep the HIA solvent.

A member asked whether the plans or the HIA pays the broker, and Cory Hennek of Blue Cross/Blue Shield responded that typically brokers are compensated by plans, through commissions and finder’s fees. He explained further that plans are to hold themselves to a 75% Medical Loss Ratio (MLR).

A member expressed confusion regarding the MLR calculation, and stated that he did not believe this sort of corporate loss would or should be compensated by the Exchange. Mr. Parra explained that if the pool in the Exchange is kept artificially low to guarantee carriers a 75% MLR, which is the current policy in the HIA, it means the Exchange must “cut a check” to those carriers operating at a loss until profits stabilize. Mr. Roddy felt that in the Exchange, carrier MLR will not be a factor under consideration and this will not occur, and Mr. Padilla agreed.

DISCUSSION ITEM 3

What Other Funding Mechanisms Should be Used?

Mr. Padilla solicited from the Work Group other mechanisms they felt might effectively provide means for funding the Exchange. He discussed the goal of affordable insurance, and gave the example of Utah, which charges employers a flat \$6 fee per employee per month, to pay for the administrative costs of its exchange. He encouraged other creative responses from members.

Ms. Baca mentioned the example of website advertising, but expressed hesitation in making recommendations until members know more about Exchange design. Ms. Finarelli recommended that assessments be collected from those that stand to reap the benefits of them. Mr. Roddy felt that assessments should only be used to provide administrative revenue, and not cover insurance company losses.

Mr. Padilla reiterated that this was a forum in which to generate ideas for Exchange revenue. Mr. Sanchez had Mr. Hennek reconfirm some details about assessments; and Mr. Padilla described the Exchange as a marketplace for consumers, and that discussing such insurance company concerns as MLRs and broker reimbursement are not the Work Group’s primary concerns. Another member

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agreed, saying administrative costs of the Exchange should be the focus of discussion, and carriers should be left to work out their own profitability.

Participants discussed various scenarios of risk in the first years of an insurance company entering the New Mexico market and attaining profitability. One member felt New Mexico was demographically disadvantaged, and achieving profitability often challenging for carriers. He advocated for maintaining as much of the current HIA structure as possible to maintain carrier stability. Another member suggested that Mr. Nuñez provide projections for the number of expected consumers that will shift from current HIA plans to plans within the Exchange.

Mr. Sanchez explained that risk adjustment and reinsurance will assist changes introduced into the market by the Exchange. He also explained that the state has the option of leaving profitability adjustments to the federal government. He felt that this Work Group might provide valuable insights in this regard, and participants expressed willingness to address the issues. Gabriel Parra of Presbyterian asked in what ways other states are creatively passing on administrative costs to the federal government, and suggested perhaps Leavitt Partners could assist with information. Mr. Larson expressed willingness to comply.

CONCLUSIONS

Mr. Padilla reviewed the meetings' topics, and encouraged those in attendance to examine the issues and offer creative answers to the problems discussed. He hoped the following meeting with Mr. Nuñez would provide valuable information in forming recommendations. He then solicited final questions and comments.

Ms. Pool informed participants that missing members Dr. Shin, an optometrist and small business owner; and Mr. Day, a broker, will be present at the next meeting, and provide useful input.

Mr. Padilla suggested he would provide an action list and agenda for the next meeting. He thanked the Work Group for their time and adjourned the meeting.

ADDENDUM

Emailed Note from Dr. Shin

The following was submitted via email after the meeting had concluded. Dr. Shin had been present for a portion of the meeting by teleconference call, and requested that these questions and concerns be forwarded for consideration by attendees.

Dear Mark: My apologies for not being able to attend today! I was able to hear some of the meeting by phone - my questions/comments:

1. Did I hear the question correctly "to what extent can we pass along the cost of Exchange to the

Federal Government"? My understanding is that Feds will cover subsidies for those eligible based on income - but that our Exchange would need to be "self-sustaining" by 2015. So that subsidies would be covered, but administrative costs would need to be covered by NM?

2. Interesting question of how many will move from the Alliance to the Exchange? Do we have estimates of how many will be in the Exchange: e.g., in NM: low 100,000 medium 250,000 high 350,000. Alabama's estimate for administrative cost was \$8.98 to \$13.76 per Exchange per month: using that number - low estimate for NM would be \$898,000; I've attached "Financial Sustainability of the Alabama Exchange"

3. How many will not be eligible for subsidies - so that affordability will matter to them. If premiums are increased due to "administrative costs" - how many will prefer to pay the penalty?

4. "Replacing existing revenue streams": is there any opportunity to consolidate or streamline funds from Medicaid, SCHIP, Indian Health Service, & high risk pool - since many of these participants might move to the Exchange?

5. How do we lower administrative costs as much as possible?

6. Advertisement as means of revenue: what about non-profits/charity & YMCA- being able to advertise? How does NM Health Alliance advertise currently?