Program: Small Employer Health Insurance Partnership — Agency #107
Decision Package Code: PL-AM — Health Care Authority

Health Insurance Partnership

Introduction

The Health Insurance Partnership (HIP) was established by the 2007 Washington State Legislature under Chapter 70.47A RCW. It will be governed by a newly established Health Insurance Partnership Board (HIPB) and administered by the Washington State Health Care Authority (HCA). The HIP will develop and administer innovative health insurance coverage options for small employers and their employees. In addition, HIP may provide premium subsidy assistance to eligible partnership participants who are employed by participating small employers and have gross family income that does not exceed 200 percent of the Federal Poverty Level (FPL). Applications for health insurance will be accepted starting September 1, 2008, with coverage beginning on January 1, 2009. The HIPB is a seven-member board, appointed by the Governor to staggered terms chaired by the HCA administrator and has the following duties:

- Develop enrollment policies, including minimum participation rules.
- Designate at least four currently offered small group benefit plans with multiple cost-sharing options as eligible for premium subsidy, and assign one as the benchmark plan for developing the subsidy scale.
- Determine criteria for minimum employer premium contribution.
- Determining appropriate health benefit plan rating methodologies. The methodologies must be based on the small group adjusted community rate as defined in Title 48.
- Conduct analyses and provide recommendations as requested by the Legislature and the Governor, with the assistance of the HCA and the Washington State Office of the Insurance Commissioner.

The HCA was appropriated 4.0 FTEs and $2.1 million for fiscal year (FY) 2008 and 4.0 FTEs and $1 million for FY09, to establish HIP and support HIPB, as well as develop two reports to the Legislature and Governor. The reports must address the possible inclusion of other segments of the public and private insurance markets in HIP, and a possible individual mandate.

Summary

The impact of HIP on the health insurance market will vary based on how the program is implemented. The HCA expects that HIP will add value to the current small group market for small employers by providing subsidies to low-income workers, allowing for employee choice, allowing for portability and adding potential new enrollees for carriers.

Washington State has roughly 90,000 full-time low-income employees of small businesses who are uninsured. The HIP enrollment goal is 10 percent of this amount or 9,000 employees, by the end of calendar year (CY) 2013. The HCA recognizes that HIP will receive a variety of enrollment from both the uninsured and insured small group market, as well as low-income and non low-income enrollees, making the HIP's total enrollment greater than 9,000 members. In order to measure HIP's progress, HCA will develop a procedure in the application process to identify the types of members enrolling in HIP.

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To meet these targets HCA will coordinate with stakeholders including representatives of small employers, health plan carriers, agents and brokers and employees of small employers to publicize the HIP program and develop plans. The HCA will explore the use of online employer guides as a means to publicize the program and for outreach and education on the value of health insurance.

Although HCA has the authority to include a surcharge in the premiums for HIP, HCA believes that it is crucial to the program that the state fully funds the first five years of HIP administrative expenditures, including the third party administrator (TPA) costs. The TPA administrative fee is usually based on an economy of scale; therefore, with the low initial enrollment in HIP, members would see a large administration fee, making it difficult for HIP to grow.

Expenditure Calculations and Assumptions

The HCA has made several assumptions about HIP. Changes in the assumptions could have significant impact on the expenditure estimates for implementing this program.

In total, HCA is requesting the following appropriations for HIP (please see below for details):

	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
HIP Administrative Costs (Fund 760)	$ 2,160,157	$ 2,158,578	$ 1,643,669	$ 1,543,669	$ 1,543,669	$ 1,543,669
HIP TPA Costs (Fund 760)	$ -	$ 803,250	$ 5,235,469	$ 7,659,563	$ 9,725,063	$ 11,790,563
HIP Subsidy Costs (Fund 760)	$ -	$ 1,929,494	$ 12,576,168	$ 18,399,106	$ 23,360,662	$ 28,322,219
HIP 2007-09 Funding	$ (2,137,000)	$ (1,000,000)	$ -	$ -	$ -	$ -
Additional Required Appropriation	**$ 23,157**	**$ 3,891,323**	**$ 19,455,306**	**$ 27,602,337**	**$ 34,629,394**	**$ 41,656,451**

Additionally, HCA is requesting the following FTEs for HIP (please see below for details):

	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
FTEs Required	4.3	9.0	9.0	9.0	9.0	9.0
2007-09 FTE Funding	(4.0)	(4.0)				
Additional Required FTEs	**0.3**	**5.0**	**9.0**	**9.0**	**9.0**	**9.0**

Startup & Administrative Expenditures

The HCA will continue to incur significant administrative expenses, including actuarial consultation to develop a Request for Proposal (RFP) and select a vendor to administer HIP. The HCA will need to provide administrative and communications support during the RFP process. This will include contracted project management support to coordinate the activities necessary to compile an RFP for a program of this complexity. This type of RFP is significantly complex and requires specialized staff working over several months. Additionally, the project team will be required to lead the agency through the RFP evaluation phase. Once an apparently successful vendor has been selected from the

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RFP responses, HCA will enter into contract negotiations. The project team will transition to implementation tasks and eventually terminate once the vendor has successfully completed open enrollment activities, with the exception of those staff required for ongoing contract management and monitoring. The HCA estimates that this will cost $400,000 for FY08 and $325,000 for FY09.

The HCA will need legal consultation with experts for several components of the program. The HCA will need to ensure that the policies and enrollment procedures meet all federal requirements of the Employee Retirement Income Security Act (ERISA) and avoid the possibility of the agency or HIPB being put into the position of fiduciary responsibility. The HCA will also need consultation to ensure that the program components comply with the Health Insurance Portability and Accountability Act (HIPAA) regulations. In addition, The HCA will need expert advice on providing technical assistance to small employers on the establishment of Section 125 plans. This will include interpreting requirements of Section 125 plan administration, developing plan documents, and advising small employers on plan administration. The HCA estimates that this will cost $400,000 for FY08 and $200,000 for FY09, and ongoing.

In addition to the legal costs listed above, the Attorney General estimated the following costs to HIP:

	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
Attorney General Costs	$ 117,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000	$ 70,000

The HCA will need additional actuarial assistance in analyzing the current small group market conditions and how HIP functions within that market, health benefit plan rating, risk adjustment and design, and health benefit plan costing and purchasing strategies. Actuarial support will also be needed to develop the schedule of premium subsidies for the HIP. The HCA estimates that this will cost $350,000 for FY08 and $250,000 for FY09, and ongoing.

The HCA will consult with health care marketing and advertising experts to publicize the HIP to its target market and potential enrollees. In developing the marketing and outreach plan, the HCA may consult with marketing experts to conduct market research and provide analyses to the HCA, conduct focus groups, surveys and interviews, and develop marketing campaigns. Additionally, the HCA will need to develop marketing and outreach materials including a program logo, brochures, applications, and enrollee materials. The HCA estimates that this will cost $150,000 for FY08 and $150,000 for FY09, and ongoing.

The HCA will need funding to pay the TPA for the following services:

- Enroll small employers and their employees in HIP. This includes accepting applications from small employers who want to participate in the program and accepting applications for health insurance coverage from employees and their dependents.
- Coordinate open enrollment for employees and their dependents during open enrollment periods and upon the occurrence of qualified events.

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- Bill, collect and transmit to participating carriers all premium payments or contributions made on behalf of employees including employer contributions, payroll deductions, premium subsidy payments from HCA and contributions made by philanthropies.
- Direct bill former employees who choose to continue coverage through the HIP and transmit their premium payments to the carriers.
- Accept applications, determine eligibility for premium subsidy, and calculate subsidy amount.
- Receive premium subsidy amounts from HCA and apply that amount toward an employee's or former employee's total premium payment before transmitting to the carrier.
- Manage premium subsidy payments so as not to exceed appropriated funding. This includes creating a waiting list of eligible employees if funding is not available and moving waiting employees into a subsidy-eligible slot when one becomes available.
- Provide technical assistance to small employers in setting up Section 125 plans.
- Apply a surcharge to all participating health benefit plans and transmit the surcharge proceeds to HCA.
- Provide customer service to all small employers and employees enrolled in the HIP.

Since HCA is in the process of finding a TPA, the administrative costs have not been determined; however, through discussions with the program development team for the Massachusetts Connector, HCA has estimated a mid-range rate of $25 per member per month (pmpm) for the TPA costs (see attachment A).

The HCA will need the following staff to develop various components of the program. Some of the essential staff responsibilities include:

- 1.0 FTE HIP Program Manager to develop and administer the program, beginning July 2007, and ongoing.
- 1.0 FTE Rates Analyst to develop the schedule of premiums for the HIP, as well as develop the HIP model. Also, this position will provide support to the HIPB, as well as estimate costs and enrollment for the program, beginning January 2008 and ongoing.
- 1.0 FTE Regulations Analyst 4 to lead development of rules and to research and facilitate policy decisions for this program, beginning July 2007, and ongoing.
- 1.0 FTE Senior Policy Analyst to provide analysis, research support (including lessons learned from other states), and interagency coordination. Additionally, this position will provide support to the HIPB, beginning January 2008, and ongoing.
- 1.0 FTE Financial Analyst 3 to coordinate and monitor vendor accounting procedures related to the billing and collecting of premiums, paying the carriers and financial reconciliation. Also, to pay and reconcile administrative fees, as well as premium subsidies, beginning July 2008 and ongoing.
- 1.0 FTE HIP Representative for training and oversight of TPA functions to ensure consistency and compliance with program policies, beginning April 2008 and ongoing.
- 1.0 FTE Appeals Manager to develop the appeals process (since the TPA likely will not be familiar with the process for state agencies), provide oversight of the TPA's process, and to

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hear appeals that are escalated to the agency after the TPA has heard the first level, beginning July 2008 and ongoing.

- 1.0 FTE Administrative Assistant 4 to support the program manager as well as support the RFP development and evaluation activities, beginning January 2008 and ongoing.
- 1.0 FTE Communications Consultant 4 to develop communications plans and materials, including applications, informational brochures and enrollment materials. This position will also work with employers, employer organizations, and other stakeholders to support the development of rules and policy decisions, procurement and implementation, beginning December 2007, and ongoing.

The HIPB must produce two studies that analyze significant reforms to Washington's health insurance market. By December 1, 2008, the HIPB will produce a preliminary report that estimates the utilization of health care services and the cost of coverage when Washington's individual and small group markets are incorporated into the HIP. The report must also include an implementation plan for incorporating the individual and small group markets into HIP.

By September 1, 2009, HIPB will provide recommendations on adding public-sector markets (e.g., Basic Health, Public Employees) into HIP under an individual mandate. The HIPB will also provide its final recommendations on incorporating all individual and small group plans into HIP.

Based upon similar reports performed in Massachusetts, New Mexico, and Wisconsin, and advice from consultants who have analyzed significant health care system reforms, the HCA estimates the costs to provide these studies at $250,000 for FY08, $250,000 for FY09 and $100,000 for FY10.

In total, the HCA is requesting the following funds for administrative expenditures:

	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13
HIP Administrative Costs (Fund 760)	$ 2,160,157	$ 2,158,578	$ 1,643,669	$ 1,543,669	$ 1,543,669	$ 1,543,669
HIP TPA Costs (Fund 760)	$ -	$ 803,250	$ 5,235,469	$ 7,659,563	$ 9,725,063	$ 11,790,563
Total Administrative Costs	**$ 2,160,157**	**$ 2,961,828**	**$ 6,879,138**	**$ 9,203,232**	**$ 11,268,732**	**$ 13,334,232**

<u>The HIP Enrollment Assumptions</u>

The HCA estimates that HIP will see the largest enrollment of uninsured low-income employees in the first year of the program. The HCA estimates that the number of uninsured low-income employees will be reduced by 300 employees per month for the first year and 113 employees per month for the following years. The HCA estimates that HIP will be able to reduce the amount of uninsured low-income employees by the following amount (enrollment is shown as the total for the calendar years):

	CY 09	CY 10	CY 11	CY 12	CY 13
Uninsured Low-Income Employees	3,600	4,950	6,300	7,650	9,000

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Based on current Basic Health (BH) demographics, the HCA estimates that the average family size of these employees will be 1.7; therefore, almost every family will have a dependent. Additionally, the HCA estimates that for every two uninsured low-income employees that join HIP, there will be one insured low-income employee that joins HIP. In total, the HCA estimates the following subsidized enrollment for HIP (enrollment is shown in averages for the fiscal year, not total enrollment at the end of the CY):

	FY 09	FY 10	FY 11	FY 12	FY 13
Avg. Subsidized Enrollment for HIP	2,678	8,726	12,766	16,208	19,651

The HCA assumes that, for the majority of employers who participate in HIP, half of their employees will be eligible for a subsidy; therefore HIP will have an equal amount of low-income members as non low-income members. In total, the HCA estimates the total enrollment for HIP will be (see attachment A for details):

	FY 09	FY 10	FY 11	FY 12	FY 13
Avg. Total Enrollment for HIP	5,355	17,452	25,532	32,417	39,302

Since HIP enrollees are employed, the HCA assumes they will likely be in the higher income bands. The HCA used BH's current demographics for members in income bands C through H (100-200 percent of FPL) to estimate the income bands for HIP enrollees.

The HIP Employer Coverage

For the purpose of this decision package, HCA will not estimate the premium costs related to members above 200 percent of the FPL (not eligible for subsidy), since health care premiums for these members, not including administrative costs, will pass through HCA, without an impact to HCA.

Since HIP will have at least four different health plan options, and because the costs and plans chosen will vary from plan to plan and from participant to participant, it will be difficult for the HCA to project the plans that will be available through HIP. For the purpose of this fiscal note, HCA assumes that all of HIP members will enroll in a mid-range health plan (see attachment B for details). HCA, along with its actuaries, Milliman, estimate that mid-range health plan coverage, for an average adult would cost $329.95 pmpm for FY09, and the average child cost is estimated to be $201.06 pmpm for FY09.

The HIP Subsidy

Although HIPB will ultimately determine a minimum level of employer contribution, for the purposes of this decision package, the HCA assumes that the employer will pay 60 percent of the health care premium for an employee. The remaining 40 percent of the health care premium will be shared between the employee and the HIP. The employee's share will be based on a premium structure, similar to BH, where members pay a premium based on their FPL. The BH premium structure is

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modified for the HIP, to accommodate the variation of plans available by having participants below 125 percent of the FPL pay a percentage, instead of a fixed premium. The HIP will also have a maximum subsidy, so participants could not receive a subsidy greater than this amount. The maximum subsidy for participants will be based on a mid-range benefit plan chosen by the HIPB, for that given CY.

The HCA also assumes that employers will pay 30 percent of the health care premium for dependents of their employees. The remaining 70 percent of the dependent's health care premium will be shared between the employee and HIP.

The projected funding that will be needed for HIP state subsidy is below (see attachments C through G for details):

HIP Subsidy Costs (Fund 760)	$ -	$ 1,929,494	$ 12,576,168	$ 18,399,106	$ 23,360,662	$ 28,322,219