MEMORANDUM

To: Health Connector Board of Directors
Cc: Louis Gutierrez, Executive Director
From: Vicki Coates, Deputy Executive Director & Chief Operating Officer
Jason Hetherington, Chief Information Officer
Audrey Gasteier, Chief of Policy and Strategy
Kari Miller, Chief Financial Officer
Date: February 9, 2017
Re: Group Market Exchange Platform

BACKGROUND

This memorandum describes the Health Connector's proposal to partner with an existing state-based marketplace (SBM) to serve the group insurance market. Through a partnership with the District of Columbia Health Benefit Exchange (DCHBX), the Health Connector can transition to a new solution that will offer financial savings, compliance with federal requirements and growth opportunities to better serve a range of employers. Pending Board approval, the Health Connector expects to launch the first phase of this new solution by August 2017.

CURRENT SITUATION

The Health Connector has offered coverage to small employers (under 50 employees) in the merged market in its current iteration since 2010. As of December 2016, we have 1,385 groups with 6,106 members enrolled in our legacy Small Business Health Options (SHOP) platform. Given the Health Connector's need in recent years to focus on stabilizing the individual market platform, aggressive marketing or enhancements to the current small business platform to provide a better user interface for brokers and employers has not been a priority. As a result, small group medical and dental membership has remained steady but flat.

The current SHOP platform, available through the Health Connector's vendor SBSB, has three critical drawbacks:

- The platform is expensive to operate. The current membership spread over the vendor costs has resulted in a loss of $3M per year to the Health Connector.
- The platform lacks key features employers and brokers prefer, including easy automated renewals, uploadable employee censuses, and the ability to send carriers off-cycle enrollment files.
- The platform does not meet current Affordable Care Act (ACA) requirements to offer Employee Choice with horizontal options (i.e., employers allow employees to choose from all plans across all carriers from one metal level).

Given the financial expense and other drawbacks, the current SHOP platform is unsustainable without significant changes.

NEW GROUP MARKET EXCHANGE PLATFORM

Rationale for New Group Market Exchange Platform

For the following reasons, the Health Connector is recommending to proceed with investing in a new Group Market Exchange (GME) solution:

- Continuing operations with the current SHOP provider is financially unsustainable.
- The new platform will provide support for the current sole source option, which is consistent with the (on and off-Exchange) small group market today, plus Employee Choice (ACA horizontal model and potentially vertical as well) and Dental programs.
- The new platform will create opportunities for further growth in the employer market, in support of administration initiatives promoting employer sponsored coverage.

The new platform provides a distinct 'value add' to Massachusetts employers and their employees by enabling more choice, more predictable employer costs, and enhanced competitive dynamics:

- The Employee Choice model offers an innovative coverage approach for small businesses and their employees that can enhance competition between carriers and connect small businesses with savings opportunities which they may otherwise be unaware of.
- In contrast to the standard model wherein a small employer selects one plan or one carrier for all employees, this approach allows employees to select from a wide variety of plans to which the employer offers to make a benchmark contribution. This benefits the employer by: (a) allowing their employees to pick the best plan to meet their individual needs; (b) allowing the employer to predict their own costs year-over-year with greater predictability; and (c) enhancing competitive dynamics between carriers in the group market by promoting the 'brand breaking' shopping behavior exhibited by individual Exchange shoppers.
- Through the new Employee Choice model, small employers and their employees will be able to find plans with comparable benefit richness to the average small group plan but with options that can cost approximately 30% less. Current market dynamics in the small group market do not always make such savings opportunities as clear.
- Lastly, Employee Choice remains, at this time, a federal statutory requirement.

Figure 1. Employer Contribution Models in New GME Platform

	Sole Source	Employee Choice "Horizontal Option"
Employer Chooses	Single carrier + plan	Single metallic tier
Employee Chooses	Employer selection only	Any plan from any carrier in selected metallic tier
Advantages	Current market standard	ACA-required model
Rating Factors	• Group size • Participation rate • Industry Code (SIC) • Geography • Age	• Group size (=1) • Industry Code (SIC) • Geography • Age
Billing Method	Composite	List
Carriers at Go-live	Current participating	TBD

Group Market Sizing

In recent years, the number of covered lives in the overall Massachusetts small group market have declined. This shift has been dominated by declines for the smallest-sized small employers - those with fewer than 25 employees, as opposed to those between 26 and 50 employees. The Center for Health Information and Analytics (CHIA) enrollment data reveals that, between 2013 and 2016, the number of small group covered lives from employers between 1-25 employees declined by 16%, or approximately 62,000 individuals, in contrast to lives from employers with 26-50 employees, which declined by only 7%, or approximately 9,000 individuals.

Health Connector staff believe that the Employee Choice model is most likely to attract the smallest of employers (fewer than 25 employees), and perhaps most specifically "microgroups" with fewer than 5 employees, who may be most likely to value cost predictability on the part of the employer, who may be less likely to work with a broker, may be most recently established, not already in a business relationship with an intermediary, and may not anticipate becoming large employers who would be more likely to have established HR/benefits strategies in place.

While even with current membership, financial projections show a break-even in the second year of the project, the Health Connector believes growth in membership with the enhanced platform features (in terms of both Employee Choice, as well as broker-friendly features) and renewed focus in this arena is realistic.

Search for New Group Market Exchange Platform

The Health Connector conducted two previous procurements for an ACA-compliant platform. Both procurement efforts returned unacceptable options.

The Health Connector then embarked on a strategy to partner with a state-based marketplace (SBM) with a proven small business platform, which would allow both SBMs to share costs and operate their Group Market Exchanges (GME) at an affordable run-rate. The goal of a partnership with another SBM and the need to meet the requirements of other states as the responding parties, rather than traditional commercial vendors, necessitated a specialized selection process.

To this end, the Health Connector developed a "Questionnaire" approach that sought to understand the capabilities of the SBMs, their applicability to the Massachusetts market, and their value to consumers and the Health Connector. States were also asked to provide a live demonstration of the online system, to participate in a Question and Answer session and to offer a site visit of the SBM's facilities.

The review was undertaken by a Procurement Management Team (PMT) of senior staff from the Operations, IT and Policy/Program teams, supported by the Legal and Finance teams.

The Health Connector received complete responses from two SBMs: HealthSource RI (Rhode Island) and District of Columbia Health Benefit Exchange (DCHBX) (Washington, DC). Overall, the quality of the responses was exceptional – demonstrating deep expertise of other SBMs in the technical, operational and policy topics related to the group market.

NEW PLATFORM RECOMMENDATION

Health Connector staff recommend entering into a cooperative agreement with the District of Columbia Health Benefit Exchange (DCHBX) to utilize their group market exchange service model and platform.

The DCHBX solution will provide the following benefits to the Health Connector and our customers:

- An on-line user experience for brokers, employers and employees, which is intuitive and allows self-service for initial enrollment and qualifying special enrollment events.
- Support of a full range of employer contribution options, including sole source and employee choice, as well as a linkage to new non-group Health Reimbursement Arrangements (HRA) that may become available. These options will mirror the current group market expectations, while also being federal and state compliant, and offer new options for employers to contribute to coverage models that have not previously existed in the group market.
- Support a full range of health insurance products for medical and dental. (Note, wellness will continue to be offered to the market but through the current standalone vendor to start.)
- A service and infrastructure strategy designed to accommodate rapid growth if needed.
- Proven business and technological experience in the small group space, due to DCHBX's own business drivers, which includes serving as the only source of all small group enrollment in the District.
- A platform that can potentially be expanded to accommodate additional business needs of the Commonwealth's employers, such as a wider range of ancillary products or a partnership with the Group Insurance Commission (GIC).

Proposed Timeline and Assumptions

Initial readiness for shopping and enrollment for sales to new groups and migration of existing groups with October 1st effective/anniversary dates is expected on August 15, 2017.

The October 1, 2017 go-live date was chosen deliberately to allow for last minute adjustments to the model prior to a potential increase in volume on January 1, 2018 resulting from the Commonwealth's anticipated Employer Contribution initiative.

In an effort to ease carrier transition to the new platform, DCHBX will be delivering a solution that uses current Massachusetts-based rating factors. As such, it is our expectation that the carriers in the current SHOP sole source program will participate in the new GME platform. However, it is anticipated that some carriers will not have the systems/processes in place to be ready to implement the choice models by August 2017. The Health Connector expects to work with carriers to bring them on as soon as they are able, with a target of January 2018 effective date coverage capability.

The proposed implementation timeline anticipates thorough production-like testing prior to go-live. In parallel with system development and testing, there will also be extensive broker and employer training in addition to an awareness campaign to inform the market about the new products and capabilities.

FINANCIAL PROJECTIONS

The Health Connector was awarded $5.5M in federal Exchange Establishment grant funds to be utilized for federally-compliant implementation costs, which is expected to be sufficient to cover the ~$4.1M cost of the implementation of the core DCHBX solution, inclusive of IT development, operations, infrastructure, training and data migration. A request to release the funds has been submitted to CMS.

Implementation costs associated with sole source or other Commonwealth-specific requirements required by the market and for maximum carrier participation at go-live will need to be funded by non-federal funds, but are estimated at approximately $200,000.

Ongoing technology and business operations costs for the new platform are estimated to be approximately 50% less than the ongoing costs of the current platform, assuming current membership levels. As a result of organic growth, the addition of new product offerings, and the Commonwealth Employer Contribution requirement, the Health Connector anticipates being able to grow membership and become self-sustaining by the second year of operations based on current projections.

Figure 3. GME Financial Projections by Fiscal Year

		Estimated Cost	Estimated Revenue	Net Position
FY 2017	Implementation - Employee Choice (Federally-funded)	$4.1	n/a	n/a
FY 2017	Implementation - Sole Source (State-funded)	$0.2	n/a	n/a
FY 2018	Ongoing Technology and Business Operations*	$2.1	$1.8	($0.4)
FY 2019	Ongoing Technology and Business Operations*	$1.6	$1.6	($0.0)
FY 2020	Ongoing Technology and Business Operations*	$1.7	$1.7	($0.0)

Assumptions: Cost estimates reflect DCHBX expenses only; Cost estimates based on time and materials or are cost-allocated by membership; Cost and revenue based on current membership assumptions

* Note: Does not yet include ongoing costs for sole source

STAKEHOLDER CONSIDERATIONS & OUTREACH

Health Connector leadership and staff initiated a series of phone calls on January 27, 2017 to make key stakeholders aware that the GME proposal will be coming in front of the Board of Directors in February. Initial reactions were neutral to supportive, with several employer associations noting that the features of the potential new model could help many small businesses, and their employees, in the market.

Carrier response was diverse, but overall neutral to positive, with some carriers citing operational or competitive concerns, but others notably viewing the choice models as an opportunity to be more competitive in the small group market.

Health Connector staff plan to work closely and collaboratively with carriers to operationalize the new approach, and with brokers and employers to help bring the new features to market in a way that delivers new value.

BOARD RECOMMENDATION AND NEXT STEPS

Health Connector staff recommends authorizing the Executive Director to enter into agreement with District of Columbia Health Benefit Exchange Authority for the implementation and ongoing operations of a new Group Market Exchange Platform. Implementation costs are projected to be $4.3M, of which $4.1M will be federally funded upon release of the funds. Ongoing costs are estimated at $2.1M in the first year of operations. Subsequent years are projected to cost approximately $1.7M and the Health Connector expects to break even on those costs based on current membership projections.