



Health Connector Fiscal Years 2016 and 2017 Administrative Finance (VOTE)

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Board of Directors Meeting, July 14, 2016

Agenda



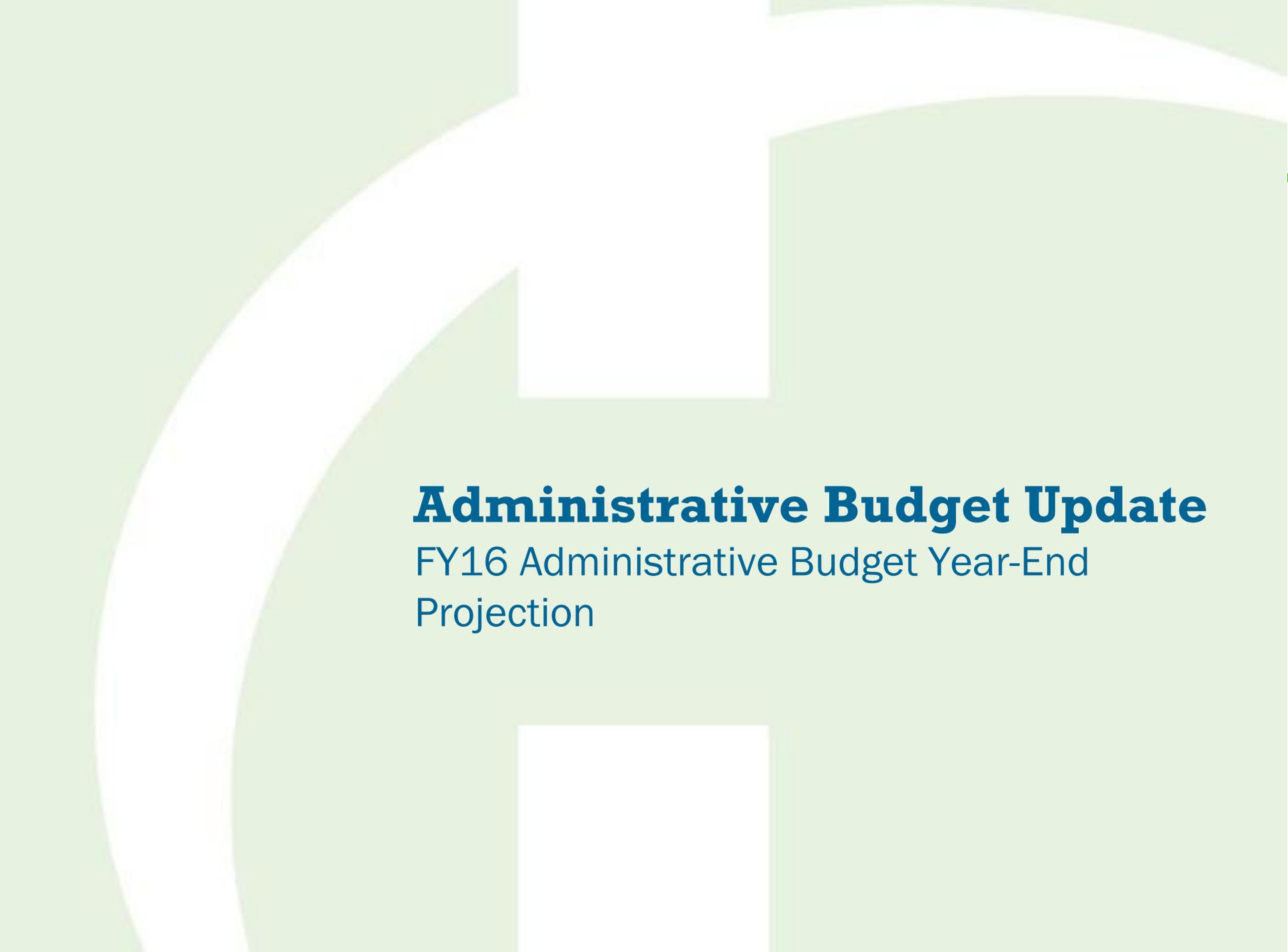
Health Connector Administrative Budget

- Fiscal Year 2016 (FY16) Administrative Budget Year-End Projection
- Fiscal Year 2017 (FY17) Administrative Budget Recommendation

Overview



- The purpose of this presentation is to review the Health Connector's FY16 and FY17 administrative finances, which reflect continuing Affordable Care Act (ACA) transition and stabilization activities and the phasing out of available federal grant funding to support operations
- The FY16 year-end projected loss is \$13.0M, an improvement of \$2.8M in comparison to the \$15.8M loss presented to the Board in July 2015
- While the FY17 administrative budget outlook is unfavorable, with a projected net loss of \$4.4M, this is much improved in comparison to FY16 and reflects a path forward to financial and operational stability



Administrative Budget Update

FY16 Administrative Budget Year-End
Projection

FY16 Administrative Budget Summary



The FY16 year-end projection results in a \$13.0M net loss, an improvement of \$2.8M compared to budget.

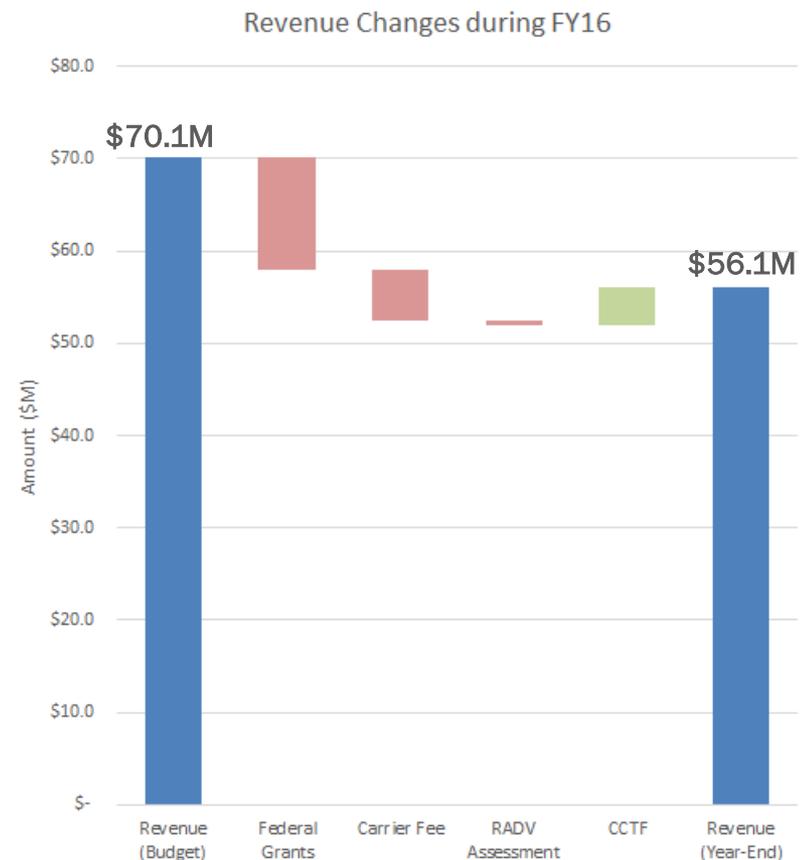
- The FY16 administrative budget results in a projected year-end loss of \$13.0M and reflects a reliance on Health Connector reserves as approved by the Board
- The budget approved by the Board in July 2015 reflected a \$15.8M net loss and proposed reliance on reserves to offset the deficit
 - Reflected continuing ACA transition activities, including continuing Health Insurance Exchange (HIX) website development, implementation of remaining IT functionality, Small Business Health Options Program (SHOP) development and implementation, outreach and member transition and risk adjustment
 - Reflected exhaustion of available federal grant funding to support operational costs
 - Reflected new HIX operations and maintenance costs allocated to the Health Connector
 - Reflected investments into call center and premium processing activities and IT development and integration activities, necessary to improve member experience

FY16 Administrative Budget Year-End Revenue



The FY16 year-end projection results in a \$14.0M decrease in revenue, primarily due to ACA transition work continuing into FY17.

- Key Revenue Drivers (\$14.0M net decrease)
 - Lower-than-budgeted federal revenue primarily for remaining one-time ACA transition projects (\$12.2M net decrease, 87% of revenue decrease)
 - HIX, SHOP and payment portal functionality is anticipated to be incurred in FY17 (\$12.3M decrease)
 - Offset of staff costs per CMS approval (\$0.1M increase)
 - Lower-than-projected carrier administrative fees due to the identification of a modeling error and the favorable outcome of the 2016 Seal of Approval (SoA), which resulted in a lower average ConnectorCare premium (\$5.4M decrease)
 - Postponement of the Risk Adjustment Validation Audit (RADV) and accompanying surcharge in step with the federal government (\$0.6M decrease)
 - Additional Commonwealth Care Trust Fund (CCTF) funding for programmatic and operational support (\$4.2M increase)

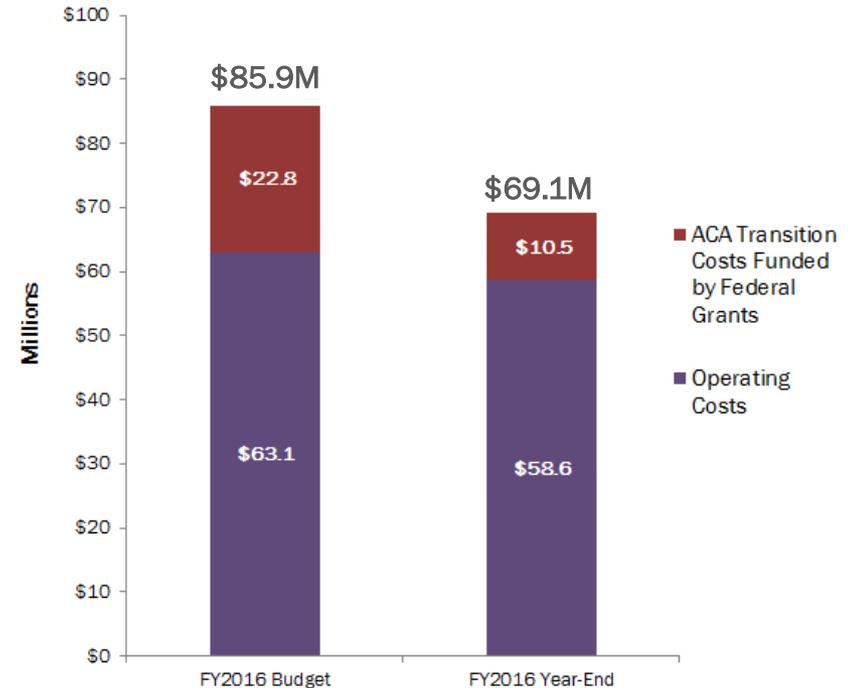


FY16 Administrative Budget Year-End Expense



FY16 total expense is \$69.1M, a decrease of \$16.8M compared to budget.

- ACA transition costs (red) are projected to decrease by \$12.3M net, primarily as a result of timing
 - Costs associated with continuing IT development, payment portal functionality and SHOP is expected to be incurred in FY17
- Operating costs (purple) decreased by \$4.5M overall
 - Availability of federal funds to offset expenses for remaining outreach activities to the uninsured and risk adjustment, per CMS guidance (\$2.2M decrease)
 - Delay of risk adjustment data validation for Plan Year 2014 and 2015 into 2016, consistent with the federal government (\$1.8M decrease)
 - Consulting savings (\$0.7M decrease)
 - Timing of HIX operations expenses (\$1.8M decrease)
 - Offset by \$2.0M increase for customer service and premium billing

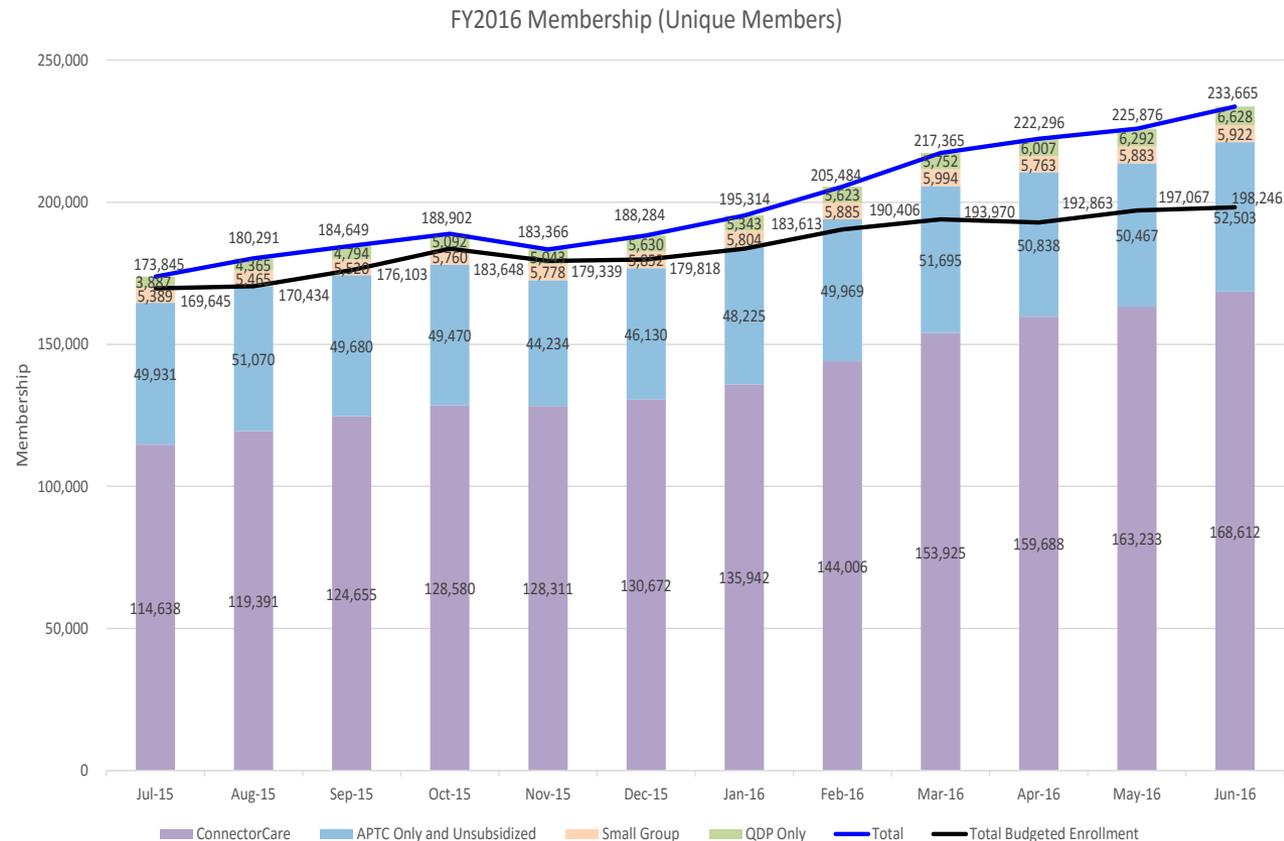


FY16 Year-End Enrollment



The FY16 year-end enrollment projection reflects a significant increase in ConnectorCare members.

- ConnectorCare membership increased steadily, with approximately 168,612 members as of June 2016
 - Monthly enrollment counts reflect retroactivity
 - Increases due to MassHealth redeterminations and verifications
 - Decreases due to Health Connector verifications and renewals, as well as terminations (voluntary or non-payment of premium)
- The FY16 year-end projection assumes 233,665 members by June 2016 with average membership of 199,945



FY16 Administrative Budget Year-End Net Position



The FY16 year-end \$13.0M projected loss is favorable to budget but still reflects reliance on Health Connector reserves.

- FY16 signifies a year of major continuing transition and IT and operational activities necessary to stabilize the Health Connector and the member experience
 - The FY16 year-end projected net loss of \$13.0M, although favorable to budget, reflects significant reliance on reserves
- The \$2.8M improvement also reflects a stronger reserve position compared to budget, which positions us better for FY17

Revenue	FY16 Budget	FY16 Year-End Est.
Federal	\$22,802,395	\$10,627,075
CCTF	\$19,000,000	\$23,200,000
Carriers	\$27,390,164	\$21,976,516
Other	\$900,204	\$285,468
Total Revenue	\$70,092,763	\$56,089,059
Expense	\$85,898,712	\$69,098,351
Net Position	(\$15,805,949)	(\$13,009,292)
Reserves	\$18,280,770	\$19,996,559



Administrative Budget Update
FY17 Administrative Budget Recommendation

FY17 Administrative Budget Overview



The FY17 administrative budget recommendation reflects stabilization activities and the exhaustion of federal funding to support operations.

- The FY17 administrative budget recommendation results in a net loss of \$4.4M and reflects continuing stabilization activities and the exhaustion of federal funding to support operations, in addition to a number of key assumptions:
 - Increased financial support from the CCTF
 - Customer service and business operations (Dell) contract renewal terms
 - Exhaustion of federal funding to support eligible operating costs
 - Remaining federal funding is for one-time transition costs only
 - Higher expenses for HIX operations costs allocated to the Health Connector primarily as a result of timing
- We do our best to anticipate unknowns, but some uncertainties remain (e.g., HIX development, operations and maintenance costs; call center and premium processing; enrollment fluctuations; SHOP)

FY17 CCTF Funding

Health Connector long-term sustainability is highly dependent on dedicated revenue within the CCTF.

- The cost of operating an ACA-compliant, State-based Marketplace is substantial and requires financial support from both the CCTF and carriers
- For FY17, the Health Connector will utilize \$38.2M in dedicated CCTF revenue to support operations and ACA-required programs reflected in our administrative budget recommendation
 - HIX operations and maintenance (Exchange-allocated portion)
 - Risk adjustment
 - Outreach and education
 - Navigator program
 - Appeals program
 - Annual programmatic audit

FY17 Dell Contract



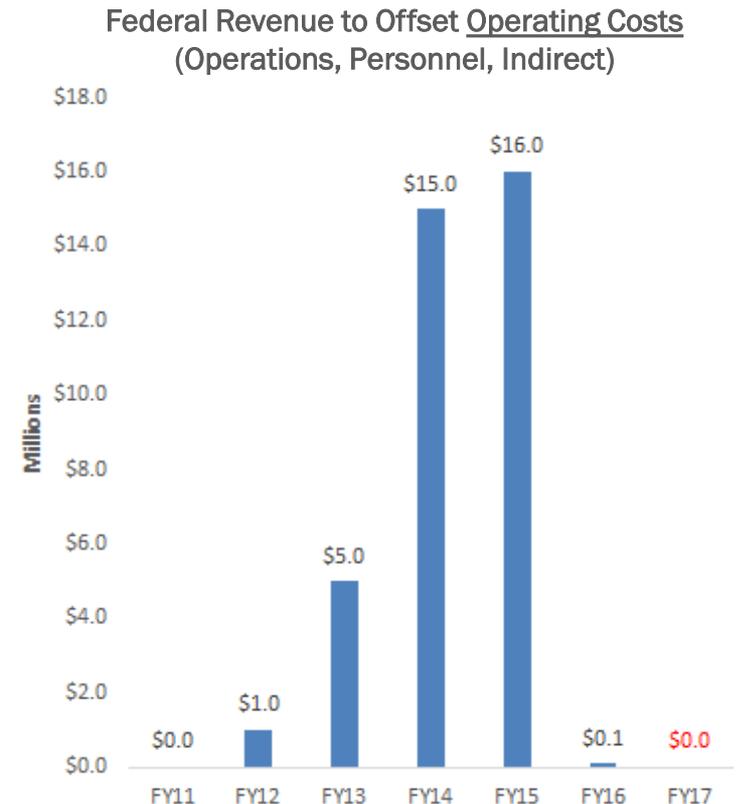
The FY17 administrative budget reflects the terms of the new four-year contract, which was approved by the Board in January 2016.

- Key benefits
 - Fosters operational stability and surety for the Health Connector
 - Avoids significant disruption and likely substantial costs associated with transitioning to a new vendor
 - Commitment to a roadmap to install technology designed to modernize and improve the customer experience and drive efficiencies in call handling
 - Customer Relationship Management (CRM)
 - Interactive Voice Response (IVR) and Telephony systems
 - Revised service level agreements (SLAs) with a focus on customer satisfaction, call center performance and financial integrity

FY17 Federal Grant Revenue

Federal grant funds to support Marketplace operations in FY17 is exhausted, however federal funds to support remaining one-time ACA transition costs are currently available through CY2016.

- Marketplace operations
 - Since FY11, over \$37M in federal revenue has been utilized to offset operating costs
 - Per the ACA, Marketplaces must be self-sustaining (i.e., federal grant revenue cannot support operations) as of the end of the 2015 Open Enrollment
- One-time, ACA transition costs
 - The FY17 administrative budget reflects \$10.9M in ACA one-time transition costs
 - Of that, \$6.5M is allocated for SHOP and payment portal and is contingent upon CMS approval of a no cost extension into CY2017
 - ACA transition costs have no impact on the bottom line



FY17 HIX Operations and Maintenance



The FY17 administrative budget recommendation reflects the ongoing costs allocated to the Health Connector to operate and maintain HIX.

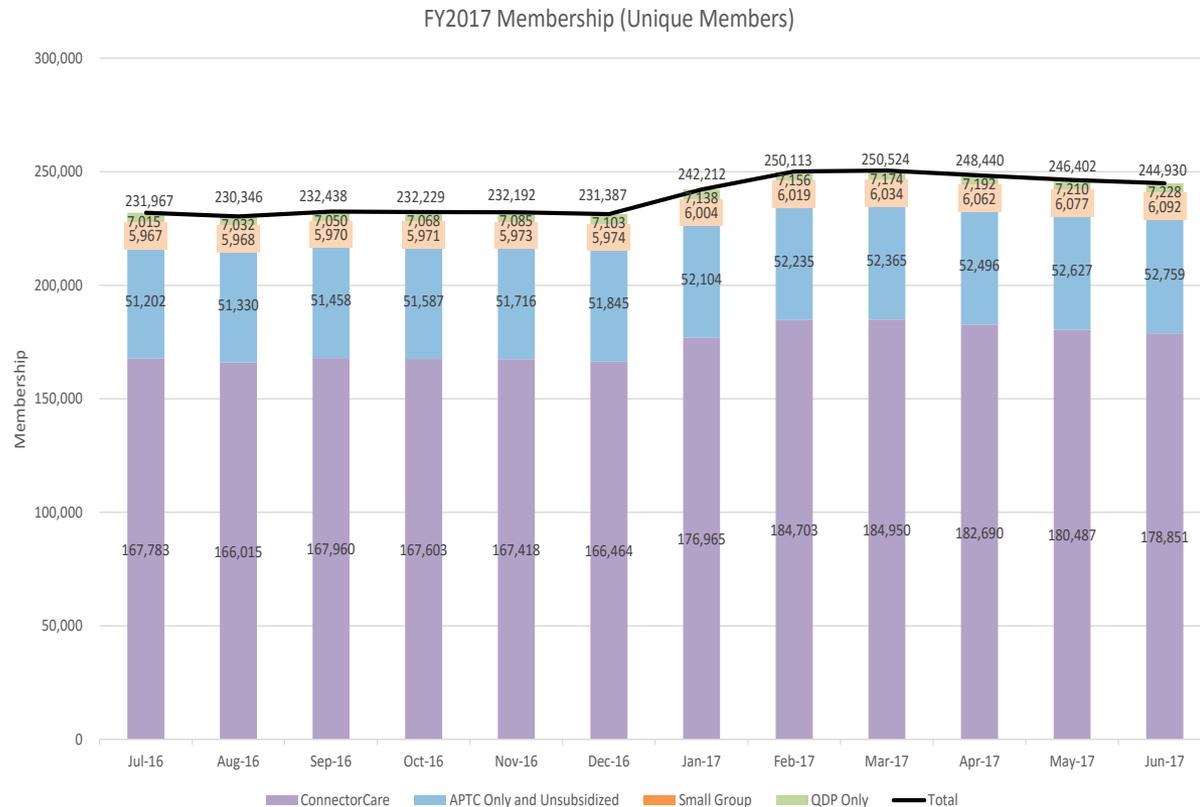
- Governance of the Commonwealth's HIX system reflects shared roles and responsibilities between MassIT, the Health Connector and MassHealth
- MassIT manages the contract with Optum, which contains task orders for ongoing system operations and maintenance
 - Ongoing costs include system integration, hosting, software licensing, personnel, contractors, etc.
- MassIT charges both the Health Connector and MassHealth an amount based on the total cost, using the current approved cost allocation methodologies
- The FY17 administrative budget reflects \$7.2M for the Health Connector's estimated portion of ongoing system costs
 - Increase due to timing (\$2.3M in FY16 payments is expected to be paid in FY17)

FY17 Projected Enrollment



ConnectorCare represents the majority of projected enrollment growth in FY17, which is expected to be 25% higher than FY16 on average.

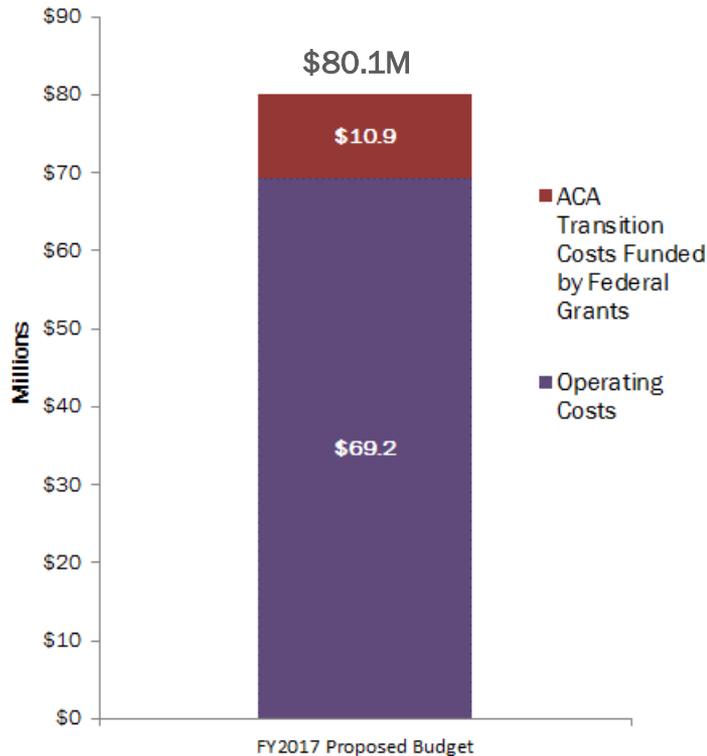
- The FY17 administrative budget reflects 244,930 members by June 2017 and an average membership of 239,432
 - Monthly enrollment counts are regularly revisited to reflect membership retroactivity
 - The Health Connector’s 2017 Open Enrollment campaign is targeted primarily at the remaining uninsured and an increase in Qualified Health Plan (QHP) membership of ~25,000
 - Increases due to MassHealth redeterminations and verifications
 - Health Connector verifications and renewals, as well as terminations (voluntary or for non-payment of premium) offset the total increase



FY17 Administrative Budget Recommendation



The FY17 administrative budget reflects ACA transition costs deferred from FY16, in addition to ongoing operational expenses as we move towards a steadier state.



	FY2017 Proposed Budget	Activities
ACA Transition Costs Funded by Federal Grants	\$10.9M	<ul style="list-style-type: none"> - Continuing IT system development (\$4.0M) - Implementation of remaining IT functionality (\$0.9M) - SHOP development and implementation (\$5.6M) - Risk Adjustment and Financial Management (\$0.4M)
Operating Costs	\$69.2M	<ul style="list-style-type: none"> - Call center and premium processing (\$41.2M) - Personnel and Administrative and IT (\$11.3M) - HIX Operations and Maintenance (\$7.2M) - Consulting and Professional Support (\$4.8M) - Outreach and Education, Navigators (\$4.1M) - Appeals (\$0.3M) - Small Business Wellness Subsidies (\$0.3M)
Total	\$80.1M	

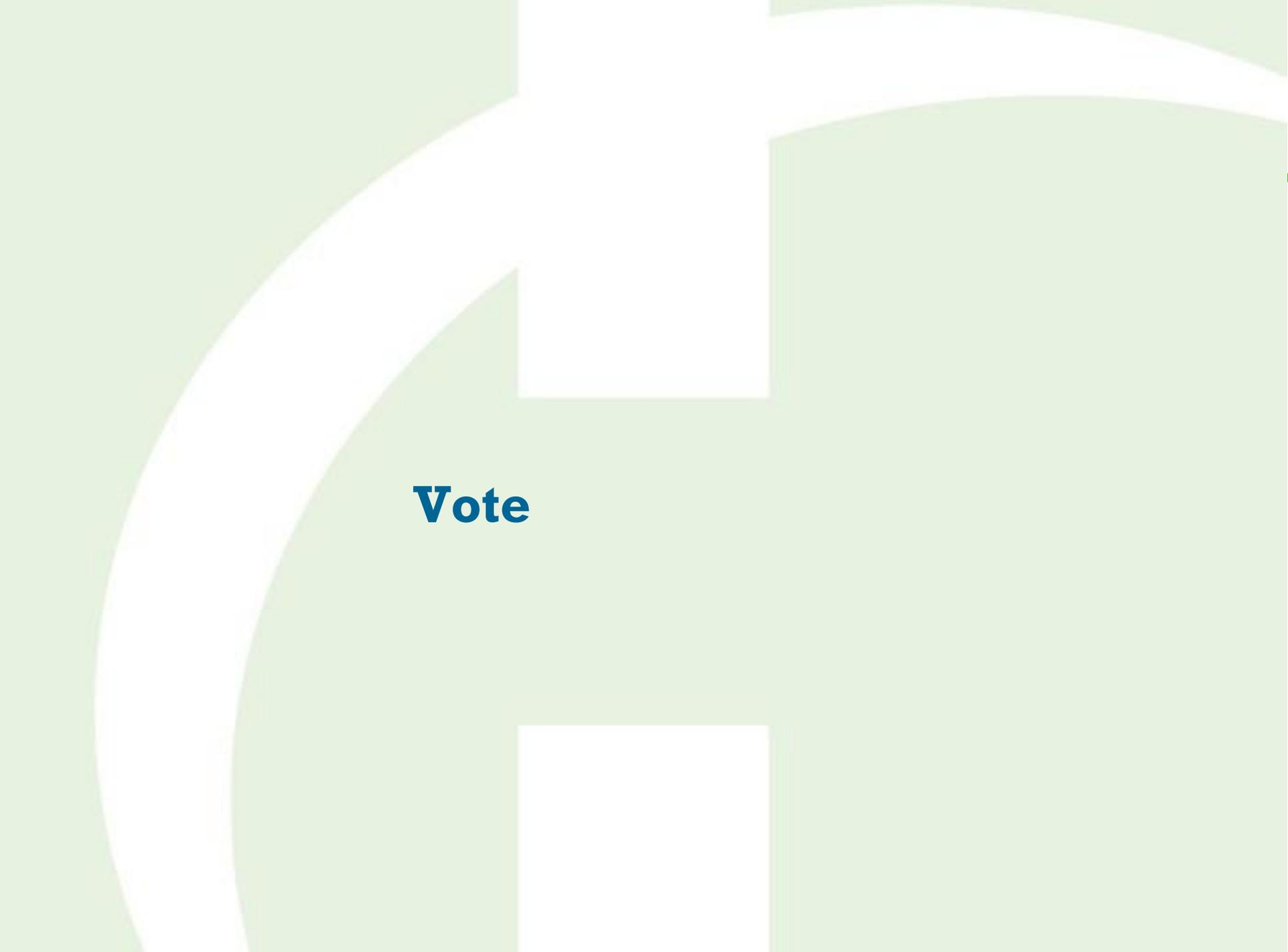
FY17 Administrative Budget Net Position and Reserves



The Health Connector recommends utilizing reserves in FY17 but this approach is not sustainable for the future.

- FY17 revenue primarily consists of dedicated funding within the CCTF and carrier fees, as well as remaining federal revenue to offset remaining ACA transition activities
- \$15.5M in reserves equates to approximately three months' operating expenses
 - A reserve balance reflective of six months' of operating expenses is recommended
 - Our efforts over the next few years include a focus on improving our reserve position

Revenue	FY16 Year-End Est.	FY2017 Preliminary
Federal	\$10,627,075	\$10,889,379
CCTF	\$23,200,000	\$38,159,648
Carriers	\$21,976,516	\$25,526,207
Other	\$285,468	\$1,032,384
Total Revenue	\$56,089,059	\$75,607,617
Expense	\$69,098,351	\$80,055,281
Net Position	(\$13,009,292)	(\$4,447,664)
Reserves	\$19,996,559	\$15,548,895

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Vote

VOTE



Health Connector staff recommend that the Health Connector Board of Directors vote to approve the FY17 administrative budget recommendation.



**Appendix: Administrative Budget
Supporting Materials**

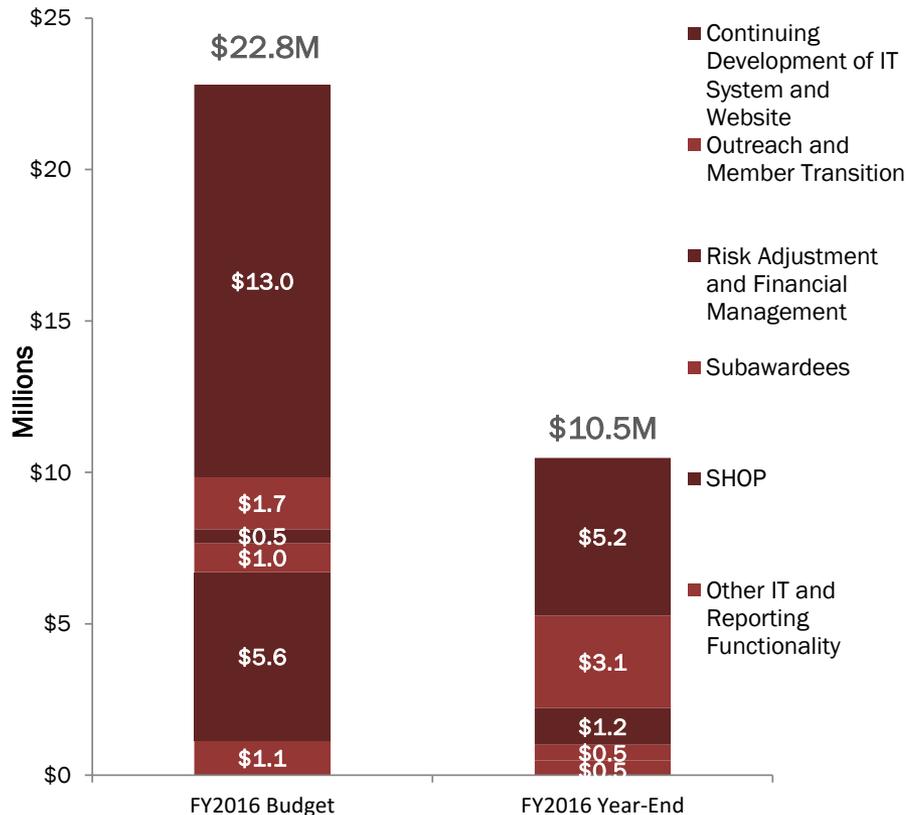
Administrative Budget Summary



	FY2016 Budget	FY2016 Year-End	FY2017 Proposed Budget
Revenue:			
Carrier Fee	\$27,390,164	\$21,976,516	\$25,526,207
Federal Grants	\$22,802,395	\$10,627,075	\$10,889,379
CCTF	\$19,000,000	\$23,200,000	\$38,159,648
Risk Adjustment Audit User Fee	\$600,000	\$0	\$728,000
Student Health	\$224,384	\$149,262	\$224,384
Miscellaneous/Investment	\$75,820	\$136,206	\$80,000
Total Revenue	\$70,092,763	\$56,089,059	\$75,607,617
Expense:			
Call Center and Premium Processing - Nongroup QHP/QDP	\$32,154,447	\$34,512,482	\$36,475,197
Call Center and Premium Processing - Small Group QHP/QDP	\$4,259,863	\$4,260,164	\$4,375,720
Call Center and Premium Processing - Online Payment Solution	\$404,334	\$0	\$205,260
HIX Operations and Maintenance	\$3,339,853	\$1,555,302	\$7,242,719
Appeals Program	\$306,737	\$258,205	\$330,845
Navigator Program	\$1,500,000	\$1,587,581	\$1,687,246
Small Business Wellness Subsidies	\$0	\$73,321	\$259,039
Outreach and Education	\$2,751,640	\$939,653	\$2,444,958
Personnel	\$7,776,725	\$7,311,725	\$8,169,609
OPEB Obligation	\$603,389	\$646,016	\$660,972
IT (non-HIX)/Facility/Administrative	\$1,551,146	\$2,059,703	\$2,495,605
Consulting and Professional Support	\$8,448,182	\$5,414,249	\$4,818,735
Consulting and Professional Support - CCA (FED)	\$8,869,139	\$5,033,832	\$6,927,655
Consulting and Professional Support - HIX (FED)	\$12,964,725	\$4,925,150	\$3,961,724
Consulting and Professional Support - Subawardees (FED)	\$968,532	\$520,970	\$0
Total Expense	\$85,898,712	\$69,098,351	\$80,055,281
Net Position	-\$15,805,949	-\$13,009,292	-\$4,447,664
Health Connector Reserves	\$18,280,770	\$19,996,559	\$15,548,895

FY16 ACA Transition

ACA transition costs decreased \$12.3M primarily due to lower transitional operating costs and the timing of other ACA initiatives, offset by additional federal funds for outreach activities.



IT System and Website (\$7.8M decrease)

- Decrease due to timing of expenses

Outreach and Member Transition (\$1.3M increase)

- Increase due to availability of federal L1D grant funding to support one-time outreach activities targeted at the remaining uninsured

Risk Adjustment and Financial Management (\$0.8M increase)

- Increase due to availability of federal grant funds to offset additional costs due to lower than budgeted expenses

Subawardees (\$0.5M decrease)

- Decrease due to lower than budgeted expenses

SHOP (\$5.6M decrease)

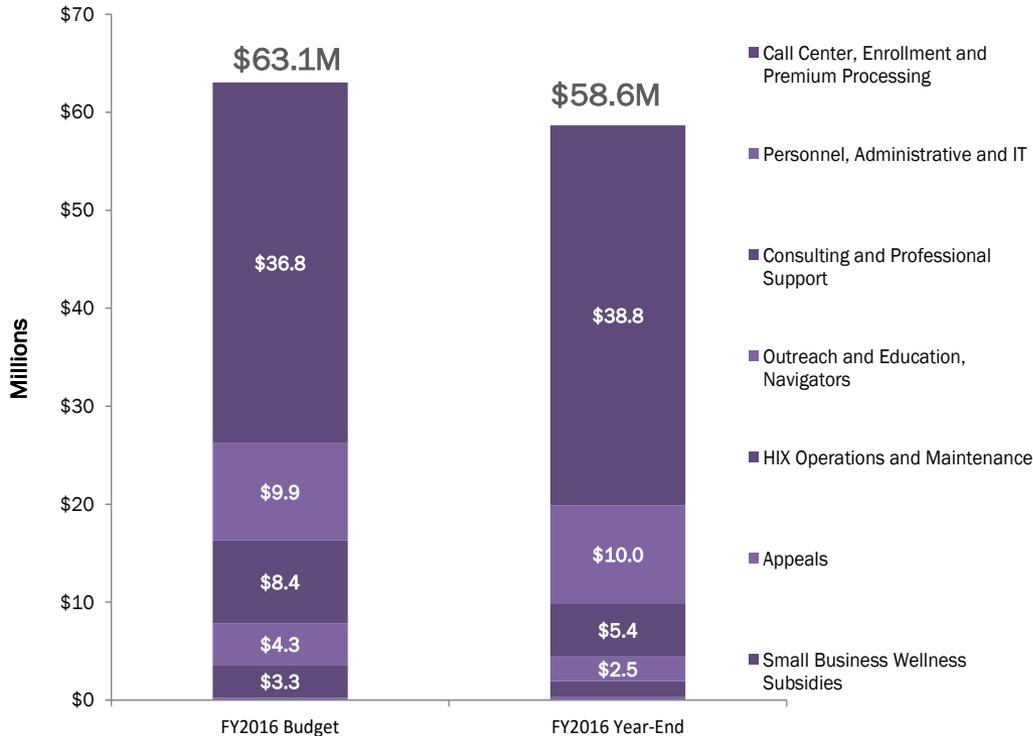
- Decrease due to timing as new SHOP implementation is expected to occur in FY17

Other IT and Reporting Functionality (\$0.7M decrease)

- Decrease due to timing as implementation of Payment Portal is expected to occur in FY17

FY16 Operations

Over half of our projected FY16 operating costs represent call center, enrollment and premium processing costs.



Call Center and Premium Processing (\$2.0M increase)

- Customer service, premium billing and business operations inclusive of PMPM, mailings, postage and enrollment reconciliations
- Increase due to higher than budgeted enrollment and final term sheet

Consulting and Professional Support (\$3.0M decrease)

- Includes project management, risk adjustment, IT and legal consultants
- Decrease due to savings in actuarial and corporate consulting

Outreach & Education and Navigators (\$1.7M decrease)

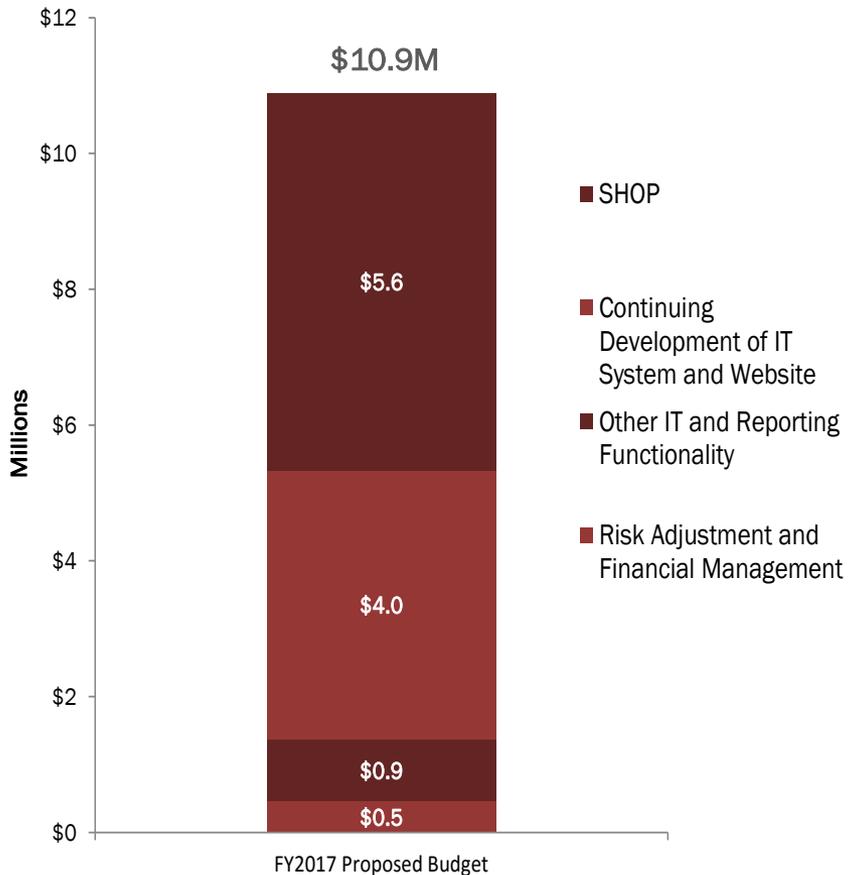
- Decrease due to the availability of federal L1D grant funding to support outreach activities targeted at the remaining uninsured, as well as reduced spending on SHOP outreach in spring 2016

HIX Operations and Maintenance (\$1.8M decrease)

- Decrease due to timing as six months of FY16 payments will be incurred in FY17

FY17 ACA Transition

FY17 one-time ACA transition costs are anticipated to be \$10.9M.



SHOP (\$5.6M)

- SHOP development and implementation costs
- Funded by the L1E Establishment grant

Continuing Development of IT System and Website (\$4.0M)

- Includes remaining Exchange-allocated HIX development costs allocated to the Health Connector
- Funded by the L2, L1E and L1F Establishment grants

Other IT and Reporting Functionality (\$0.9M)

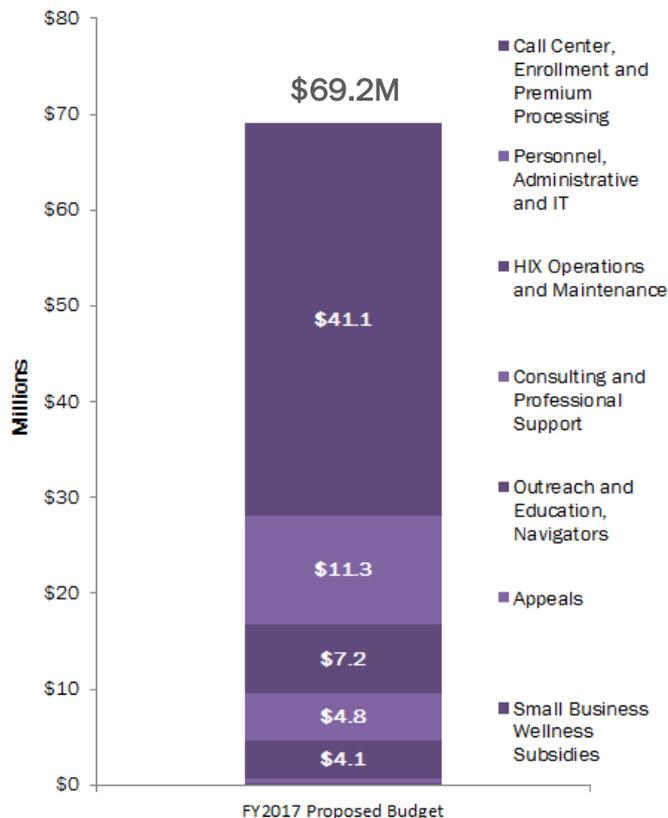
- Funds payment portal solution
- Funded by the L1E Establishment grant

Risk Adjustment and Financial Management (\$0.5M)

- Funds portion of RADV audit
- Funded by the L1E Establishment grant

FY17 Operations

Health Connector operations are projected to be \$69.2M in FY17, of which more than half funds call center, enrollment and premium processing.



Call Center and Premium Processing (\$41.2M)

- Includes non-group PMPM, mailings, postage and enrollment reconciliations (\$25.7M)
- Includes small-group PMPM, mailings and postage (\$4.4M)
- Work orders (\$10.5M)

Personnel, Administrative, IT (\$11.3M)

- Includes Health Connector personnel, administrative, facility and non-HIX IT costs

HIX Operations and Maintenance (\$7.2M)

- Reflects HIX ongoing operations and maintenance costs allocated to the Exchange (e.g., hosting, software, consultants, etc.)

Consulting and Professional Support (\$4.8M)

- Includes audit, legal and IT consultants

Outreach and Education, and Navigators (\$4.1M)

- Includes outreach for 2017 Open Enrollment, collateral materials and annual member satisfaction survey

Appeals (\$0.3M)

- Reflects expenses associated with the appeals program

Small Business Wellness Subsidies (\$0.3M)

- Reflects wellness subsidies paid to small businesses