

# Health Insurance Exchange Finance Work Group Funding Options Preliminary Report

The Finance Work Group reviewed nine funding options for potential sources to fund the Health Insurance Exchange. These included:

- Premium add-on or user fee
- Portion of premium for Qualified Health Plans sold in the Exchange
- Portion of premium for plans in the fully insured market
- Broad based health care market assessment
- Other broad based tax or sin tax with evidenced base health benefits
- General fund appropriation
- Health Care Access fund appropriation
- Other including advertisement, naming rights, and grants.
- Medicaid cost allocation

Please note the non-Medicaid options are in an order from a narrow base to a broad base and do not reflect an order of preference of the group.

The workgroups discussion of the non-Medicaid options is summarized in a set of [funding options tables](#). The tables include:

- Pros and cons of each option,
- Links of Exchange benefits to the source of funding,
- Alignment with the principles of equity, neutrality to the market, transparency, flexibility and simplicity and
- Comments from work group members on the source funding mechanism.

The comments reflect the variety of opinions on each funding option.

While the workgroup agreed that Medicaid should be part of the funding solution for the Medicaid costs associated with the Exchange, the Workgroup could not come to agreement on a funding mechanism for the non-Medicaid portion. Without having decisions on a governance structure, a more defined budget estimate and the unknowns of other impacts from the Affordable Care Act, specific recommendations on funding options and other financial issues such as cash flow and reserve needs could not be made. One member described the workgroup being in “a nexus of uncertainty” and therefore unable to reach consensus.

While a specific recommendation on how to fund the Exchange was not agreed to, there was agreement that multiple options should be used. There was also a general consensus that any premium percentage or premium add-on (user fee) mechanism be used to meet the balance of costs not met by the other resources.

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To the extent a percent of premium or a premium add-on is used to fund the Exchange, the workgroup members discussed two principles:

- The funding mechanism should maximize federal participation by including the fee in the calculation of the Advanced Premium Tax Credit (APTC).
- The funding mechanism should not cause a cost shift into other parts of the market.

Alignment of these principles with each other is difficult to assess due to uncertainties around these options. It is not clear if a premium add-on could be included in the APTC calculation. It is not clear how the use of a premium add-on is impacted by the federal requirement for premiums inside and outside the Exchange be the same for the same product. If the only way to include the Exchange fee in the APTC calculation is to include it as part of the premium and the premiums inside and outside the Exchange must be the same, the two principles are in conflict with each other.

To the extent premiums inside and outside the Exchange need to be the same, the costs of a portion of premium funding option will likely be spread across products of the broader market, therefore a cost shift. To address these uncertainties, the following questions have been submitted to the federal Health and Human Services staff:

- 1.) If a state pursues a individual user fee that is administered as a add-on to the premium, would the add-on be allowed to be considered part of the premium for the purposes of APTC calculations.
- 2.) How would an add-on described in question 1 be viewed in relation to the requirement that premiums inside and outside the Exchange be the same for the same product.
- 3.) If a state pursues a carrier fee that is part of the premium, is that allowed to be part of the APTC calculation?
- 4.) If a state pursues a carrier fee or individual user fee administered through the premium, how will this assessment be viewed for provider tax purposes (caps, broad base rules, etc.)

In addition to the above potentially conflicting principles, the workgroup offers the following recommendations on other issues pertaining to the financing of the Exchange.

## **Transparency**

- If premium options pursued, recommend including line item on invoice reflecting portion of premium or premium add-on that will be retained by the Exchange for Exchange operating costs.
- Recommend other markets show breakdown of premium costs to reflect proportion of administrative costs.
- Recommend annual audits and findings be posted on public website.

## **Accountability**

- Recommend revenue sources created for Exchange only is used for Exchange purposes.

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- Recommend Exchange track and report revenues and expenditures
- Recommend budgets presented to board and/or legislature for review (dependant on governance structure).

**Flexibility**

- Recommend process be developed to adjust budget as necessary to meet changing budget needs against enrollment variances. Process will depend on governance structure.
- Recommend cash flow and reserve needs be met. Process of meeting cash flow and reserve needs will depend of Governance structure. Mechanisms to meet needs are different between a state entity and a non-profit.

**Timing**

- To the extent the funding mechanism includes a portion of premium (QHP or fully insured), it needs to be in place in time for rate filing.
- Legislative changes required to implement rate setting, cash flow or reserve needs and budgets should be implemented in the 2013 legislative session.