As approved by the Finance Committee on May 4, 2016.

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

Special Meeting
Legislative Office Building, Room 1A
Hartford, Connecticut
Tuesday, May 12, 2015

Meeting Minutes

Members Present: Secretary Benjamin Barnes, Office of Policy and Management, (OPM), Office of the Healthcare Advocate, (OHA) Victoria Veltri, Commissioner Roderick Bremby, Department of Social Services, (DSS) Robert Tessier

Members by Phone: Dr. Robert Scalettar

Members Absent: Deputy Commissioner Katharine Wade

Other Participants: Mike Gilbert - DSS

Access Health CT (AHCT) Staff – James Wadleigh, Steven J. Sigal, Susan Rich-Bye, Tricia Brunton, Debra Pierre, M. Linda Phillips, Richard Levesque, Kathy Tallarita

Call to Order and Introductions

- Secretary Barnes called the meeting to order at 2:04 PM

Approval of the Minutes

Secretary Barnes asked for a motion to approve the minutes of the December 04, 2014, Finance Subcommittee meeting as published. Robert Tessier moved to accept the minutes as published and Vicki Veltri seconded the motion.

2016 Fiscal Year Budget

Secretary Barnes introduced Steven Sigal, Chief Financial Officer, for the presentation of the 2016 Fiscal Year Budget.

Mr. Sigal noted that the FY16 budget projection was $29.7M, which was $5.3M or approximately 15% less than FY15. He observed that on a gross expense basis FY16 is $81.7M, which is $26.9M, or 24.8%, less that the FY15 forecast of $108.6M. He explained that the decreases resulted from changes focused on moving Access Health CT from a "start-up" business, which it has been for the past 2.5 years, to a more mature organization. Some of those expense decreases were achieved by eliminating jobs through the use of technology; restructuring roles for more appropriate responsibilities; converting selective outside consultants to full time employees; aggressive vendor management oversight of contract renewals; and the evolution of the Integrated Eligibility System (IES) from major system design, development and implementation (DDI) to a concentration on enhancements and problem resolutions.

He pointed out that the format of the budget is new and depicts total gross expenses including funds from remaining grants and DSS reimbursements for shared services and Medicaid DDI. The AHCT column represents essentially operating expenses only for the year.

Mr. Sigal also noted the expenses included $1.0M for the All Payer Claim Database (APCD) which no other State-Based Marketplace includes as part of its operations. Most APCD's are housed with various state agencies.

Mr. Sigal next discussed the AHCT Budget Cycle that illustrates the progression of funding from primarily federally sourced to primarily relying on market assessments and other funding.

The 2016 Fiscal Year Budget was then discussed by Mr. Sigal. He referred to the new format that he previously discussed, highlighting the three diagrams (2016 budget, 2015 forecast and the variances from 2015 to 2016). Mr. Sigal then noted the major variance components including salary and fringe costs increases, temporary staffing increases and contractual decreases. These variances were consistent with explanations provided on the overall budget.

Secretary Barnes noted that despite the reduction in contractual costs, the DSS reimbursement was substantial but depended on how much effort was ultimately expended on the IES. The amount was consistent with the grant application that AHCT filed. Further, total spend on computer systems was also very high. Given this, AHCT was the convenient place for the contractual IES costs to be. But as AHCT matures, DSS' Phase 2, 3, and 4, and/or their implementation of ImpaCT, subject to coordination of other Human Services programs that are tying into this one shared capability system, shared among Access Health and State Human Service programs, AHCT is no longer going to be the driving force behind it. Their business requirements will need to be met by that system but those business requirements are probably a small share of the overall work of that system compared to DSS and State agencies. iIn FY16 if possible, ownership of all, or a significant portion of this contractual system development work may be transitioned from AHCT to DSS.

Mr. Sigal added that most of the discussion has been about system development. Operating expenses are also subject to cost sharing now at an 80% share for DSS and a 20% share for AHCT.

Mike Gilbert, DSS, added that there are three (3) main sources of funding that DSS needs to access to support these costs. The first is federal funding sources which are obtained by filing Advance Planning Documents (APD's). DSS also needs to request its State share through the ITCapital Infrastructure fund to obtain those dollars and above and beyond that, as Mr. Sigal referenced, there are also the maintenance and operations (M&O) expenses, which are included in DSS' general fund budget. DSS depends on those three (3) different sources to put forth their share, which adds to the complexity and also adds to DSS' requests that they understand exactly each financial obligation

Mr. Sigal directed the Committee's attention to the 2016 Fiscal Year Budget – Contractual page of the presentation. He noted that essentially the top half of the page relates to information technology (IT) costs that are shared between AHCT and DSS. Some of the items are basic. These would include regulatory compliance, infrastructure, disaster recovery, BEST, the IT M&O contract, which is in process, security requirements, and testing. All of the consumer portal and worker portal items are work related to joint requirements. AHCT and DSS have priority meetings where they discuss requirements that will be in the next release.

Mr. Sigal drew the committee's attention to the lower portion of the contractual page to the items that are not allocable. These are AHCT initiatives. Marketing, which is expected to decrease $3M through aggressive contracting and Xerox verification process, which costs almost $4.5M. AHCT is pursuing some cost reduction initiatives on those expenses. At the bottom of this page are the call center and operations costs. A lot of work is under way to control the call center costs.

Commissioner Bremby asked a question regarding the Deloitte Holdback Warranty / Accrual.

Mr. Sigal explained that in January 2015, AHCT began to accrue the DSS reimbursement when heretofore it was being accounted for on a cash basis; only recognizing it when AHCT paid it. The former method was distorting AHCT results. The major item that AHCT accrued that had not been billed to DSS was the 20% holdbacks for Deloitte. The holdback accrual dates back to 2012.

In response to a question by Secretary Barnes, Mr. Sigal explained that there are different trigger points when AHCT pays the holdback. It is all contractual. The last payment will be when warranty work is completed.

Discussion then took place about the holdback warranty accrual between Commissioner Bremby, Secretary Barnes, Mr. Sigal and Mr. Tessier regarding cost sharing, desire for more detail and the period of time that the holdback related to. Mr. Sigal agreed to provide more details to DSS on this item.

Ms. Veltri asked Mr. Sigal to explain the increase in the Plan Management contractual costs.

Mr. Sigal responded that part of the 2014 Level I grant was to create a more electronic interface for Plan Management with the private health insurance (QHP) carriers. The increase was for that work.

Mr. Sigal next referred to the two funding source pages, the first of which illustrates funding sources in a pie chart and the other, which illustrates funding sources against total expenses. These also depict revenue (funding) from Exchange Solutions, which is expected to be accretive to revenue. AHCT has set a goal for Exchange Solutions revenues, but it is not included in AHCT's reserves. Grants are shown as diminishing with the Level II award expiring by the end of calendar year 2015.

The next slide provides details on salary costs. Mr. Sigal noted salaries by department and the number of durational outreach employees, who are converting to permanent. The permanent, full time employees equal 89 people.

Mr. Sigal then moved to the next page, which displays salary changes by department in a waterfall view and the increases and decreases. Under Jim Wadleigh's leadership, AHCT has eliminated some leadership positions, reduced the number of trainers and covered that function through technology improvements, and some other positions now have increased responsibilities. The net result of these changes including consultants being converted to permanent employees yields an increase in salaries offset by a lower cost for consultants.

Secretary Barnes asked questioned the outreach project costs?

Mr. Sigal and Mr. Wadleigh explained that AHCT was investing in training durational employees and they would work for 3, 4, or 5 months and then there would be a gap for about 2-3 months when their duration would end and then the whole process would start over again. AHCT decided that it would actually be more cost effective to just bring them on full time and that would allow us to have them help with some of the 1095 work and other work that was going on.

Commissioner Bremby stated that there was an increase in positions in Administration.

Mr. Sigal responded there are a couple of positions that were added that have not been filled yet and may not be filled. Marketplace strategies, head of sales to name two.

Ms. Veltri noted the Issue Resolution Department (IRD) is 15 employees and was wondering if that number would decrease over time.

Mr. Sigal responded that it depends on whether the volume of IRD inquiries decreases. If the IES is enhanced, AHCT believes the volume of issues will decrease.

Mr. Sigal moved to the final 2016 fiscal budget slide and stated that through nine months of actuals, FY2015 is close to forecast with a slight favorable variance related to the timing of expenses.

Mr. Sigal noted that this concluded the 2016 Fiscal Budget portion of the agenda and asked if there were any other questions on the budget.

Secretary Barnes suggested that the Subcommittee must take action on recommending the budget to the full Board. But he suggested deferring the action until after the sustainability portion of the agenda given that there are some questions about the budget that haven't addressed sustainability.

Secretary Barnes then stated that the 135 basis points (bps) assessment has been in effect for two years and pursuant to state and federal law and the Exchange's procedures, it has always been the method to finance the activities of the Exchange, excluding some grant revenue or other sources that come into play. He then stated he wants to have a discussion about whether or not the Subcommittee believes that 135 bps is the correct number given the reserve policy or the approach on how to establish reserves in order to sustain the organization.

Mr. Sigal proceeded with the Sustainability presentation. He stated that a part of the committee's responsibility here today is to determine what the assessment rate will be for 2016. He provided an historical view of the assessment since 2012 and insight into the time delay involved in receiving the data used to calculate the calendar year assessments (essentially two years).

The first assessment rate of 135 bps was approved in 2013 and was used for calendar years 2014 and 2015. When it was first set it was believed it would provide about 75% of AHCT's operating budget. AHCT was in a start-up mode and operating expenses varied significantly during the build out of the Exchange. In actuality, it varied from the original assumptions and the reserves amounted to between 5-7 months of the operating budget. Changes occurred in the marketplace; small group premium has flattened out and actually decreased last year. The definition of a small group will be increasing to 100 employees eventually, but the assessment for future calendar years is at least 2 years into the future and won't have an impact on assessments immediately.

Mr. Sigal referred to the assessment scenarios slide and noted there were three scenarios. One was leaving the assessment at 135 bps. The slide displays the nine month reserve level for three years and it settles in at about $27M. The 135 bps scenario is marginally adequate in 2016 but not in 2017 when it becomes inadequate. The next scenario of 165 bps for 2016 and 2017 generates adequate reserves for both years. The last scenario of 180 bps is shown because if 135 bps was 75% in 2014, 180 bps mathematically is 100%. What this shows is that the assessment rate needs to be increased; if not in 2016 and in 2017.

Mr. Sigal then stated that the assumptions used in the scenarios are on the last page of the sustainability slides. For completed fiscal years the reserve levels and marketplace assessments are actuals. The amounts are displayed as of June 30 each year.

Secretary Barnes noted that the 135 bps scenario displays that the assessment at the 135 bps level will basically support the budget. But then in the following year, 2017, the assessment will result in AHCT drawing down the reserves by $6M.

Mr. Sigal replied affirmatively and noted there is uncertainty in the premium projections. The amount for individual premium is reasonably predictable as it has increased 9% or 10% every year.

Dr. Scalettar, Ms.Veltri and Mr. Tessier expressed some concerns and noted the average increases are very low.

Mr. Sigal noted that despite those moderate increases, the marketplace premium volume increases have averaged 9%. Small group marketplace premium volume has been less predictable. There are two trends occurring in the small group market. Some small groups are sending their employees to the Exchange so they are no longer offering employer sponsored insurance. Other small groups are converting from insured to self-insured, which is risky for many of them given the stop loss insurance options available to small groups.

Secretary Barnes noted that he understands the need to raise the assessment in 2017, but would like to hear about whether the advance should be in two steps to 165 bps. That would provide the opportunity to build up reserves in smaller increments; 150 bps in2016 and then 165 bps in 2017.

Dr. Scalettar stated that his true sense is this is something that was discussed at the outset. Maintaining that 135 bps wasn't sufficient, but it was workable and that AHCT would be facing this day sometime in the future and here we are. I believe the increase should be done in one step to 165 bps.

Mr. Tessier added in addition to Secretary Barnes' and Dr. Scalettar's observations some members of the Subcommittee read an article that compared the assessments on various state exchanges and if I am not mistaken Connecticut was either the lowest or most certainly among the lowest. So it is important to me and I think it should be important to everybody that we keep in mind where we are comparable to the rest of the country and AHCT frankly has a great track record of accomplishment in making health insurance available and, so far, among the lowest costs. I am not sure whether it is better to increase the assessment rate in one step or in two steps.

Ms. Veltri noted that there were advantages of two steps as it would allow additional time to eliminate some of the uncertainty inherently in the projections.

Secretary Barnes stated the 2014 premium base year was known, but the 2015 premium base year was a projection that could change.

Mr. Sigal agreed and noted that the 2015 premium base year was a best guess and provided details on some of the assumptions.

Mr. Tessier stated that he was inclined to support Dr. Scalettar's suggestion of a one-step increase given the importance of having adequate reserves and given the variability of so much of what was discussed earlier.

Secretary Barnes agreed and asked Mr. Wadleigh if he had any knowledge of the assessment rates in other states.

Mr. Wadleigh replied that while Connecticut has one of the lowest assessment rates across the country, there are states that don't have assessments and those states are struggling to be self-sustaining. Some states don't have an assessment today, but it does not reflect whether or not they will implementing one in the future. So that being said Connecticut does have one of the lowest in the country.

Secretary Barnes asked whether there are alternative revenues that may be available that are consequential enough to be considered now.

Mr. Wadleigh responded that the budget does have $3M for Access Health Exchange Solutions as additional revenue.

Mr. Sigal clarified that it was noted previously as part of the display on the slide. But at this point it is aspirational. It is not included in the reserve projection.

Secretary Barnes asked if this revenue was net of expenses.

Mr. Sigal responded it was not. Expenses to operate the program depend on what generates the revenue. There are a few initiatives that would be fairly low cost and there are a few that would be fairly resource intensive and would require funds to carry out.

Mr. Wadleigh noted that with the Supreme Court's decision in June, Access Health has set itself up in a position where either way the Supreme Court decides, AHCT will be able to position itself for success. As AHCT has had discussions with other states about opportunities, there are a number of states that are frozen waiting for the Supreme Court to make a decision. A lot of those states are going through a struggle from an operational cost perspective and discussions have been about shared services.

Secretary Barnes stated that the Committee's minds are well established here. Obviously this group cannot make a decision on setting an assessment rate. That is something for the Board to do. First, let's go back to the budget; can I get a motion to accept the budget and forward that to the full Board?

Mr. Tessier moved to accept the budget and Ms. Veltri seconded the motion. There was no further discussion and the motion was approved.

Secretary Barnes then suggested that the Committee make a recommendation that the full Board consider increasing the assessment rate in order to address the maintenance of adequate operational reserves and requested the staff provide supplemental information on alternatives and then the Subcommittee members could have further discussion at the Board meeting with the rest of the Board members. Alternatively, if anyone believes that a specific number recommendation should be put forward, the Subcommittee could discuss that.

Mr. Wadleigh proposed that the Subcommittee consider a stepped approach, one that does half of the increase this year and the second half for next year's budget so that the impact to the carrier's rates is minimized because their rates have already been submitted.

Secretary Barnes added that the Board could adopt two years of assessment rates. In fact, that would probably be preferable to the industry so that the carriers know what to expect.

Mr. Sigal added that though the carriers filed April 30 there are a number of filing iterations post April 30 where the assessment increase could be added to the rate filings.

Secretary Barnes then requested a motion.

Ms. Veltri proposed presenting some more alternatives to the Board so the discussion at the Board would be able to include the information relative to the Subcommittee discussion so far.

Mr. Tessier suggested that both options be presented as recommendations for consideration by the Board. Mr.Tessier also requested that comparable information for other states also be provided.

Secretary Barnes stated that Ms. Veltri was making a motion to pass along to the full Board a recommendation that they consider alternative changes to the assessment rate in order to address issues related to the reserves and sustainability in line with the information presented.

Mr. Tessier seconded the motion.

Secretary Barnes asked for a vote if there was no further discussion. The motion carried unanimously.

Secretary Barnes requested a motion to adjourn. Commissioner Bremby moved to adjourn and Ms. Veltri seconded. The motion passed unanimously.

Resources:

1. December 4, 2014, Meeting Minutes
2. 2016 Fiscal Year Budget
3. 2016 Financial Sustainability