

Assistance for States Applying for Federal Planning/ Establishment Grants for Exchanges

Prepared for State Coverage Initiatives by Jon Kingsdale and Patrick Holland

In an effort to assist states in completing the application for the State Planning and Establishment Grants for the Affordable Care Act's Exchanges, this document suggests examples of the type of information, analyses, and planning activities that states might include as fundable elements of their grant applications. This guidance is based on the experience of Jon Kingsdale and Patrick Holland, who were instrumental in developing the Massachusetts Health Connector, and their reading of the publicly available guidelines from HHS. It relates solely to the project narrative and budget elements of the application.

For each section required under the Project and Budget Narrative, relevant empirical data needs, market assessments, key stakeholders and/or analyses have been identified. Each state will need to carefully evaluate its own needs and circumstances. This guidance is not intended to be a comprehensive list, but should help states in beginning to develop their grant applications.

Project Narrative Section

Project Leadership and Management (Not a section of the grant application)

To oversee the analyses described below and much of the rest of the project, a state should designate someone and/or appoint an inter-agency work group representing some or all of the following: Department of Health, Medicaid, Division of Insurance, Department of Bus/Econ Development, Office of Consumer Protection, Dept of Revenue, legislative leadership/staff, and/or the governor's office. A dedicated staff person to oversee the planning process and assure that all required activities occur in a timely fashion would be optimal.

Background Research on the State

A significant part of a state's planning process will be to analyze the health insurance market (population by insurance status and source of funding, insurance products, pricing and carriers) and should include the creation of new data, as well as a compilation and analysis of existing data. Compilation of a reasonably complete dataset will help inform economic and actuarial modeling, strategy for an exchange, future planning projects, and policy decisions.

Examples of the data and analytical needs and modeling of such information include:

1. Research and analysis on existing data sources such as the Current Population Survey (CPS) and the Medical Expenditure Panel Survey (MEPS) as well as state Division of Insurance filings.

These data sources will assist in understanding the number of people in each insurance type, as well as small business offerings and premium levels.

2. Creation of new data sources such as a survey of the health insurance carriers to determine plan designs being sold in the market, premium levels of such plan designs, and size of the market segments (uninsured, non-group, small group).
3. Economic and actuarial modeling to project trends such as the number of newly insured, impact of certain market changes on premium levels and cost/savings to the state budget.
4. Economic and actuarial modeling of various policy issues contemplated by a state such as: development of a Basic Health Plan, merging of the non-group and small group markets, changing Medical Loss Ratio (MLR) requirements in the non-group/small group markets per PPACA, and expanding the definition of the small group market.
5. Development of a financial model for the exchange including break-even analysis, level of administrative surcharge, cash-flow modeling, etc.

Stakeholder Involvement

Typical stakeholders, in addition to work-group agencies, are: patient/consumer advocates, medical society and hospital associations, safety-net providers (community health centers & public hospitals), health insurers, brokers/agents, employer/business associations (esp. small employers), unions, and small-employer intermediaries or general agents. Two steps that may be helpful to pursue and include in the proposal are:

- 1) to lay out a schedule and plan for working with stakeholder groups through a series of meetings, to inform and educate them about reform and options for exchanges, to identify their concerns and issues, and to solicit their advice and input on such issues; and
- 2) to solicit letters of interest and participation in this process from such groups, as part of the state grant application.

Program Integration

Areas of program integration may include: (a) eligibility determination; (b) consumer protection; (c) premium regulation; (d) choice and enrollment into health plans offered by the state to Medicaid beneficiaries; (e) choice and enrollment into health plans offered to kids through CHIP; (f) choice and enrollment into health plans for state employees; (g) choice and enrollment in health plans by other state-only financed programs; and (h) health information exchanges. This planning process presents an opportunity to identify such programs and commit to exploring potential synergies between the existing state agencies responsible for these functions and the newly formed insurance exchange. Other potential integration opportunities relate to the option for state Medicaid programs to build a Basic Health Plan option under PPACA, and/or the opportunity for a state to consider wrapping into its exchange (or coordinating eligibility for) existing programs for premium subsidies, unemployment assistance with health coverage, and/or uncompensated care funding.

Resources and Capabilities

Due to the tight timelines in planning for an exchange, and a lack of resource capacity in many states due to the depth of budget deficits, it is likely that many states will initially purchase much of the professional support required in the execution of specified planning activities. However, it is important for states to begin to develop internal capability and capacity in the development of exchanges, so it may be prudent to identify some funding for the hiring of personnel. Skills and tasks required of staff personnel in this planning stage include project management, communications, developing and writing Request for Proposals (RFPs), managing consultants, research and analysis, and facilitating inter-agency workgroups. States should also consider the opportunity to pull personnel from different agencies, such as Insurance, Medicaid, and/or Consumer Protection, as a way of bringing diverse perspectives to the initial planning tasks; the use of high-level interns may also serve as a potentially cost-effective way of increasing resource bandwidth.

Governance

PPACA lists a number of choices for the exchange's governance structure, and any such analysis should probably begin with an assessment of these three state options:

- Ceding this function to the federal government;
- Joining with other states in a regional exchange; or
- Setting up its own exchange(s).

The first option makes the rest of this exercise moot. The second option probably requires setting up a semi-independent authority that can be responsive to multiple states. Consideration of a multi-state exchange should entail analysis of market size and interaction among the states, commuting and other cross-border travel patterns, similarities and differences in insurance regulation among the states, political affinities/differences among the states, and the identification of other states with a strong interest in regionalizing their exchange.

For a state that decides to move forward on its own, there are additional options for locating and governing the exchange. One analytic input into this decision would be to specify the kinds of expertise and programs expected of an exchange and then compare against this functional list the expertise and programs already being operated by existing state agencies (Medicaid, Insurance Department, Business Development, etc.) Analysis of the current level of flexibility and nimbleness regarding state procurement and personnel rules within state agencies should also be considered when determining where to locate the exchange. Recommendations coming out of this analysis should be specified as a major output of the planning process supported by this grant, leading to legislative authorization for the exchange, if that is the recommended course.

Finance

Areas of planning for a finance and analytic function include identifying systems to ensure the handling and safeguarding of cash collections, reconciliation of premium tax credits and cost sharing subsidies,

selection of an accounting system including a general ledger, payroll, accounts payable and accounts receivable functions, and a financial management and reporting tool. Other areas include identifying external audit/accounting support to determine the proper accounting treatment of various exchange transactions, the development of a system of internal controls, and the development of financial statement reporting for disclosure to the public.

Other areas that should be covered in the grant application include specific resources to support external financial and operational audits, including the development of accurate and timely financial and operational metrics for public reporting.

Additionally, planning for the finance area needs to include an assessment of the technical requirements such as the appropriate accounting system, servers, warehousing of data, and data security, as well as the hiring of specialized accounting and finance personnel due to the complexity of the public/private hybrid of an exchange.

Technical Infrastructure

Determining the status of existing computer and technical systems will be one of the first priorities for most states. Taking inventory of functioning call centers, state Medicaid eligibility and enrollment systems, web sites and other existing state infrastructure that can be leveraged by the exchange will be a cost-effective approach in determining additional needs for the exchange. A gap analysis identifying current capabilities compared to the functional requirements of an exchange will inform future resource and financial needs.

In addition, states will also need to research, analyze, and assess the capabilities of vendors and the cost effectiveness of “make” or “buy” decisions, especially in the areas of call centers, and premium billing functions, as many states may have the option of working with existing entities in their states such as intermediaries or call centers that could add the additional scale of an exchange at low marginal cost, or build a customized solution tailored specifically for the exchange.

Business Operations

Business operations are a broad area that should cover topics important to a state that are not specifically identified in other sections. Analyses that could be performed by states to inform this area include the level of take-up for the purchase of insurance through the exchange; the administrative fee necessary for self sustainability after 2014 based on various take-up levels; development and implementation of decision-support tools for consumers; the development of an overall organization chart; and the ideal footprint for the exchange. States should also begin the assessment of physical space for the exchange and whether or not the exchange will be located within an existing agency or new space is required. States could also identify options to be developed for the assessment of how risk adjustment may be implemented inside and outside the exchange in a way that mitigates adverse selection against the exchange but does not disrupt the market outside the exchange.

A tangible product of assessing business operations should be the identification of (a) core capabilities needed to operate an exchange, and (b) critical risk factors to be managed. For example, core

capabilities will include the ability to determine eligibility and calculate cost-sharing for subsidized individuals; support choice and decision-making by customers; accurately price coverage for individuals, families and employer groups; support, track and manage customer service, and enrollment and renewal. Critical risk factors would include tracking and reporting tax subsidy flows, data security, lock-box functionality for premium collections, development of a system of internal controls, financial reporting, external audit readiness, integrity of third-party systems (SAS 70 compliance), and continuity of operations in case of a catastrophic emergency.

Regulatory or Policy Actions

All of the analyses above should feed into the development of legislation to authorize exchanges or a recommendation (and policy rationale) to forego this option. Companion legislative to reform the state's small-group and non-group insurance regulation will also be required and may be informed by some of these efforts. Some policy conclusions may not be appropriate for legislation, but can be presented to the governing body of the exchange(s) for its consideration.

An important element of the legislation will be how much restriction or freedom it provides to a newly chartered exchange, and what sort of policy direction it suggests. State exchanges may pursue various objectives as part of their efforts to enroll the uninsured and reform the insurance markets, such as:

1. maximizing federal revenues
2. minimizing administrative costs
3. maximizing public understanding and outreach to the uninsured
4. transforming the delivery of medical care
5. minimizing premiums
6. protecting safety-net providers

The planning phase provides a valuable opportunity to assess these strategic opportunities and begin to prioritize them.

Budget Narrative Section

The budget narrative section is to be no longer than three (3) pages and must include a detailed funding request for the grant period. The budget request should comport precisely to the project narrative section in that, for example, if a state is considering the purchase of survey data for the uninsured, the estimated purchase price of the database is noted. In addition, states will also need to carefully overlay their work plan and timeline in order to appropriately assess how much work can be completed, and the expected cost, in the grant period. Specific budget line items in addition to those specified in the grant application instructions may include the following:

- Completion of a market survey

- Purchase of market-based data
- Professional Services for:
 - Assessing existing eligibility determination systems relative to exchange requirements
 - Develop preliminary specifications for accounting/financial systems
 - Financial and funds flow modeling
 - Assessing insurance market

In addition, to assist states in developing a detailed budget application, we have created an illustrative budget identifying significant areas in which states will most likely need to spend grant funds. This budget is not meant to be all inclusive, or representative of the price of goods and professional services in your geographic area, but is illustrative to identify on a relative basis where grant funding may be applied.

Illustrative Budget Development					
Planning for American Health Benefit Exchanges					
	6-12 Month Budget Range		Footnotes	Internal Staff or Purchased Good or Svc	
	Low estimate	High estimate			
Dedicated staff	\$ 75,000	\$ 300,000	1.	Internal Staff	
Fringe benefits - dedicated staff	\$ 22,500	\$ 90,000	2.	Internal Staff	
Background research on state	\$ 255,000	\$ 420,000	3.	Purchased Svc	
Operational review	\$ 129,750	\$ 173,000	4.	Both	
Initial marketing research	\$ 50,000	\$ 75,000	5.	Purchased Svc	
Computers & Equipment	\$ 6,000	\$ 12,000	6.	Purchased Good	
Office supplies	\$ 500	\$ 1,000	7.	Purchased Good	
Informational sessions with stakeholders	\$ 15,000	\$ 15,000	8.	Purchased Good	
Travel to HHS/OCIO meetings	\$ 12,000	\$ 24,000	9.	Purchased Good	
Total estimated grant request	\$ 565,750	\$ 1,110,000			

Key Assumptions:

1. Need 4-6 dedicated staff. 2 Borrowed from existing state agencies. 2-4 new at \$75,000 avg. salary.
Type of tasks for dedicated staff include managing Consultants/Vendors; Organize communications; Dev. governance options; Identify/research program integration issues, facilitate inter-agency work, etc.
2. Assumed 30% Fringe Factor. See Federal instructions regarding appropriate factor to apply.
3. Background research on state including; Econometric modeling of Uninsured/NG/SG potential take-up; Merged Market Study.
Research Dept of Ins filings for Premium rates; Survey of carriers popular benefit designs; Carrier & Provider market competitiveness. Modeling size of Exchange; Premium Estimates; Detailed Budget Ranges; Model cost offsets (ex. Grants, Medicaid program, etc.)
4. Operational Gap Analysis; State Elig. Determination systems which can be leveraged; Dev of high level tech specs; etc.
Assumed between 519 to 692 hours at an average contracted rate of \$250/Hr.
5. Based on Econometric modeling begin dev of marketing & outreach activities.
6. Per Person set up of \$3,000. (Laptop Computer, Blackberry; phone usage; Printer)
7. Basic office supplies for 12 months.
8. 5 Informational sessions at \$3,000 per session (rental fees, collateral materials).
9. Four meetings at \$3,000/meeting for 1-2 FTEs.