MINNESOTA
HEALTH CARE
FINANCING
TASK FORCE

Health Care Financing Task Force Final Report

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Health Care Financing Task Force Vision: Sustainable, quality health care for all Minnesotans

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Minnesota Department of Human Services

Recommendation 12:

Repeal the sunset of provider tax to continue a dedicated state funding stream to support health care for low-income Minnesotans. With continuation of the provider tax, establish more stringent parameters for: (a) uses of Health Care Access Fund revenue and (b) the mechanism for contingent tax reduction based on program funding needs.

JUSTIFICATION: The Health Care Access Fund has long supported subsidized health coverage for eligible low-income Minnesotans. A dedicated funding stream provides more funding certainty year-to-year for this purpose. Without the 2% provider tax, current projections show revenue into the Health Care Access Fund would fall short of projected uses by 2021. Workgroup members expressed concerns, however, that the Health Care Access Fund has been used for purposes other than MinnesotaCare. For this reason, the Workgroup also recommends the State establish more stringent limits on the use of Health Care Access Fund dollars and a more reliable mechanism to reduce the provider tax when the Health Care Access Fund has a considerable surplus. The law establishing the Health Care Access Fund currently provides for a contingent tax reduction in the event of a surplus, but a reduction has never been implemented given some of the rules surrounding its current structure.

COST/SAVINGS: The repeal of the provider tax sunset is projected to result in $207 M in additional revenue to the Health Care Access Fund in FY 2020 and $765 M in FY 2021.

STATE/FEDERAL AUTHORITY: Legislation would be needed to repeal the sunset on the provider tax so that it would continue to be collected beyond its scheduled expiration date in 2019.

OTHER OPTIONS CONSIDERED: Some Workgroup members favored allowing the provider tax to sunset and using general funds, rather than a dedicated fund, to support health coverage for low-income Minnesotans. Specifically, these Workgroup members believe the general fund would be more transparent, enabling legislators and other stakeholders to weigh funding needed for MinnesotaCare, against funding for other state priorities each year, like education and infrastructure. The Workgroup, as a whole, ultimately did not approve using general funds as the sole source of funding for health coverage for low-income Minnesotans, concluding that a dedicated and sustainable funding source enables the State to maintain its longstanding commitment to MinnesotaCare.

Recommendation 13:

Expand the MNsure user fee to on- and off-Marketplace products, provided that the Legislature statutorily reduces the user fee/premium withhold level.

JUSTIFICATION: Expanding the user fee/premium withhold that funds MNsure operations to on- and off-Marketplace products has been debated in many states with stated based marketplaces (SBMs) and adopted in eight states. States with Marketplace-only user fees are encountering sustainability challenges that force them to curtail consumer outreach and technology upgrades that adversely impact their ability to grow enrollment or even maintain enrollment in a market sector where roughly a third of enrollees move back into group coverage or otherwise churn off the Marketplace every year. These problems are likely to be even more pronounced for MNsure, given the significant enrollment in MinnesotaCare that would be Marketplace enrollment in every other state except New York, which also has a Basic Health Program.

The case for a broad-based fee is rooted in the fact that Marketplaces have proven their value as a public good by playing a pivotal role in reducing the number of uninsured and lessening the many adverse consequences to individuals and to society when people are uninsured. Marketplaces also enhance health literacy by expanding transparency, including by providing easily accessible and comparable information on health insurance products, regardless of whether individuals ultimately purchase coverage inside or outside of the public Marketplace.

Broader application of the user fee also reduces the incentive for insurers to favor or steer customers to off-Marketplace coverage and thus levels the playing field in terms of competing for enrollees. Further, this option would stabilize MNsure funding, because it would no longer vary based on the number of enrollments through MNsure. Additionally, the Workgroup recommends that if the State is to expand the user fee to products sold outside MNsure, the State would need to reduce the level of the premium withhold in statute.

COST/SAVINGS: The Workgroup did not expressly address the appropriate rate for the user fee, but MNsure and DHS developed estimates of user fee revenue under different scenarios for illustrative purposes. Assuming the size of Minnesota's individual market were to remain constant, applying the premium withhold to both on- and off-Marketplace coverage would yield $22 M in revenue, even if the withhold were reduced by 2 percentage points to 1.5% of premium. By contrast, the current premium withhold of 3.5% of premium applied only inside the Marketplace generates $10.7 M in revenue.

STATE/FEDERAL AUTHORITY: The State would need to pass legislation to reduce the premium withhold level and to expand the user fee to apply to individual market coverage purchased off of the Marketplace.

OTHER OPTIONS CONSIDERED: During the Workgroup's conversation about Recommendation 10, several Workgroup members supported maintaining the user fee for plans purchased through the Marketplace only, reasoning that the fee is more accountable, comparable to the FFM and ensures that those benefiting from the Marketplace are the ones "paying for it." Others maintained that the Marketplace is a public good: many individuals and small businesses may use the Marketplace to shop and compare QHPs while not ultimately purchasing through the it. Some members also noted that carriers are required to spread the cost of the user fee across all of their QHP premiums, and not apply it only to QHPs sold through the Marketplace. Finally, some members noted that if the State pursues an expansion of MinnesotaCare, it would also likely need to expand the premium withhold to products off the Marketplace to stabilize the funding stream for MNsure.

D. Assessing the Future of MNsure

In the fall of 2013, Minnesota launched its State Based Marketplace (SBM), pursuant to legislation passed in early 2013. Since that time, technical and operational difficulties and lower-than-expected enrollment have fueled concerns regarding MNsure's operational stability and financial sustainability.

MNsure has faced a number of unique policy and technical challenges in its early years of operation. Specifically, premiums in 2014 were the lowest in the nation. In addition, the carrier with the largest enrollment exited the Marketplace after 2014, causing disruption for many consumers. Premiums increased in 2015 but were still among the lowest in the nation, offering some bargains for Minnesotans but also having the unintended consequence of reducing the value of federal premium tax credits to Minnesotans. As a result, many individuals did not qualify for subsidies (or qualified only for nominal subsidies) and had little or no financial incentive to enroll through MNsure. Specifically, in 2015, only 55% of MNsure enrollees were eligible for subsidies, compared to 85% of Marketplace enrollees nationwide.

Over the past two years, MNsure has actively addressed many of its early challenges by: (1) improving the web portal to better serve consumers, augmented by a robust and well-funded consumer assistance infrastructure including Navigators, consumer assistants, agents and brokers; (2) communicating more transparently with the Legislature, State agencies and the public regarding its performance; and (3) improving the IT project governance structure and process to reflect shared responsibility for the mix of programs served by the IT platform. The Marketplace reports a smooth and positive 2016 open enrollment period in which many of the web portal functionality issues of years past have been resolved.[35] Additionally, premium increases for 2016 have enhanced the value of the subsidies and are expected to drive additional enrollment through MNsure. As of December 31, roughly 70% of individuals enrolling in coverage through MNsure during the 2016 open enrollment period were eligible for subsidies. Despite these efforts, significant back-end functionality at MNsure related to enrollment transactions with the carriers has yet to be fully implemented.

Given ongoing concerns about MNsure's functionality and cost, combined with the emergence of new alternatives to the SBM model, the Workgroup discussed potential alternatives to its current model, taking into account lessons learned from its experience with MNsure and other states' experiences with alternative marketplace models.

Recommendation 14:

The Workgroup does not recommend transitioning to either the Federally Facilitated Marketplace (FFM) or Supported State-Based Marketplace (SSBM) at this time. A partially-privatized State-Based Marketplace (SBM) model could be considered following the evaluation of MNsure's 2016 open enrollment period. Therefore, the Workgroup recommends continuing a SBM at this time.

JUSTIFICATION: The Workgroup discussed potential alternatives for Minnesota's marketplace and for each alternative considered the benefits and drawbacks against those of retaining the State-Based Marketplace. A brief summary of considerations related to each Marketplace model discussed by the Workgroup is reflected in the chart below:

Figure 5

	SBM "Stay the Course"	Partially Privatized SBM	Supported SBM	FFM
Flexibility to administer MinnesotaCare	✓	✓	✗	✗
Flexibility to administer additional subsidies	✓	✓	✗	✗
Flexibility to administer portable subsidies	✓	✓	✗	✗
State cost for completing QHP-related systems development	$	?	$$	$$
State cost for completing QHP- and public program-related systems development	$	?	$$$	$$
Flexibility to invest in Navigator program	✓	✓	✗	✗

A more detailed description of each of the Marketplace models is contained in *Appendix M – Overview of Marketplace Models.*

[35] Rao, A., White, J., Allen, K.; 2016 Health Insurance Exchanges: The Good, the Bad, and the Ugly; Policy Recommendations to Improve Consumer Choices; Clear Choices; December 2015.

Based on evaluation of the benefits, drawbacks and costs of each Marketplace option, the Workgroup did not ultimately endorse a recommendation to transition Minnesota's Marketplace to a different Marketplace model. The SSBM[36] and the FFM both rely on the HealthCare.gov platform for eligibility and enrollment functionality. These models ultimately garnered very little support as viable alternatives to MNsure because of HealthCare.gov's lack of flexibility to have a streamlined eligibility system with Minnesota's public programs and its inability to administer MinnesotaCare or additional subsidies needed for a Minnesota-specific affordability scale. Additionally, Workgroup members expressed concerns about the potential loss of State control over the Minnesota Navigator and assister programs in the FFM model, as well as the new SSBM fees proposed to be 3% of premiums for products sold through HealthCare.gov.

The partially privatized SBM, through which a private vendor is contracted to provide some or all Marketplace functionality, had more support among Workgroup members as a viable option for future consideration, since it could have similar flexibility to the current version of MNsure. The partially privatized model fell slightly short of majority support because it ultimately was viewed as untested nationally with limited information on cost. If any when other states bring privatized models on line (Oregon has a pending request for proposals to test whether a private vendor can beat the federal platform price), there may be good reason for Minnesota to revisit this model.

COST/SAVINGS: The Workgroup considered the comparative costs to the State of "staying the course" against pursuing alternative models. There is no cost information available for potential transition to a partially privatized Marketplace. However, MN.IT, DHS, MNsure, and Commerce estimated the additional costs of transitioning to an SSBM or an FFM as follows:

Figure 6 (Figures are in 000's)

State Funding Needs under Federal Exchange	If moved to FFM	If Moved to SSBM
Funds to complete current scope of IT system (Replacing CCIIO Grants, Etc.)	$2,563	$2,563
Funds to address new IT project for account transfers	$1,579	$1,579
Unfunded State Marketplace Needs		$1,700
Additional DHS Administrative Costs	$705	$584
Additional Department of Commerce Costs	$255	$255
Total	$5,102	$6,681

STATE/FEDERAL AUTHORITY: None needed to retain an SBM.

OTHER OPTIONS CONSIDERED: None.

[36] In the proposed Notice of Benefit and Payment Parameters for 2017, the federal government proposed referring to this as a State-Based Marketplace using the federal platform or SBM-FP

Recommendation 15:

Develop framework to evaluate MNsure's 2016 open enrollment period performance, including the criteria listed in this report and in Appendix N – Marketplace Goals.

JUSTIFICATION: MNsure has improved substantially since its initial rollout, but significant gaps related to enrollment functionality remain. To develop a foundation for decisions about MNsure's future, the Workgroup recommends evaluating MNsure's performance during the 2016 open enrollment period ending January 31, 2016 to identify strengths and limitations of the current model. In the course of their discussions, the Workgroup identified several goals for Minnesota's marketplace to inform their discussions regarding the future of and potential alternatives to MNsure (see Appendix C). The Workgroup recommends that the evaluation framework include:

- Assessment of how MNsure's QHP experience fits into the health coverage landscape in Minnesota, including QHP enrollment trends, percentage of enrollees accessing tax credits, effectiveness of consumer outreach/education strategies, and adequacy of MNsure financing
- Assessment of consumer QHP enrollment experience, including comparisons to Healthcare.gov and selected SBMs, potentially with the assistance of an independent expert
- Progress report on meeting benchmarks in IT development and modernization plan, including timeline and cost for completing remaining functionality to support QHP enrollment
- Reduce churn and promote continuous enrollment for better health outcomes

COST/SAVINGS: N/A

STATE/FEDERAL AUTHORITY: The Legislature and/or Governor would direct development of an evaluation framework in the first quarter of 2016.

OTHER OPTIONS CONSIDERED: None.

Recommendation 16:

Codify the current IT executive steering committee structure for overseeing the IT modernization plan, including MNsure's IT system.

JUSTIFICATION: Although MNsure is most closely associated with QHP coverage, it also shares the integrated eligibility and enrollment IT system with the Department of Human Services, through which Minnesotans apply for and are determined eligible for Medical Assistance, MinnesotaCare and APTC/CSRs subsidized QHP coverage. Further, the vast majority, (roughly 80%) of individuals applying for coverage through MNsure, qualify for Medical Assistance or MinnesotaCare—meaning that the Department of Human Services covers a significant portion of the expense of this shared IT system through a Medicaid cost-allocation with federal and state dollars.[37]

The legislation establishing MNsure does not provide specifics on how IT projects for this shared system are governed or prioritized. Therefore, in late 2014 an informal multi-agency structure was formed to act as an executive steering committee for setting IT priorities and overseeing IT modernization and implementation. Consistent with the recommendation of the Office of the Legislative Auditor (OLA), the Workgroup recommends codification of the IT executive steering committee in statute, thereby ensuring that the IT executive steering

[37] Using a methodology developed in consultation with actuaries, **[Confirm developed with actuaries]** a portion of costs for MNsure's IT system that are attributable to Medical Assistance and MinnesotaCare are allocated to the Department of Human Services. The Department of Human Services receives federal matching funds to cover the administrative costs for its public programs.

committee remains a part of MNsure's overall IT governance even as leadership at MNsure and other agencies changes over time.

COST/SAVINGS: N/A

STATE/FEDERAL AUTHORITY: The State would need to enact legislation, preferably in the 2016 session, to codify the IT executive steering committee structure.

E. Ensuring the Stability of the Insurance Market

Although Minnesota's individual marketplace premiums were among the lowest in the nation in 2014 and 2015, there were significant rate increases for 2016 as a result of financial impacts experienced by the health insurance companies from higher claims than expected and significantly lower reimbursement under the federal risk corridor stabilization program. The 2016 increases raised concerns about future premium increases and sparked a conversation about whether Minnesota should take affirmative steps to stabilize premiums in the individual insurance market.

Recommendation 17:

The Department of Commerce should explore options to stabilize Marketplace premiums by:

- Studying and modeling potential Minnesota-tailored rate-stability mechanisms for the individual market, such as a reinsurance program
- Studying and modeling merging Minnesota's individual and small group markets
- Considering the impact of establishing maximum limits on health plan carriers' excess capital reserves or surplus[38]
- Studying options for making Minnesota's rate review process more transparent with public information or hearing.

JUSTIFICATION: Significant increases in premiums in 2016 illustrate the continued volatility in the individual insurance market, even with the federal government's premium stabilization mechanisms (i.e., risk corridors, reinsurance, and risk adjustment) in place. In addition, Minnesota's high risk pool, the Minnesota Comprehensive Health Association (MCHA) which provided guaranteed issue to those with pre-existing health conditions has been phased out with the 25,000+ enrollees now seeking coverage in the individual market. Finally, federal risk corridor and reinsurance programs expiring after 2016 adding to the ongoing concerns about sustainability. There are also concerns about payments under the risk corridors program, as well as concerns that volatility—and corresponding premium increases—will continue.

The Department of Commerce presented several options for Minnesota to achieve more stability in individual market premiums. Several Workgroup members thought a Minnesota-tailored reinsurance program (or similar rate-stability mechanism) might be an effective tool to reduce volatility, though questions remain about how to fund a rate-stability mechanism and whether it would be too complex to administer. Additionally, some Workgroup members expressed interest in merging the individual and small group markets to create a larger, and more stable, risk pool. Workgroup members were reluctant to recommend market merger without further study of how it would impact individual and group rates, since a merger would not be easy to undo if it caused too much rate disruption. The group also discussed limiting excess capital or surplus, since Minnesota has had experience with this as a way to level the playing field across carriers in the past. Finally, while not proposed by the

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[38] Further study by the Department of Commerce should consider the March 2014 study by the Minnesota Department of Health entitled "Study of Capital Reserve Limits in Minnesota" *available at* http://www.health.state.mn.us/divs/hpsc/hep/publications/legislative/capitalreservesreport0314.pdf.

M. Appendix M – Overview of Marketplace Models

Overview of Marketplace Models

- **State-Based Marketplace (SBM):** State retains MNsure, continuing to improve its functionality.
- **Supported State-Based Marketplace (SSBM):** The State would rely on Federally Facilitated Marketplace (FFM) for certain core functions, especially eligibility and enrollment determinations. Federal marketplace would hand off Medicaid-eligible individuals to the State, and thus the State would need to maintain an IT system for Medicaid eligibility and enrollment and build account transfer functionality to accept application hand-offs of Medicaid-eligible individuals from healthcare.gov. The FFM cannot currently be customized to account for MinnesotaCare, and recent guidance on 1332 waivers clarifies that healthcare.gov will not be able to accommodate customized coverage programs for FFM and SSBM states. Under the SSBM model, the State would retain full responsibility for plan management functions within the IT constraints and certain other plan management conditions of the FFM. With respect to consumer assistance, the federal government's call center would handle questions about eligibility and enrollment, while the State would control and be responsible for funding consumer outreach and navigators. In its proposed payment notice for 2017, HHS has proposed that its fee for providing the federal platform would be a 3% carrier user fee. This fee is deemed as high by many states adopting or considering adopting this model; the State of Oregon, which transitioned to the SSBM model in 2015 has recently issued an RFP to transition again to the privatized Marketplace model.
- **Federally Facilitated Marketplace (FFM):** The State would replace MNsure with the FFM, which would handle all Marketplace functionality, including consumer assistance and plan management, though HHS has encouraged FFM states to handle plan management duties on an advisory basis. The State would continue to maintain a Medicaid eligibility and enrollment system, and it would need to build a new account transfer functionality to receive application handoffs of Medicaid-eligible individuals from healthcare.gov. As with the SSBM model, the FFM would not be able to accommodate MinnesotaCare, at least for the near future. The annual fee for the FFM is proposed to remain as 3.5% carrier user fee for 2017.
- **Privatized Marketplace:** Under this model, the State would contract with private vendors to provide much of the eligibility and enrollment functionality. The State could purchase either "off-the-shelf" products, customized solutions, or both, potentially enabling the State to achieve full functionality more quickly than if it retains MNsure. The private model, however, is largely untested and requires diligent ongoing state oversight to ensure proper implementation. The costs of the private model are unknown absent a procurement process.

N. Appendix N – Marketplace Goals

Ranked in Order of Priority

1) Enable a streamlined process for eligibility determinations, plan selection, and enrollment
2) Provide readily available, culturally-competent consumer assistance to support informed plan selection and enrollment
3) Offer a consumer-facing portal that is user-friendly and supports efficient navigation
4) The IT and governance of the Marketplace be cost-efficient and supported by a sustainable funding and
5) The Marketplace allows for easy integration with health plans
6) Provide a single access point for determining one's eligibility to public benefits
7) Have the ability to support a Minnesota-specific affordability scale.
8) Promote continuous enrollment in health coverage for better health outcomes and cost containment; reduce "churn."