



Illinois Exchange Background Research and Needs Assessment Final Report and Findings

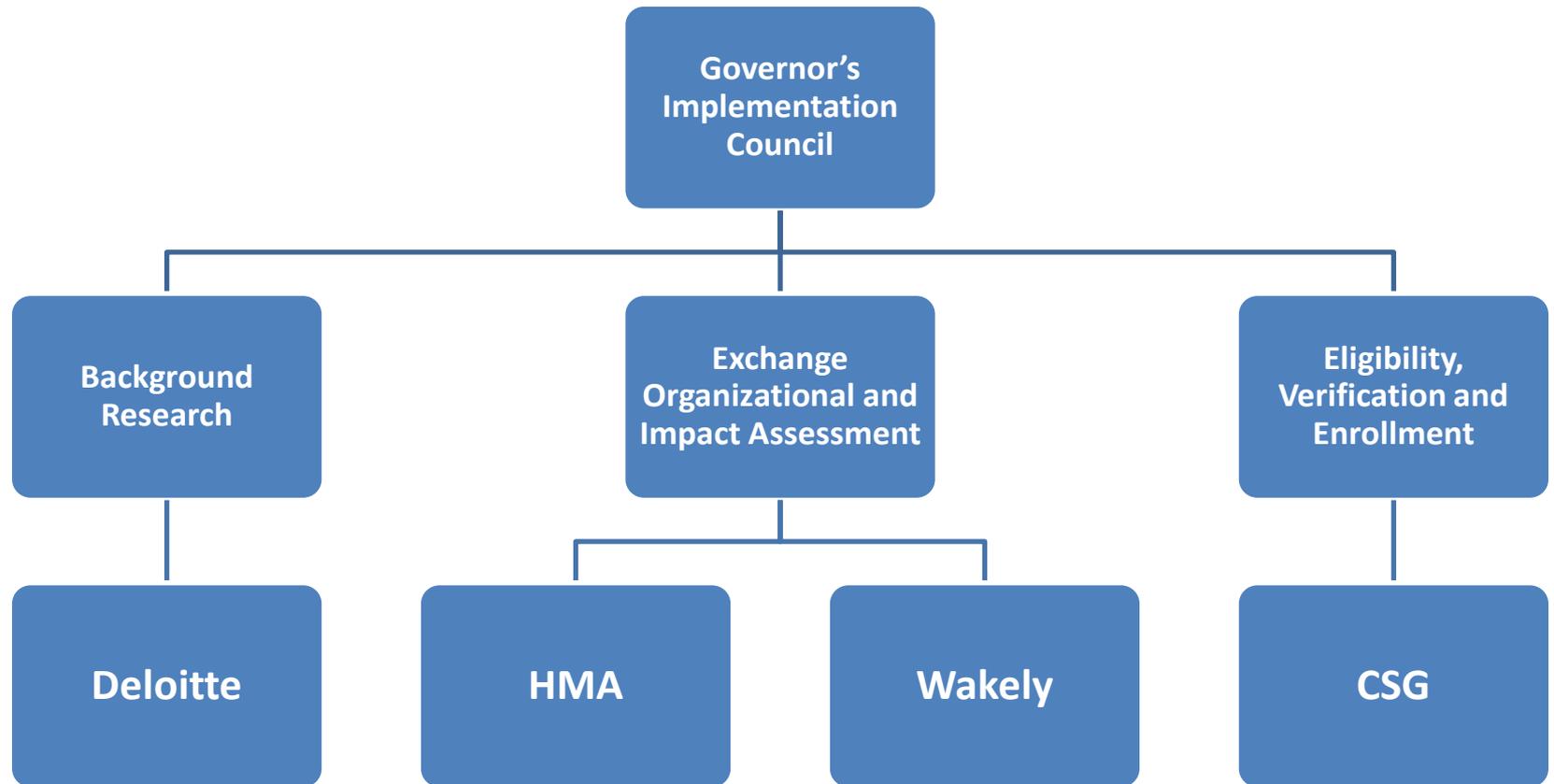
Governor's Reform Implementation Council

October 14, 2011

Research & Assessment

- Illinois, using Federal grant money, secured assistance in assessing Illinois' health coverage marketplace and considering what needs to be done to establish a state-based Exchange and meet related ACA requirements, including:
 - A comprehensive analysis of Illinois' health insurance marketplace.
 - Estimating likely enrollment in various sources of health coverage.
 - Identifying key operational issues in developing a state-based Exchange.
 - Overall strategy for developing a new Integrated Eligibility System for Medicaid, Exchange and other programs.

Illinois Background Research and Exchange Planning Project



Background Research Report: The Uninsured in Illinois

- **Employer Coverage Shrinking.** Over the last ten years in Illinois, employer-based health insurance (the dominant source for insurance coverage) has dropped by more than 16 percent.
- **Number of Uninsured are Rising.** 1.7 million of Illinois' 11.2 million residents under the age of 65 are uninsured.
- **Affordability the major problem for uninsured.** The affordability of coverage is the greatest barrier to obtaining health coverage today, and the majority of uninsured individuals in Illinois are low-income. An individual with an income at 200 percent of the Federal Poverty Level (\$21,780) without access to employer insurance today would have to pay 19 percent of income to obtain insurance. For a family, the percentage is even higher.

Background Research Report:

Impact of the ACA

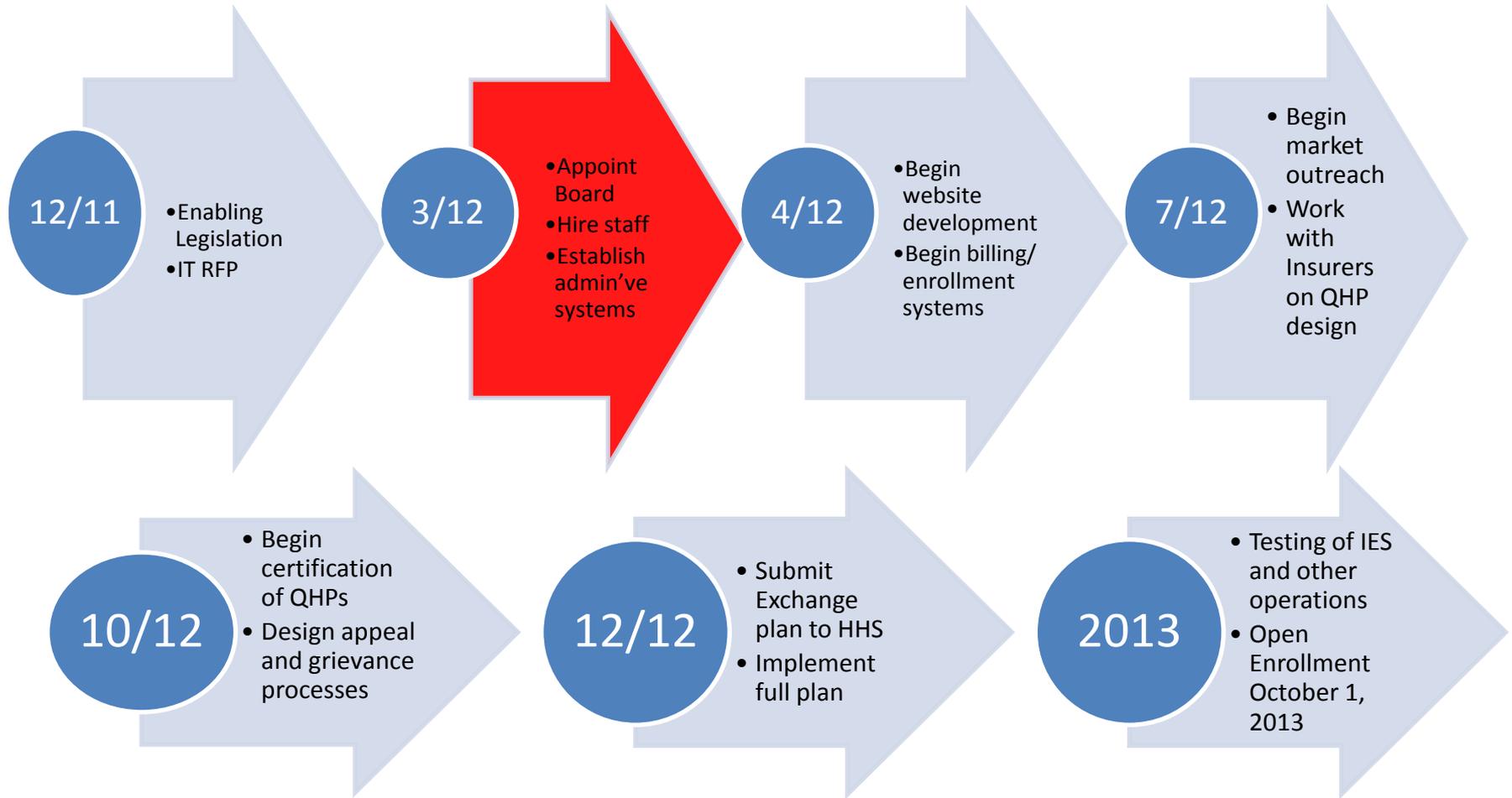
- **Initial impact of the ACA.** About 900,000 currently uninsured will have health insurance coverage by 2015. (The remaining uninsured will be primarily those who do not seek coverage or are undocumented.)
- **More covered over time.** By 2020, 1.4 million Illinoisans projected to get coverage from Exchange and percentage of State residents without health insurance is projected to decrease from 12 percent in 2011 to 7 percent in 2020.
- **Longer-term Medicaid growth is modest.** Medicaid enrollment as a share of the State population is projected to increase by one percentage point, from 20 percent to 21 percent between now and 2020. Enrollment is estimated to increase significantly in 2014-15. However, overall Medicaid enrollment is expected to decline from 2015 through 2020 due to a projected future economic recovery.
- **Success of an Exchange.** Depends on the Exchange's Efficiency and Effectiveness.

Minimum Exchange functions are substantial.

It takes time to design, develop, test and launch a successful Exchange

- Eligibility determination
- Online shopping
- Enrollment, billing, and collections
- Customer service
- Producer management
- Navigator management
- Plan specification and qualified health plan management
- Communications and outreach
- Financial management
- Oversight, governance, and program evaluation
- Mandate certification and eligibility appeals
- Consumer protections
- Reporting for federal and state oversight

Timing is a principal challenge.



Exchange functions will need to be developed or purchased.

- **Existing Technical Infrastructure.** Offers limited functionality that could be adapted or expanded to serve the Exchange.
 - Virtually every other state faces this same problem.
- **Illinois infrastructure development** can adopt any combination of strategies to build or purchase functionality, including:
 - Internal Development (by Exchange staff).
 - External Vendor Procurement.
 - Early Innovator State Products.
 - Commercial Off the Shelf Solutions (COTS).

Outreach and Education are Crucial Activities.

- **Think Broad-based & Strategic.** Effective outreach and educational activities are essential to garner a large and diverse risk-pool.
- **Scope of Navigator Program.** Strategic use of authorized individuals who will help Illinois residents learn about their health insurance options and assist them with enrollment through the Exchange (Navigators) play an important role in supporting outreach initiatives and in identifying key populations.
- **Role of Producers and Impact on Financing.** Producers also play a key role in the market. Having the same outreach and educational objectives, there exists the ability to integrate roles.

Exchange Start-up Costs, 2011 through 2013

(Paid for with Federal Grant Funds)

- From October 2011 through December 2013, the report estimates cumulative total expenses of \$92.3M, broken down as follows:
 - \$75.0 million, or approximately 80% of the total, for Systems Development and Support:
 - \$45.4 million estimated for the eligibility determination and enrollment system;
 - \$15.8 million for a website;
 - \$9.6 million to develop a customer service call center; and
 - \$4.1 million for a premium-billing system
 - \$17.3 million for Program Operations, with 94% of projected expenditures falling into three expense categories: (1) Facility and Related of \$809,959; (2) Salary and Benefits of \$8.4 million; and (3) Consulting and Professional Support of \$7.0 million.

Exchange Operating Costs (2015)

- **Operating Expenses.**
 - In 2015, expenses are estimated to be between \$57 million and \$89 million, or between \$9 and \$13.50 PMPM, exclusive of any producer fees.
 - Operating costs per enrollee will decline as enrollment increases.
 - These measures compare favorably with existing benchmarks.
- **Financing Mechanism.** Numerous funding options exist:
 - If revenue is collected only from Exchange-participating plans, it would add between 2.2% and 3.3% to premiums, depending on enrollment scenarios.
 - For example, if the assessment is spread over the entire health insurance market, the surcharge percentage required to break even is closer to 0.3% in 2015.
 - Other revenue-raising options are possible.

Costs & Assessments: Comparison with CHIP

- **Annual Operating Costs.**
 - The projected 2015 assessment to fund the Exchange is in the range of \$57M.
 - The insurance industry's 2012 assessment for the State's existing high risk pool (CHIP) is \$57 million.
 - The CHIP pool will over time end as a result of the same law that creates the Exchange, and the industry may actually spend less to fund the Exchange in 2015 than it spends today to fund CHIP.
- **Per Member Per Month (PMPM) Cost.**
 - The expected PMPM cost to operate the Exchange is \$9 - \$13.
 - The current PMPM cost of operating the 30-person CHIP program is \$10.19, an amount in the middle of the predicted range to operate a 50-person exchange office.
- **Percentage Of Premium.**
 - The report's expression of these costs as the equivalent of 2.2 to 3.5 percent of premium assumes that the exchange's operating costs will be assessed against a small subset of Illinois' health insurance market.
 - CHIP does spread these costs across a larger base of insurers; if a larger base were adopted by the Exchange, the percentage of premium would be closer to .2% attributed to the operating costs of the Exchange.

Illinois has options for structuring small group market.

- States can expand small-group to 100 before 2016 (required by ACA after 2016).
 - Recommend that Illinois should not include employers with more than 50 employees in the Exchange before ACA requires in 2016.
- States can merge individual and small group markets.
 - Estimate is that rates and coverage in the individual market would likely increase significantly, and rates in the small-group market would likely decrease minimally.
 - Recommend that Illinois not merge the individual and small group markets immediately, and monitor markets after implementation.

Illinois has tools available to discourage adverse selection against the Exchange.

- **ACA Includes Some Protections.** The ACA offers several adverse selection protections (i.e. individual mandate, risk-adjustment, health plan requirements) but more should be considered:
 - Allow only Qualified Health Plans to sell catastrophic coverage, inside and outside of the Exchange; and
 - Require Qualified Health Plans to sell all tiers inside and outside of the Exchange.
 - Illinois should implement strategies to encourage employers to participate in the Exchange and stay in small-group instead of self-insuring.

The Basic Health Plan has benefits and risks that must be carefully considered.

- BHP is for population between 133 and 200% FPL, who would otherwise have been served in Exchange
- State receives 95% of what population would have received in subsidies – state runs program and takes risk that costs will stay within revenues
- **Financial modeling demonstrates wide variation in net state costs depending on premium level in exchange**

Favorable Considerations	Potential Trade-Offs
May simplify coverage and coordination	Uncertainty makes modeling difficult, increases risk
Mitigates movement between programs	Effect on remaining Exchange

The ACA requires resources for the Exchange and for state agencies.

- Regulatory resources: DOI activities related to the Exchange are substantial.
 - Premium rate review.
 - Administering and monitoring ACA risk sharing programs.
 - Consumer assistance and external review.
 - MLRs and other non-group/small group reforms.
- Operational capacity: increased Medicaid caseload cannot be handled with existing staffing levels in DHS and HFS given existing business processes.
 - Enhanced program integrity measures from the 2011 Illinois Medicaid reform law.
 - Recommend a focus on improved business processes as a component of the overhaul of Integrated Eligibility System development.

Illinois Has a Strategy for a State-of-the-Art Eligibility System

- Use expanded Medicaid match and Exchange grants to fund bulk of replacement of 30-year old Illinois system.
- Integrated Eligibility System (IES) Vision split into two phases.
 - October 2013 highlights:
 - Integrated Eligibility for Exchange and Medicaid, possibly SNAP (Food Stamps) and TANF (cash assistance).
 - Consumer friendly “Front Door Portal” and implement ACA required technology – No Wrong Door.
 - Leverage existing enrollment, case management, and benefits.
 - October 2015 new system:
 - New enrollment, case management, and benefits systems, including SNAP and TANF.
 - Centralized client data base and MMIS integration.

IES Development: Next Steps

- Contract to move to requirement definition phase pending approval.
- RFP for Project Management Office in process (RFP written and awaiting State and Federal approval).
- Need to post RFP for system implementation by early 2012 (including Federal approvals).
- Plan and implement technology infrastructure.

Exchange Planning and Establishment: Immediate Steps

- To qualify for ongoing Federal Funds, enact Exchange enabling legislation, which must include:
 - Governance structure
 - Financing mechanism

Exchange Planning and Establishment: Other Steps

- Develop and post RFP for Exchange operating information systems.
- Proceed with development of Integrated Eligibility System.
- Proceed with ongoing research and options analysis.
 - Navigators.
 - QHP Certification Planning.
 - Risk Sharing.
 - Basic Health Plan.
 - Monitoring federal guidance.
- Seek better information on small business needs.