

**ALABAMA HEALTH INSURANCE EXCHANGE
STUDY COMMISSION RECOMMENDATIONS**

ALABAMA DEPARTMENT OF INSURANCE

NOVEMBER 2011

Alabama Health Insurance Exchange Study Commission Recommendations

PREFACE

As it is estimated that 16.5 percent (670,000) of Alabamians under the age of 65 are uninsured, the Alabama Department of Insurance (DOI) initiated a planning process in 2011 to assess options for the development of an Alabama Health Insurance Exchange that would meet the State's unique needs.

Through a grant from the U.S. Department of Health and Human Services, the DOI engaged LMI, a nationally recognized non-profit research, policy, and consulting firm, to solicit stakeholder input and conduct a series of studies, analyses and reports.

On June 2, 2011, Governor Robert Bentley issued Executive Order Number 17 to establish the Alabama Health Insurance Exchange Study Commission (the "Commission"). This Commission was charged with making recommendations to the Governor and Legislature by December 1, 2011 on the following:

1. Whether to create the Alabama Exchange within an existing governmental agency, as a new governmental agency, or as a not-for-profit private entity
2. The make-up of a governing board for the Alabama Exchange
3. An analysis of resource needs for operating and sustaining the Alabama Exchange
4. A delineation of specific functions to be conducted by the Alabama Exchange; and
5. An analysis of the potential effects of the interactions between the Alabama Exchange and relevant insurance markets or existing health programs and agencies including Medicaid and Public Health.

The Commission held five meetings beginning on September 16, 2011 with an organizational meeting which included remarks by Governor Bentley and guidance from the two Commission co-chairs, Representative Jim McClendon and Senator Greg Reed. Governor Bentley also introduced Richard Fiore as the Executive Director of the Alabama Health Insurance Exchange.

In making his charge to the Commission, Governor Bentley stated:

“Every Alabamian deserves access to affordable health insurance. My vision for the Alabama Exchange is to improve the health of our citizens by providing them with a gateway to purchase health insurance that best fits their needs while also promoting competition among health insurers. This insurance exchange will enable us to better manage the cost of health care while also providing Alabamians with more affordable choices for health insurance coverage.”

On October 7, 2011, the Commission held an Educational Session where LMI provided background information to help guide the decisions the Commission must make regarding an Alabama Health Insurance Exchange. The session covered the following topics:

- ◆ Current and future sources of health insurance coverage in Alabama

- ◆ Role and structure of the Alabama Exchange
- ◆ Stakeholder views on the Alabama Exchange
- ◆ Alabama’s current insurance market
- ◆ Exchange functions

The Commission held three additional meetings in October and November to review specific options related to the structure and governance of an Alabama Exchange and the specific functions and associated costs for operating and sustaining this Exchange. This report summarizes the recommendations adopted by the Commission during its deliberations.

The members of the Study Commission are listed below:

Table 1.

Commission Member	Seat	Appointed by
Richard Brockman	Alabama Nursing Home Association	Alabama Nursing Home Association
Grace Bush	Consumer	Governor
Noel Carden	Non-Profit Insurers	Speaker of the House
Craig Christopher, M.D.	Physician Providers	Medical Association of the State of Alabama
Rosemary Elebash	Small Business Community	President Pro Tempore of the Senate
Jim McClendon, O.D.	Chair of the House Health Committee	Ex-officio member
R. Bob Mullins, M.D.	Medicaid Commissioner	Ex-officio member
Ron Perkins	Business Community	Speaker of the House of Representatives
Greg Reed	Chair of the Senate Health Committee	Ex-officio member
Jim Ridling	Insurance Commissioner	Ex-officio member
Shane Spees	Alabama Hospital Association	Alabama Hospital Association
Deborah Tucker	Consumer	Governor
Margaret Whatley	Finance Director Designee	Ex-officio member
Bart Yancey	For-Profit Insurer	Governor
Thomas Younger	Independent Insurance Agents of Alabama	President Pro Tempore of the Senate

SUMMARY OF COMMISSION DELIBERATIONS AND RECOMMENDATIONS

This report summarizes the discussions and recommendations taken by the Commission on the following topics related to the Governor's charge:

- ◆ Exchange role and structure
- ◆ Governing Board composition
- ◆ Interactions between the Alabama Exchange and the insurance market
- ◆ Interactions between the Alabama Exchange and Medicaid and ALL Kids
- ◆ Exchange functions and resource needs

Exchange Role and Structure

The first choice facing the Commission was whether to recommend that the State establish its own Exchange or, alternatively, have the federal government operate a federally facilitated exchange in Alabama—which under the Patient Protection and Affordable Care Act (ACA) the federal government will do if the State fails to establish its own exchange. **The Commission unanimously voted to recommend that the State establish its own Exchange.**

The Commission then considered the following three types of exchanges that could be developed for Alabama:

- ◆ *Free Market Facilitator*, where an exchange would allow any insurer to offer qualified health plans (QHP). Under this option, the exchange acts as an impartial source of information; provides structure to the market to enable consumers to compare health plans based on relative value; administers premium subsidies; and serves essentially as a broker of health insurance.
- ◆ *Selective Contracting Agent*, where an exchange plays a more active role in the marketplace, contracting with a limited number of insurers offering a select group of QHPs. In this model, the exchange could require that QHPs meet additional criteria, beyond the minimum established by the federal government.
- ◆ *Active Purchaser*, where an exchange acts more like a large purchaser of health insurance. This model assumes the exchange will cover a large and broad risk pool that enables insurers to offer competitively priced plans.

The Commission unanimously voted to recommend that the Alabama Exchange use a free market facilitator model.

The ACA requires the establishment of a Small Business Health Options (SHOP) Exchange to serve small businesses and an Individual Exchange to serve the individual marketplace. The

Commission discussed whether to establish one administrative entity for both Exchanges or to establish separate entities to administer each Exchange. **The Commission unanimously voted to recommend that the State establish one administrative entity to oversee both Exchanges.**

Further, to emphasize the unique features of the Alabama Exchange, the Commission unanimously voted to recommend that the Exchange be called the Alabama Health Insurance Marketplace.

The Commission considered the following four governance options for an Alabama Exchange:

- ◆ Existing state agency
- ◆ New state agency
- ◆ Quasi-public authority
- ◆ Non-profit organization

The Commission discussed that while creating a new state agency would provide a single-minded focus on exchange activities, it might contradict the State's preference for smaller government and would entail the inevitable challenges associated with establishing a new state agency. The non-profit organization option might provide more flexibility than other models, but it would also face significant challenges associated with establishing a new organization and would lack the authority to receive federal funds and conduct regulatory oversight of health plan performance. Utilizing existing state agencies was also discussed. The two agencies suggested for consideration were the Department of Insurance and the Alabama Medicaid Agency. While these agencies have considerable experience in various functions associated with operating an exchange, these new responsibilities would create significant resource stress. The quasi-public authority would have the ability to directly receive federal funds and could contract with existing state agencies for selected functions. This option avoids potential conflicts between the Department of Insurance as an insurance regulator and as an exchange facilitator. It also avoids any perceived stigma of the exchange as a welfare agency. This option would also satisfy many stakeholders who expressed a strong preference for the Alabama Exchange having some independence from direct state governmental control.

LMI recommended that the two best options for Alabama would be to establish the Alabama Exchange in either an existing state agency or in a new quasi-public authority. The advantages and disadvantage of these two options were discussed by the Commission. **The Commission voted unanimously to recommend that Alabama establish a new quasi-public authority to operate its Exchange.**

Governing Board Composition

LMI presented options regarding the size of the Board and the balance of expertise and stakeholder representation. To meet ACA requirements concerning Board composition, Alabama would need to limit stakeholder representatives to constitute less than a majority of the total number of Board members. LMI noted that this board should be small enough to allow deliberative decision making, but be large enough to have sufficient and diverse expertise and to facilitate discussion with differing points of view.

Noting the importance of having strong linkages between the Exchange board and State agencies to coordinate goals, strategies, and programs, LMI suggested that key State agency representatives be voting members of the Exchange governing board, consistent with the State's interest in the overall success of this body.

Because the operation of an exchange will be a complex undertaking, LMI recommended to the Commission that the Board have a broad range of expertise. The duties that the exchange must undertake include those related to certifying the qualified health plans that will serve both the SHOP and individual exchanges, administering eligibility for premium credits and subsidies, establishing consumer outreach channels and assistance, and overseeing an appeals process. The state, through the DOI, will also administer risk adjustment and reinsurance programs.

These areas of expertise include:

- ◆ Understanding of health insurance and the challenges insurers face in serving both the small group and individual markets
- ◆ Understanding of the types of health benefits generally offered in various health insurance markets including the small group, individual and large group markets
- ◆ Understanding of the challenges individuals and small employers face in making decisions about coverage options that best meet their needs
- ◆ Understanding of the benefits and eligibility of Medicaid and ALL Kids and the interactions between these programs and the new Alabama Health Insurance Exchange
- ◆ Understanding of marketing, outreach and enrollment strategies for small firms and individuals
- ◆ Understanding of information technology including privacy and security of protected health information
- ◆ Financial management

Given the importance of having both expertise and stakeholder representation, LMI recommended that a broad range of stakeholders be represented on both the governing board and advisory committees.

The Commission unanimously voted to recommend that the following representatives should be considered for inclusion as either voting or advisory members on the Board:

- ◆ Alabama Department of Insurance
- ◆ Alabama Medicaid Agency
- ◆ Alabama Department of Public Health
- ◆ Non-profit insurer
- ◆ For-profit insurer
- ◆ Providers
- ◆ Insurance brokers and individual agents

- ◆ Small business
- ◆ Large business
- ◆ Legislators
- ◆ Consumers
- ◆ Subject matter experts including actuaries, accountants and information technology

Interactions between the Alabama Exchange and the Insurance Market

The Commission reviewed the effect of the Alabama exchange on the insurance market and existing health programs and agencies including Medicaid and Public Health (ALL Kids). LMI reported that as many as 500,000 Alabamians may be likely to purchase coverage through the exchange’s individual market, while approximately 600,000 Alabamians may be able to purchase coverage in the SHOP exchange through their employer. Tables 2 and 3 below show the predicted enrollment in these two exchanges with either low, moderate or high participation rates:

Table 2. Enrollment Estimate—Individual Exchange

Enrollment estimate	Percentage of eligible members	Estimated membership
Low enrollment	40	200,000
Moderate enrollment	60	300,000
High enrollment	80	400,000
Total potential pool	100	500,000

Table 3. Enrollment Estimate—SHOP Exchange

Enrollment estimate	Percentage of eligible members	Estimated membership
Low enrollment	1	6,000
Moderate enrollment	5	30,000
High enrollment	10	60,000
Total potential pool	100	600,000

As part of these discussions, the Commission considered whether to recommend a single or combined risk pool for the individual and small group market segments. LMI reported from its studies of the current insurance market that the current individual market in Alabama is approximately 50-60 percent of the size of the current small group market. After ACA reforms take effect, the individual market is expected to have a risk profile similar to the small group market. The market merger that could result would likely produce a relatively small increase in the average small group market premium and a small decrease in the average individual market premium over what they would be otherwise.

LMI noted that most states implementing a health insurance exchange have elected to keep these risk pools separated to help reduce the amount of market destabilization that is expected to occur as a result of the ACA. **The Commission unanimously voted to recommend that the two risk pools remain separate.**

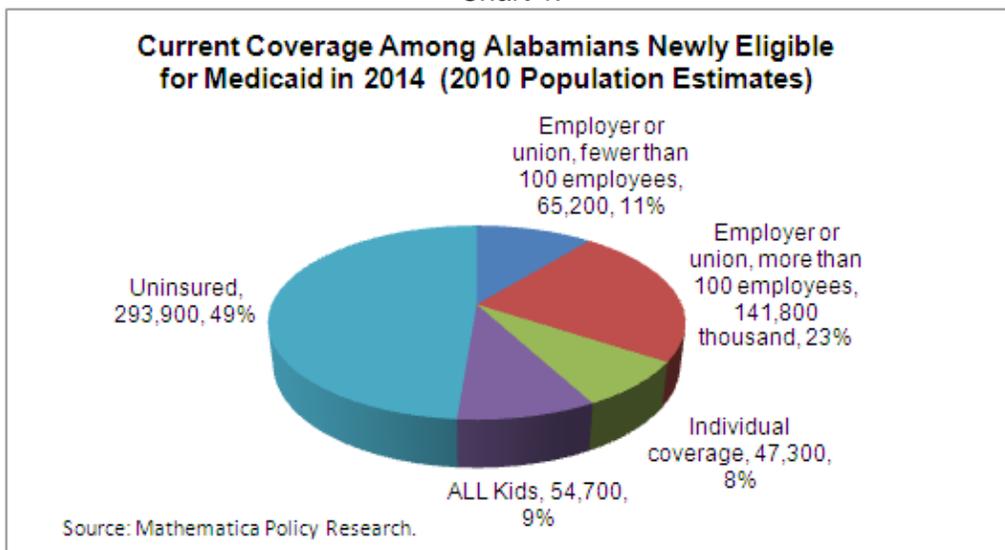
The Commission also considered whether to keep the definition of “small employer” as 2 to 50 employees as currently defined under Alabama law (Ala. Code 27-52-21(c)). LMI reported that in 2010, the estimated size of the 2-50 market in Alabama was 598,600 employees and the 51-100 market was 158,500 employees. Beginning on January 1, 2016, the ACA mandates states must define “small employer” to include employers with up to 100 employees. However, the ACA allows states to elect to maintain their existing definition of small employer until that time. **By a vote of 10-2, the Commission recommended keeping the definition of small employer as it currently reads under Alabama law (between 2-50 employees) until 2016 when the definition is required to change under the ACA.**

Interactions between the Alabama Exchange and Medicaid and ALL Kids

The Commission also reviewed the effect of an Alabama Exchange on the existing agencies Medicaid and Public Health (ALL Kids).

LMI reported the population of adults enrolled in Medicaid will increase significantly. Among those newly eligible for Medicaid (nearly 603,000 Alabamians under age 65), nearly half (49 percent) are uninsured, 38 percent are enrolled in employer coverage at least part of the year, 9 percent are enrolled in private individual coverage, and 9 percent are children currently enrolled in ALL Kids (see chart 1 below). Extending Medicaid to additional low-income Alabamians will address the longstanding problem of workers who are either not offered employer coverage or who are likely to lose employer coverage when they change or lose their jobs. It could also address the problem of underinsurance among low-wage workers, even when insured.

Chart 1.



Income fluctuations among low-income individuals and families at or near poverty are likely to make many low-income Alabamians alternately eligible for Medicaid and fully subsidized coverage through the exchange during the year. Nearly 243,000 Alabamians under age 65 (those in families with income from 139% to 200% FPL) will be eligible to enroll in the exchange, but at risk of becoming eligible for Medicaid during the year. Conversely, many Alabamians who are currently enrolled in small group or individual coverage might lose or drop that coverage and enroll in Medicaid.

In light of the potentially high flow of population between Medicaid and private coverage, LMI recommended that the Exchange and Medicaid integrate eligibility determination for Medicaid and the Exchange.

Effects on ALL Kids in 2014 will be relatively minimal. While some children who are currently eligible but not enrolled might become enrolled, ALL Kids will lose enrollment as approximately 55,000 children who are currently enrolled become eligible for Medicaid and transition into that program.

Exchange Functions and Resource Needs

To assist the Commission with deliberations related to exchange resource needs, LMI identified the functions required of an exchange, which will ultimately drive the exchange's costs and staffing requirements. The overarching functions required of an exchange include eligibility determination, health plan enrollment, and outreach and marketing. A detailed list includes the following:

1. Determine eligibility for individual market subsidies, and coordinate with Medicaid and ALL Kids
2. Certify qualified health plans
3. Establish call center and customer service unit
4. Enable people to shop for insurance through multiple channels (i.e., web, phone, mail, walk-in)
5. Provide consumers with decision-support tools
6. Develop premium rating engine and enrollment system
7. Rate health plans based on cost and quality
8. Establish and maintain exchange web portal
9. Coordinate premium billing, collection and remittance for the SHOP (small employer) exchange, and possibly the individual exchange
10. Develop financial management and financial sustainability plan
11. Certify exemptions under the individual mandate and report information to federal agencies

LMI recommended that the State establish a single, streamlined eligibility determination process for Medicaid and ALL Kids and for subsidies offered through the Alabama Exchange. This will require Medicaid and ALL Kids to modify their information technology (IT) systems and infrastructure. These changes may also require additional staff to process the increased number

of applications and handle eligibility appeals and inquiries. LMI estimated the cost to administer eligibility to be between \$15 to \$20 per enrollee per year, not including expenses associated with modifying and enhancing the State’s current eligibility system. This cost range is driven by anticipated participation in the Exchange—larger enrollment implies larger total costs, but lower costs per enrollee.

The largest ongoing expense for the Exchange will be the infrastructure and resources needed so people can shop for insurance, compare health plans, and enroll in coverage. Enrollment services include a web portal, health plan comparison and decision support tools, call center and consumer assistance, and a premium rating engine, among others. LMI estimated that upfront investments could range from \$10 million to \$15 million. “Off the shelf” vendor tools to accomplish these tasks will be less costly initially, but will require greater maintenance costs over time. Ongoing operations and maintenance may range from \$6 to \$10 per member per month, depending on the volume of enrollment.

An aggressive and sustained outreach and marketing campaign will be critical to assuring robust enrollment in the exchange. The ACA also requires the exchange to provide grants to Navigators—entities responsible for apprising people of health coverage options and helping individuals enroll in coverage. LMI anticipated that the annual cost for outreach and marketing range from \$3 million to \$5 million, including media buys, as well as support for community-based outreach efforts (e.g., Navigators).

To perform these functions and meet the requirements of the ACA, LMI estimated that the Alabama Exchange will need 25 to 30 employees, collectively costing approximately \$2.5 to \$3.0 million. Office space and general supplies will add another \$200,000 to \$400,000.

The total cost to operate the Alabama Exchange in 2015 is estimated to cost between \$34 and \$49.6 million, as summarized below in Table 4. To develop its cost estimates for operating the Alabama Exchange, LMI used estimates for eligibility determination and health plan enrollment. LMI estimated that Alabama Medicaid will incur between \$15-20 for the annual cost per enrollee for the eligibility determination function. For the cost estimate presented in Table 4 below, LMI used the mid-point of this range or \$17.50. For the health plan enrollment function, LMI used a monthly per enrollee estimate that is projected to decline from \$10 for the low enrollee estimate to \$6 for the high enrollee estimate.

Table 4. Exchange Administrative Cost Estimate—Calendar Year 2015

Budget category	Estimates: 2015		
Enrollment Individual and SHOP	Low: 206,000	Medium: 330,000	High: 460,000
Eligibility determination			
Annually per enrollee	\$17.50	\$17.50	\$17.50
Annual total	\$3,605,000	\$5,775,000	\$8,050,000

Table 4. Exchange Administrative Cost Estimate—Calendar Year 2015

Budget category	Estimates: 2015		
Enrollment Individual and SHOP	Low: 206,000	Medium: 330,000	High: 460,000
Health plan enrollment			
Monthly per enrollee	\$10.00	\$8.00	\$6.00
Annual total	\$24,720,000	\$31,680,000	\$33,120,000
Outreach and marketing	\$3,000,000	\$4,000,000	\$5,000,000
Exchange staff	\$2,500,000	\$2,750,000	\$3,000,000
Facilities	\$200,000	\$300,000	\$400,000
Total estimated cost			
Annual total	\$34,025,000	\$44,505,000	\$49,570,000
Monthly per enrollee	\$13.76	\$11.24	\$8.98

LMI advised that financial resources needed to plan, implement and operate the Alabama Exchange during the first year of operations—which commences with open enrollment in October 2013 and runs through the end of December 2014—will be available through cooperative agreements administered by the federal Center for Consumer Information and Insurance Oversight (CCIIO) within the Centers for Medicare and Medicaid Services (CMS). Pursuant to ACA, a state “shall ensure that such exchange is self-sustaining beginning on January 1, 2015, including allowing the exchange to charge assessments or user fees to participating health insurance issuers, or to otherwise generate funding, to support its operations.”¹ By January 2015, Alabama—and all other states that choose to operate an exchange—must have a funding mechanism in place to support all future exchange operations.

The Commission considered the following funding sources as options to sustain the Alabama Exchange.

1. Alabama general fund
2. Assessments on hospitals and other providers
3. Assessments on all insurers selling health insurance in Alabama
4. Assessments on all products sold in the small group and individual markets, including those sold inside and outside the Exchange
5. Assessments on the small group and individual products sold through the Alabama Exchange

The Commission eliminated the first three options focusing on how the cost of this Exchange could be supported by assessments on the products sold through either Option 4 or Option 5. Table 5 provides estimates of fees applied to all individual and small group enrollees, obtaining coverage both inside and outside the Exchange, and Table 6 provides estimates of exchange fees if they are applied to Exchange enrollees only.

¹ Section 1311(d)(5)(A) of the Patient Protection and Affordable Care Act.

Table 5. Exchange Financing Options—Fees Applied to All Individual and Small Group Enrollees

	Low estimate	Medium estimate	High estimate
Estimated Exchange enrollment (members)	206,000	330,000	460,000
Estimated non-Exchange individual and small group enrollment (members)	826,000	826,000	826,000
Total estimated individual and small group enrollment (members)	1,032,000	1,156,000	1,286,000
Total estimated administrative costs	\$34,025,000	\$44,505,000	\$49,570,000
Estimated monthly cost per enrollee	\$2.75	\$3.21	\$3.21
Estimated monthly cost per subscriber (2 enrollees per subscriber)	\$5.50	\$6.42	\$6.42

Table 6. Exchange Financing Options—Fees Applied to Exchange Enrollees Only

	Low estimate	Medium estimate	High estimate
Estimated Exchange enrollment (members)	206,000	330,000	460,000
Total estimated administrative costs	\$34,025,000	\$44,505,000	\$49,570,000
Estimated monthly cost per enrollee	\$13.76	\$11.24	\$8.98
Estimated monthly cost per subscriber (2 enrollees per subscriber)	\$27.52	\$22.48	\$17.96

Note that the total administrative costs calculation outlined above assumes that an exchange will be responsible for collecting the premium from the insured and the insured’s subsidy from the Federal government for enrollees in an individual exchange. This function must be performed by an exchange for enrollees in a SHOP exchange, but the State has the option to perform this function in the individual exchange. If the Alabama Exchange elects not to perform this function for the individual Exchange, total administrative costs could drop considerably. We anticipate the monthly health plan enrollee cost to range from \$3 - \$5, rather than \$6 – \$10. This would result in estimated annual costs ranging from \$21.7 to \$33 million rather than \$34 to \$49.6 million based on enrollment level.

By a vote of 9-6, the Commission recommended that the Exchange be funded through Option Four which would assess all products sold in the small group and individual markets, including those sold inside and outside the Exchange. By a unanimous voice vote, the Commission noted that the Commissioners voting “no” supported Option Five, an assessment on only those small group and individual products sold through the Alabama Exchange.

CONCLUSION

In summary, the Study Commission made the following recommendations pertaining to the establishment of the Alabama Health Insurance Marketplace:

- ◆ That the State of Alabama should establish its own Exchange
- ◆ That the Alabama Exchange use a free market facilitator model
- ◆ That the State establish one administrative entity to oversee both the small business and individual Exchanges
- ◆ That the State's Exchange be called the Alabama Health Insurance Marketplace
- ◆ That the State should establish a new quasi-public authority to operate its Exchange
- ◆ That the following representatives should be considered for inclusion as voting or advisory members on the Board:
 - Alabama Department of Insurance
 - Alabama Medicaid Agency
 - Alabama Department of Public Health
 - Non-profit insurer
 - For-profit insurer
 - Providers
 - Insurance brokers and individual agents
 - Small business
 - Large business
 - Legislators
 - Consumers
 - Subject matter experts including actuaries, accountants, and information technology
- ◆ That the small business and individual risk pools remain separate
- ◆ That the definition of small employer as it currently reads under Alabama law (2 to 50 employees) be kept until 2016 when the definition is required to change under the ACA to include employers with up to 100 employees.
- ◆ That the Exchange be funded through assessments on all products sold in the small group and individual markets, including those sold inside and outside the Exchange.

The Commission thanks the Governor for this opportunity and respectfully submits this report.