



Health Connector Fiscal Year 2015 & 2016 Administrative Finance (VOTE)

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Director of Finance

Board of Directors Meeting, July 9, 2015

Agenda



Health Connector Administrative Budget

- Fiscal Year 2015 (FY15) Administrative Budget Year-End Projection
- Fiscal Year 2016 (FY16) Administrative Budget Recommendation

Health Connector Standard and A-133 Financial Audits

- Fiscal Year 2014 (FY14) Results of Financial Audits

Overview



- The purpose of this presentation is to review the Health Connector's FY15 and FY16 administrative finances, which continue to be heavily influenced by Affordable Care Act (ACA) transition activities
- The FY15 year-end projection is substantially better than the budget presented to this Board in July 2014, which forecast a loss of \$10.1M
- The FY15 year-end projected net gain of \$8.4M positions us well for FY16, which will continue to be a year of transition on the path to steady state
- The FY16 administrative budget outlook is unfavorable and reflects a net loss of \$15.8M as a result of the phasing out of federal grant revenue to offset existing administrative costs and continued investments to improve the member experience and stabilize operations for 2016 Open Enrollment

Administrative Budget Update

FY15 Administrative Budget Year-End
Projection

FY15 Administrative Budget Summary



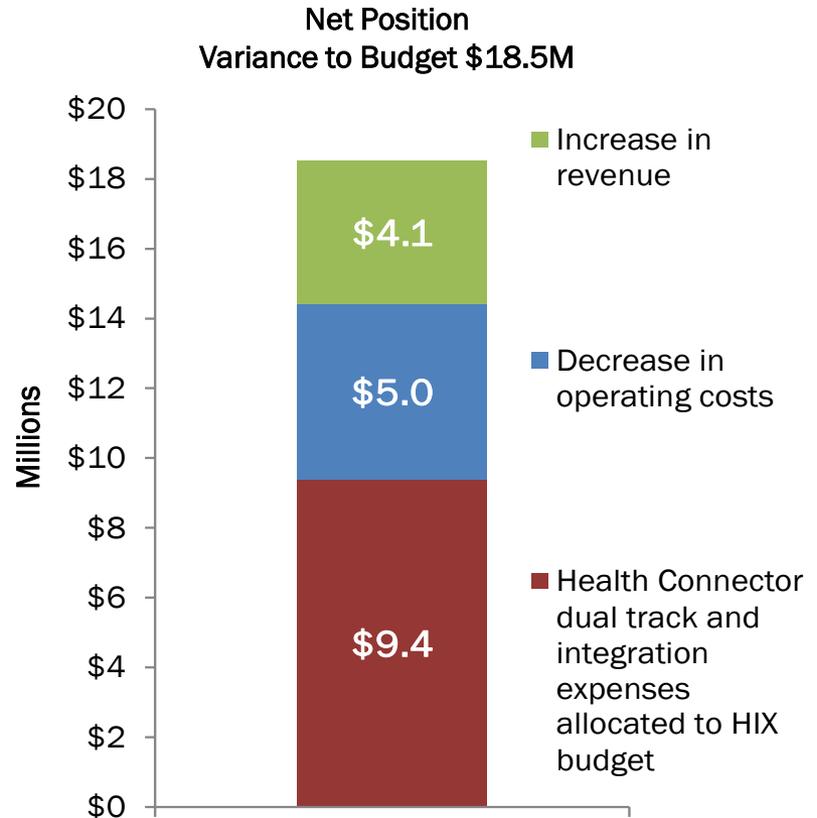
- The FY15 administrative budget results in a projected year-end surplus of \$8.4M without reliance on Health Connector reserves
- The budget approved by the Health Connector Board in July 2014 reflected a \$10.1M net loss and proposed reliance on reserves to offset the deficit
 - Reflected continued ACA transition activities including IT development, business operations and member outreach and transition necessary for Marketplace stabilization
 - Reflected the repurposing of \$10M in non-Health Insurance Exchange (HIX) Establishment Grant funds to the HIX project for dual track implementation at the request of the federal Centers for Medicare & Medicaid Services (CMS), which was the primary contributor to the projected net loss
 - Reflected reinstatement of the carrier fee (2.5-3% of premium) as of January 2015 and federal grant funds through December 2014 to support operations, as well as a state appropriation to support public Marketplace functions

FY15 Administrative Year-End Summary



The FY15 year-end projection results in an \$8.4M surplus relative to the original budget and will not need to rely on Health Connector reserves.

- There are three major drivers of the \$8.4M projected year-end net position, a variance of \$18.5M compared to budget:
 1. Allocation of \$9.4M in costs for hCentive/dual track implementation to the HIX budget, as opposed to utilizing reserves
 2. \$5.0M decrease in operating costs
 3. \$4.1M increase in revenue to offset existing administrative costs



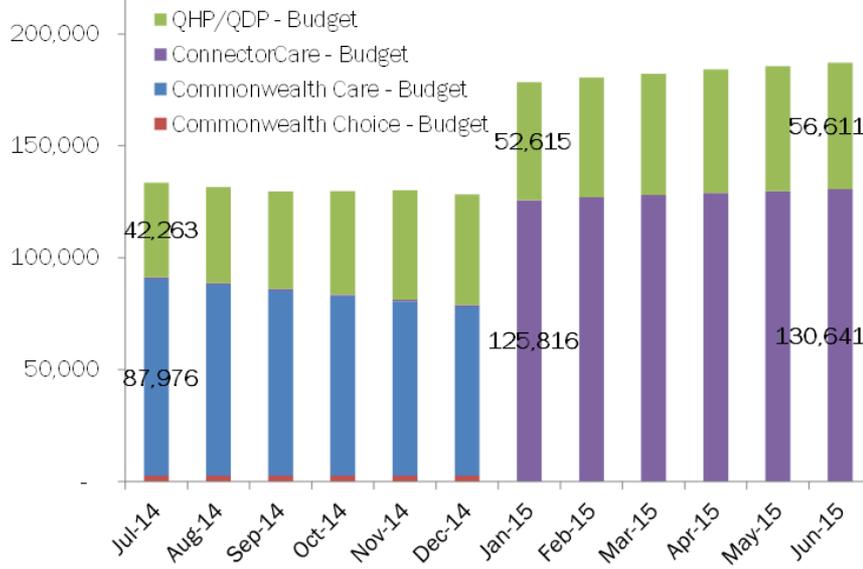
FY15 Enrollment and Member Transition Dynamics



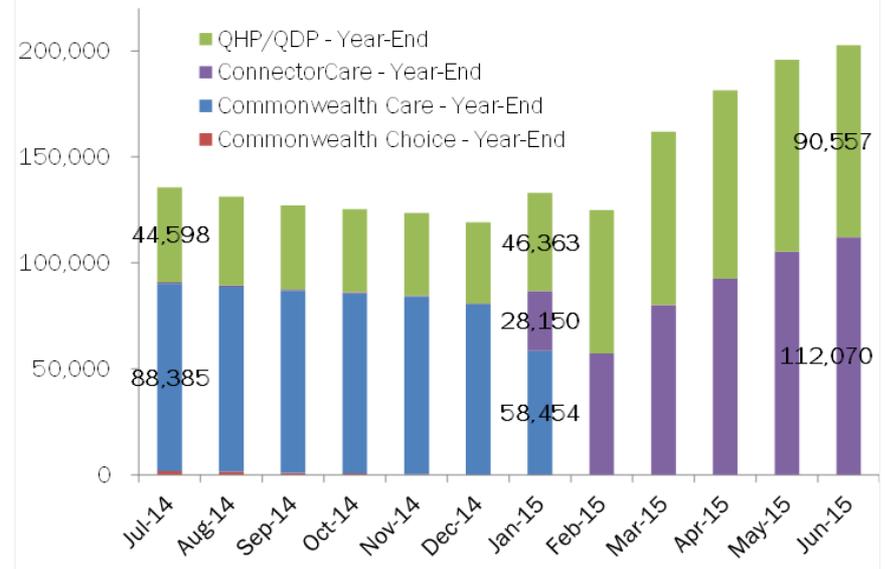
The membership increase compared to budget is primarily driven by higher than anticipated Qualified Dental Plan (QDP)-only members, offset by fewer ConnectorCare members due to the extension of Commonwealth Care.

- The Commonwealth Care extension and the timing for closure of the temporary Medicaid program resulted in a slower ramp-up of members transitioning into ConnectorCare
- Members enrolling in stand-alone dental plans exceeded budget projections by 35K

Members per Month - Budget



Members per Month - Year-End

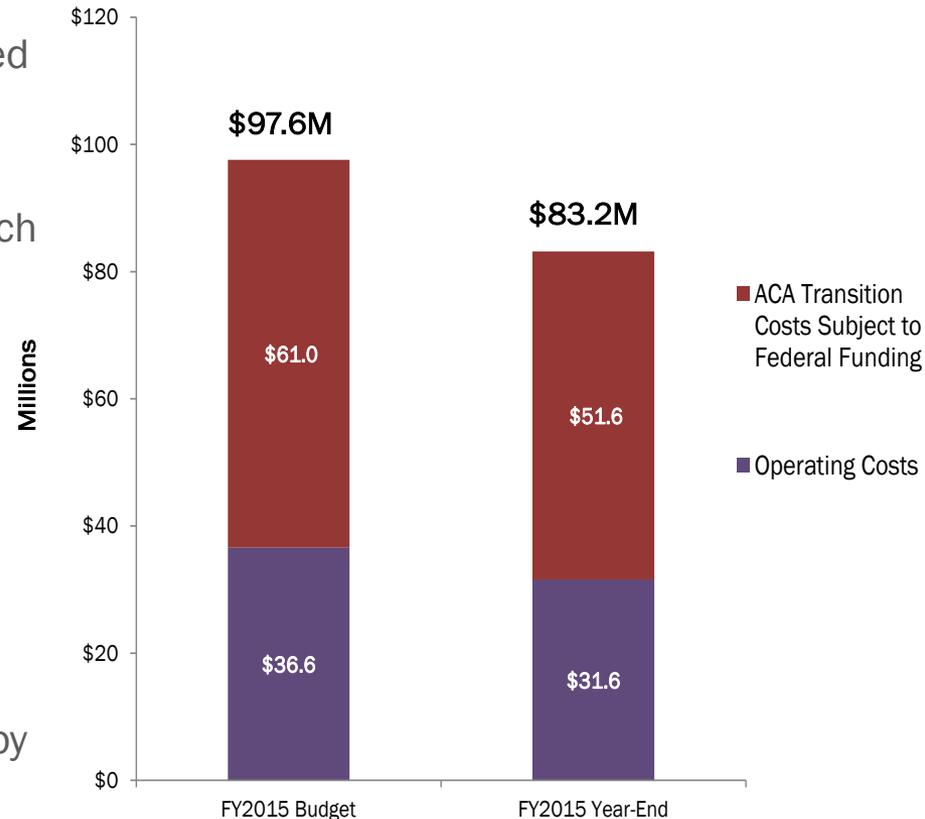


FY15 Administrative Budget Year-End Projection



We are projecting total expenditures of \$83.2M, a decrease of \$14.4M compared to budget.

- ACA transition costs (red) are projected to decrease by \$9.4M overall primarily due to the timing of HIX payments and lower than expected expenses for transitional operating costs and other activities, offset by additional Establishment Grant funds received for outreach and member transition activities during 2015 Open Enrollment
 - ACA Transition costs are directly offset by corresponding federal revenue
- Operating costs (purple) decreased by \$5M overall due to lower expenses and the availability of federal grants and other funding sources to support operating activities, offset by higher costs for Commonwealth Care program administration



FY15 Administrative Reforecast Net Position



The FY15 year-end projection of \$8.4M is favorable and provides a cushion for anticipated FY16 expenses.

- FY15 revenue primarily consists of federal grants, revenue available in the Commonwealth Care Trust Fund and carrier fees
 - Increase in federal revenue offsets existing administrative costs
- FY15 expenses decrease by 15%
- FY15 net position allows the Health Connector to build up our reserves to offset the expected FY16 loss

Revenue	FY2015 Budget	FY2015 Year-End
Federal	\$56,679,423	\$61,861,619
State	\$19,722,059	\$19,856,429
Carriers	\$10,748,145	\$9,531,827
Other	\$297,360	\$294,201
Total Revenue	\$87,446,987	\$91,544,075
Expense	\$97,571,105	\$83,151,705
Net Position	(\$10,124,118)	\$8,392,370

FY14 Reserve Balance (June 30, 2014)	\$25,694,349
FY15 Net Position	\$8,392,370
FY15 Reserve Balance (June 30, 2015)	\$34,086,719

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Administrative Budget Update

FY16 Administrative Budget Recommendation

FY16 Administrative Budget Overview



The FY16 administrative budget recommendation results in a loss of \$15.8M due to the phasing out of federal revenue to support operations and continued investments to improve member experience.

- The FY16 administrative budget recommendation incorporates spending assumptions reflective of continuing ACA transition activities, along with the Health Connector's operating needs
- For the purpose of administrative budget development, a number of key assumptions have been incorporated into the recommendation:
 - Federal grant revenue to offset existing operating expenses is exhausted (as previously noted)
 - Call center, enrollment and premium processing needs
 - IT development and integration of remaining required functionality
 - New operating expenses for HIX operations and maintenance costs allocated to the Health Connector
- We do our best to anticipate unknowns, but some uncertainties remain (e.g., HIX operations and maintenance, consulting support, etc.)

FY16 Call Center, Enrollment and Premium Processing Needs



The FY16 administrative budget recommendation reflects investments necessary to stabilize operations and improve the member experience.

- Our operational assessment highlighted several areas of operations which need to be addressed to improve member experience and resolve member issues
 - Prioritize improvements to the existing payment portal
 - Process backlogs of documents received from members using new system functionality delivered in May 2015
 - Work down remaining document inventory
 - Focus on resolution of outstanding service recovery cases
- We also anticipate the need for enhanced call center service staff during 2016 Open Enrollment to manage inbound call volume as well as to make outbound calls to members

FY16 IT Development and Integration



The FY16 administrative budget recommendation reflects IT investments to continue integration of hCentive with existing systems.

- During FY16, there will be new projects and enhancements to the hCentive and premium processing platform to improve the member experience
 - Integration of premium processing with hCentive to support additional functionality including annual renewals, redeterminations and retroactive enrollments
 - Deployment of additional test and development computer environments required for multiple concurrent software releases
 - Testing of the financial interface (820) with carriers to support multiple plan years
 - Testing of the enrollment interface (834) with both CMS and carriers
- Work is planned to decommission systems that support 2014 members
- Later in FY16 we will focus on integrating the new online payment processing solution and provider search tool

FY16 New Operating Costs



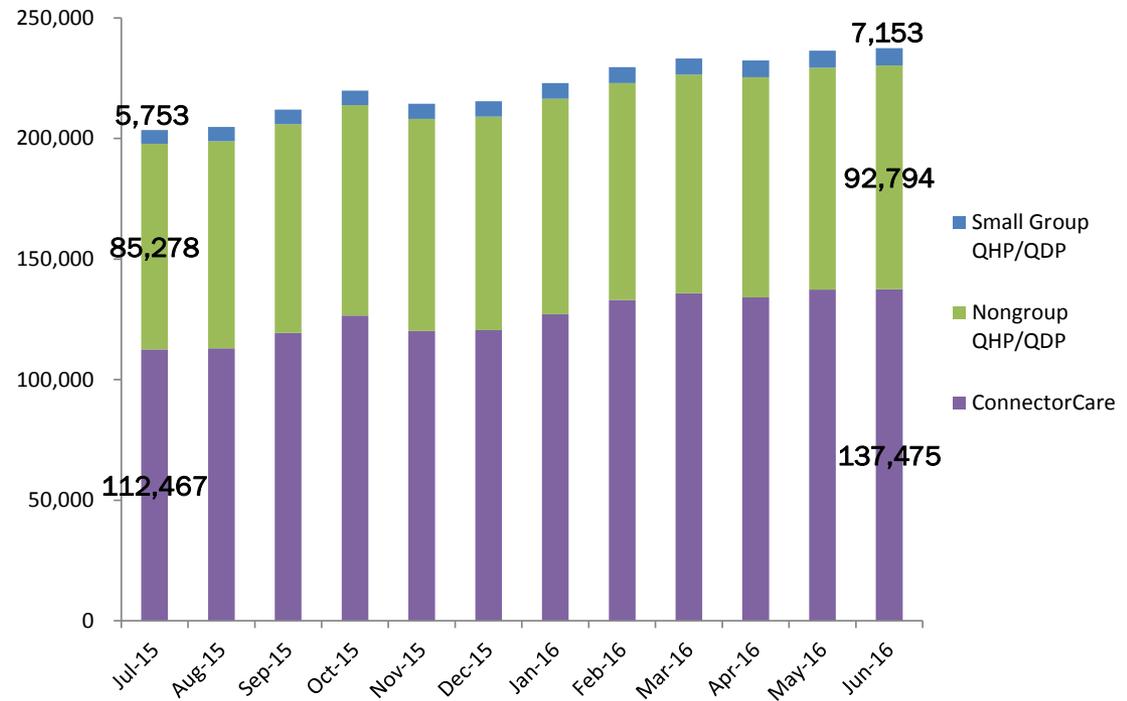
The FY16 administrative budget recommendation reflects ongoing costs allocated to the Health Connector to operate and maintain HIX.

- 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 hosting, software, personnel, etc.
- MassIT will charge back both the Health Connector and MassHealth an amount based on the total cost, using the current approved cost allocation methodology

FY16 Projected Enrollment

ConnectorCare represents the majority of anticipated enrollment growth in FY16.

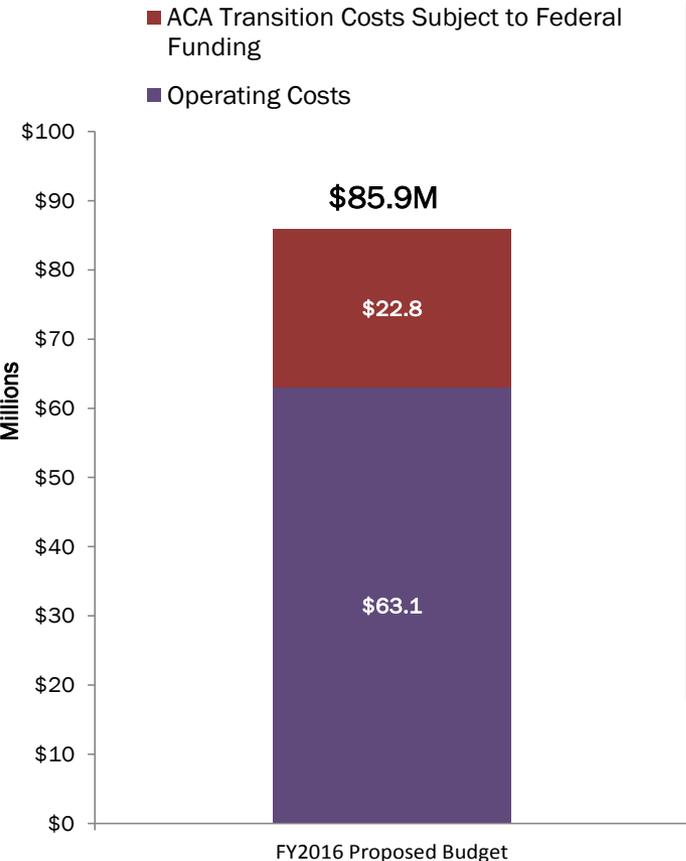
- The FY16 administrative budget reflects 237,421 members by June 2016 (average membership of 221,801)
- We anticipate a net increase of 25K ConnectorCare members during FY16
 - 2016 Open Enrollment outreach efforts (targeted at the remaining uninsured)
 - MassHealth redeterminations
 - Expected member churn



FY16 Administrative Budget Recommendation



The FY16 administrative budget reflects remaining ACA transition activities and ongoing investments to improve the member experience.



	FY2016 Proposed Budget	Activities
ACA Transition Costs Subject to Federal Funding	\$22.8M	<ul style="list-style-type: none"> - HIX development and implementation of remaining functionality - SHOP development and implementation - Outreach and member transition - Risk adjustment
Operating Costs	\$63.1M	<ul style="list-style-type: none"> - Call center, enrollment and premium processing - Health Connector personnel, administrative and IT - Consultants (provider search, RADV, project management, auditing, legal, etc.) - HIX operations and maintenance - Outreach and education - Appeals program - Navigators
Total	\$85.9M	

FY16 Administrative Budget Net Position



As of this date, FY16 reflects a net loss of \$15.8M due to the loss of federal revenue to support operations and continuing transition costs to stabilize operations and improve the member experience.

- FY16 revenue primarily consists of carrier fees, revenue available in the Commonwealth Care Trust Fund and remaining federal Establishment Grant revenue that will offset ACA transition activities
 - Federal Grant revenue decreases significantly in FY16 because Marketplaces may no longer rely on federal funds for operating costs as of this date under the ACA

Revenue	FY15 Year-End	FY16 Proposed
Federal	\$61,861,619	\$22,802,396
State	\$19,856,429	\$19,000,000
Carriers	\$9,531,827	\$27,990,164
Other	\$294,201	\$300,204
Total Revenue	\$91,544,075	\$70,092,763
Expense	\$83,151,705	\$85,898,712
Net Position	\$8,392,370	(\$15,805,949)

FY14 Reserve Balance (June 30, 2014)	\$25,694,349
FY15 Net Position	\$8,392,370
FY15 Reserve Balance (June 30, 2015)	\$34,086,719
FY16 Projected Net Position	(\$15,805,949)
FY16 Projected Reserve Balance (June 30, 2016)	\$18,280,770

Health Connector Financial Sustainability



The Health Connector will use our reserves to absorb the anticipated loss in FY16 necessary for stabilization efforts.

- FY15 surplus positions the Health Connector well in FY16 to support significant activities necessary for stabilization efforts and improvement of the member experience
- We are exploring strategies that will help us become a more efficient and transformative state-based Marketplace
 - Enrollment growth
 - Risk adjustment
 - Shared services
 - Other
- We will be evaluating these strategies in order to identify efficiencies for FY17 and beyond



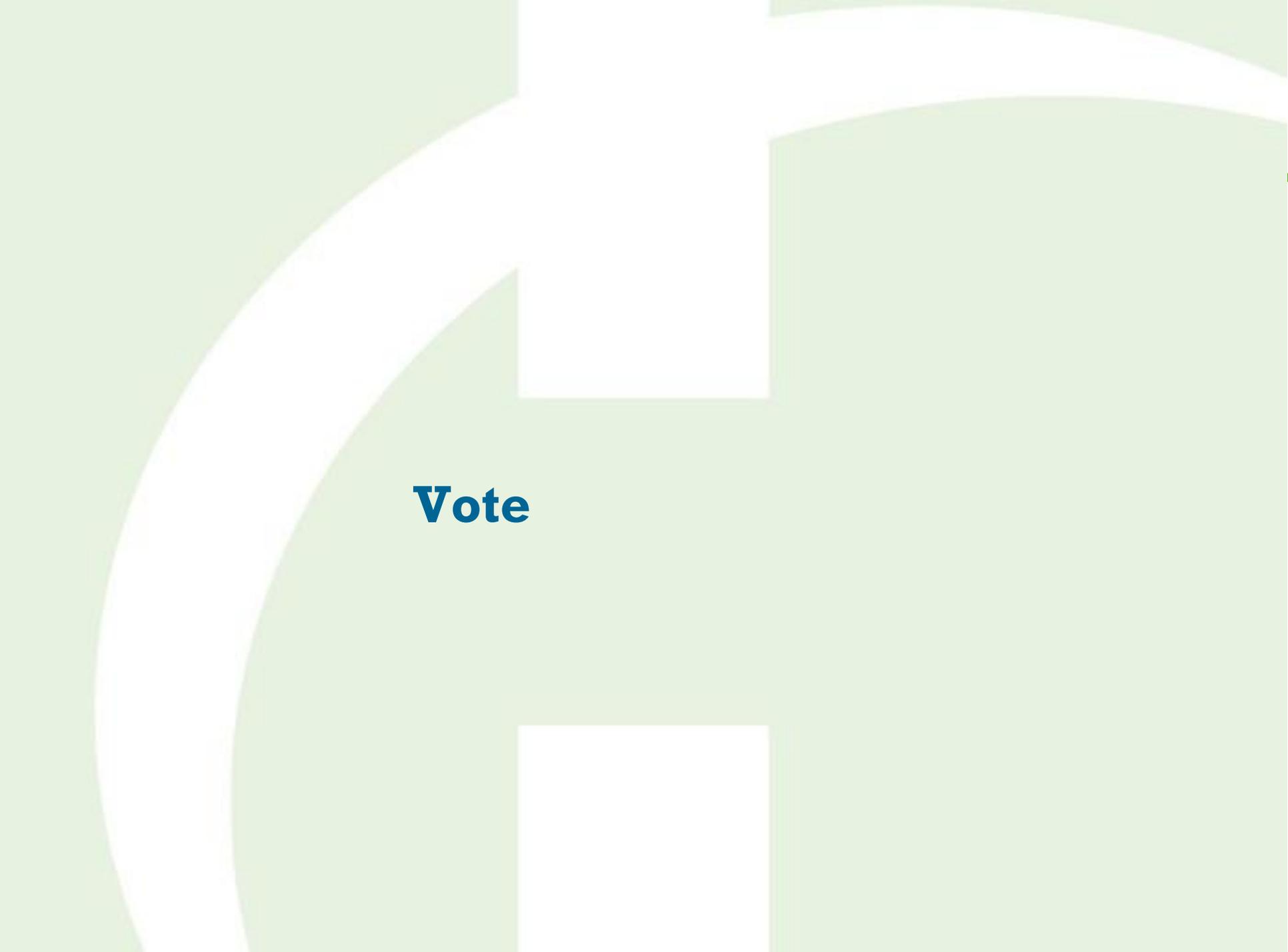
FY14 Financial Audit Results

FY14 Financial Audit Results



The Health Connector's FY14 standard and A-133 financial audit results are impeccable.

- KPMG performed both the standard audit and A-133 audit for FY14
- FY14 audit results:
 - For the FY14 standard audit, we received an “unqualified opinion” stating our financial statements were fairly represented in all material aspects and in conformity with GAAP
 - The FY14 A-133 audit did not identify any material deficiencies with respect to our policies and procedures for managing federal grant funds

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Vote

FY16 Administrative Budget Recommendation – Vote



Health Connector staff recommends that the Health Connector Board of Directors vote to approve the FY16 administrative budget recommendation.



**Appendix: FY15 Administrative
Budget Supporting Materials**

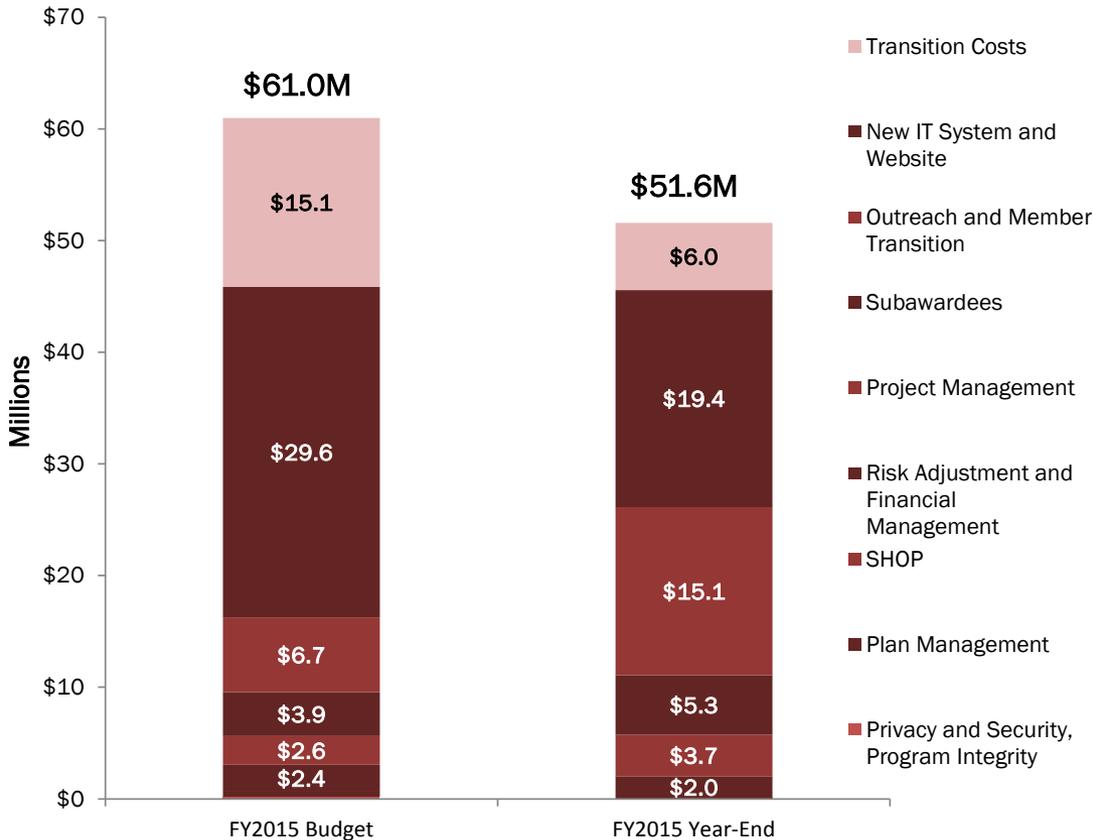
FY15 Administrative Budget



	FY2015 Budget	FY2015 Year-End	Variance	
Commonwealth Care Members (inc. AWSS) Year-End	-	-	-	NA
Commonwealth Care Members (inc. AWSS) Average	40,818	47,380	6,562	16%
Commonwealth Care Member Months (incl. AWSS) Year-End	489,816	568,557	78,741	16%
SBSB 1.0 and QHP/QDP Members Year-End	7,384	5,174	(2,210)	-30%
SBSB 1.0 and QHP/QDP Members Average	6,247	4,925	(1,322)	-21%
SBSB 1.0 and QHP/QDP Member Months Year-End	74,965	59,101	(15,864)	-21%
Dell QHP/QDP Members Year-End	179,868	197,453	17,585	10%
Dell QHP/QDP Members Average	109,676	94,439	(15,237)	-14%
Dell QHP/QDP Member Months Year-End	1,316,109	1,133,265	(182,844)	-14%
Total Members Year-End	187,252	202,627	15,375	8%
Total Members Average	156,741	146,744	(9,997)	-6%
Total Member Months Year-End	1,880,890	1,760,924	(119,966)	-6%
Revenue:				
Commonwealth Care	\$4,422,059	\$4,556,429	\$134,370	3%
Federal Grants	\$56,679,423	\$61,861,619	\$5,182,196	9%
State Appropriation	\$15,300,000	\$15,300,000	\$0	0%
Carrier Fee	\$10,748,145	\$9,531,827	-\$1,216,318	-11%
Student Health	\$224,384	\$217,562	-\$6,822	-3%
Miscellaneous/Investment	\$72,976	\$76,638	\$3,662	5%
Total Revenue	\$87,446,987	\$91,544,075	\$4,097,088	5%
Expense:				
Call Center, Enrollment and Premium Processing	\$30,787,726	\$24,304,019	-\$6,483,707	-21%
HIX Operations and Maintenance	\$2,477,771	\$6,544	-\$2,471,228	-100%
Application Processing and Intake	\$1,225,440	\$0	-\$1,225,440	-100%
Appeals Program	\$519,179	\$268,625	-\$250,554	-48%
Navigator Program	\$1,139,664	\$1,586,260	\$446,596	39%
Small Business Wellness Subsidies	\$0	\$81,996	\$81,996	NA
Outreach and Education	\$2,083,333	\$280,086	-\$1,803,247	-87%
Personnel	\$7,723,678	\$6,371,166	-\$1,352,512	-18%
OPEB Obligation	\$555,087	\$495,393	-\$59,694	-11%
IT (non-HIX)/Facility/Administrative	\$2,035,911	\$1,926,438	-\$109,473	-5%
Consulting and Professional Support	\$3,183,400	\$2,252,919	-\$930,481	-29%
Consulting and Professional Support - CCA (Federally-Funded)	\$12,331,023	\$20,990,947	\$8,659,924	70%
Consulting and Professional Support - HIX (Federally-Funded)	\$29,582,765	\$19,277,591	-\$10,305,174	-35%
Consulting and Professional Support - Subawardees (Federally-Funded)	\$3,926,128	\$5,309,721	\$1,383,593	35%
Total Expense	\$97,571,105	\$83,151,705	-\$14,419,400	-15%
Net Position	-\$10,124,118	\$8,392,370	\$18,516,488	-183%

FY15 ACA Transition Costs

ACA transition costs decreased \$9.4M primarily due to lower transitional operating costs and the timing of other ACA initiatives, offset by additional federal funds for outreach activities.



Transitional Operating Costs (\$9.1M decrease)

- Includes operations development, stabilization activities and SHOP implementation
- Decrease due to lower stabilization costs, the timing of SHOP and hiring of personnel

New IT System and Website (\$10.2M decrease)

- Decrease due to timing of payments and availability of Early Innovator Grant funds to fund a portion of costs allocated to the Health Connector

Outreach and Member Transition (\$8.4M increase)

- Increase due to receipt of L1D, L1E and L1F Establishment Grants to support outreach and member transition activities, offset by lower expenses for marketing

Subawardees (\$1.4M increase)

- EOHHS, CHIA, HCFA (customer service, state-based risk adjustment program and consumer assistance)
- Increase due to receipt of additional Establishment Grants to support outreach activities offset by timing of invoices

Project Management (\$1.1M increase)

- Increase due to contract extension

Risk Adjustment and Financial Management (\$0.4M decrease)

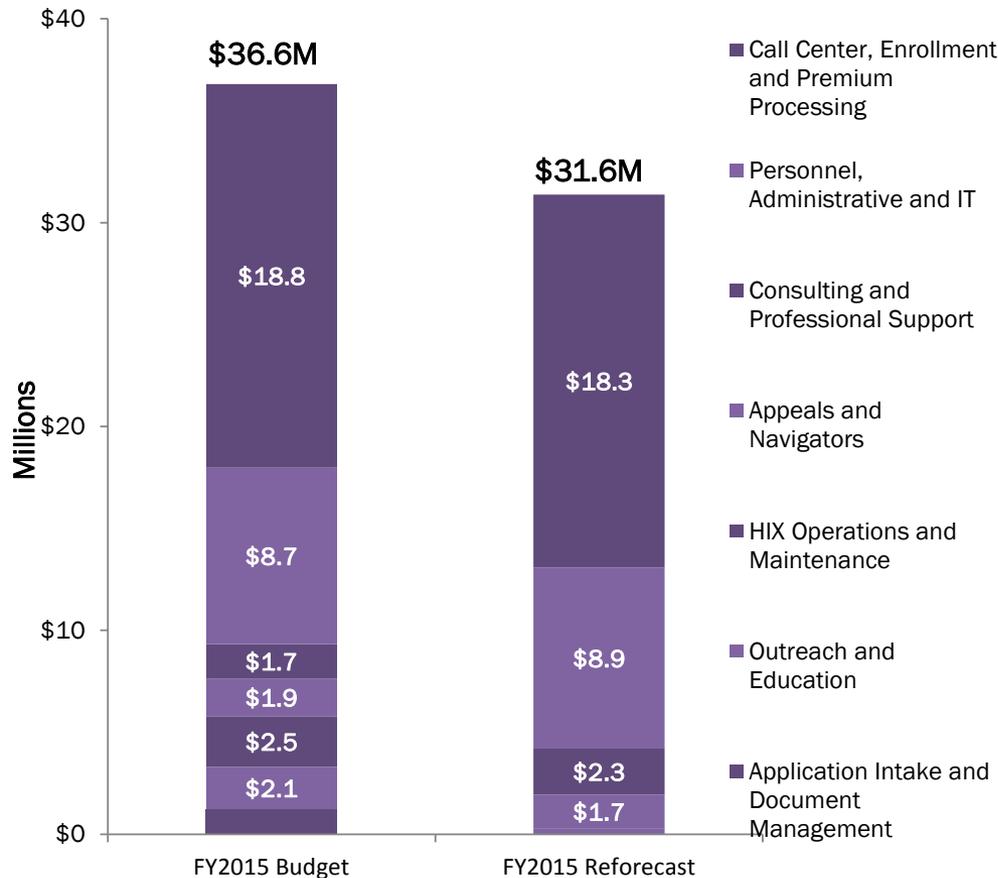
- Decrease due to lower than anticipated expenses

SHOP (\$1.7M decrease)

- Decrease due to timing of implementation

FY15 Operating Costs

Over half of our projected FY15 operating costs represent call center, enrollment and premium processing costs.



Call Center, Enrollment and Premium Processing (\$0.5M decrease)

- Decrease due to lower than projected enrollment offset by Commonwealth Care extension costs and contract extension for our small group vendor

Consulting and Professional Support (\$0.6M increase)

- Increase due to project management support offset by timing of SHOP implementation

HIX Operations and Maintenance (\$2.5M decrease)

- HIX operating costs will be paid with MassIT capital funds through June 2015

Outreach and Education (\$1.8M decrease)

- Decrease due to availability of federal funds to cover necessary outreach and member transition activities

Application Intake and Document Management (\$1.2M decrease)

- Use of shared services model for Medicaid MAGI eligibility (paper processing, customer service)

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**Appendix: FY16 Administrative
Budget Supporting Materials**

FY16 Administrative Budget Recommendation

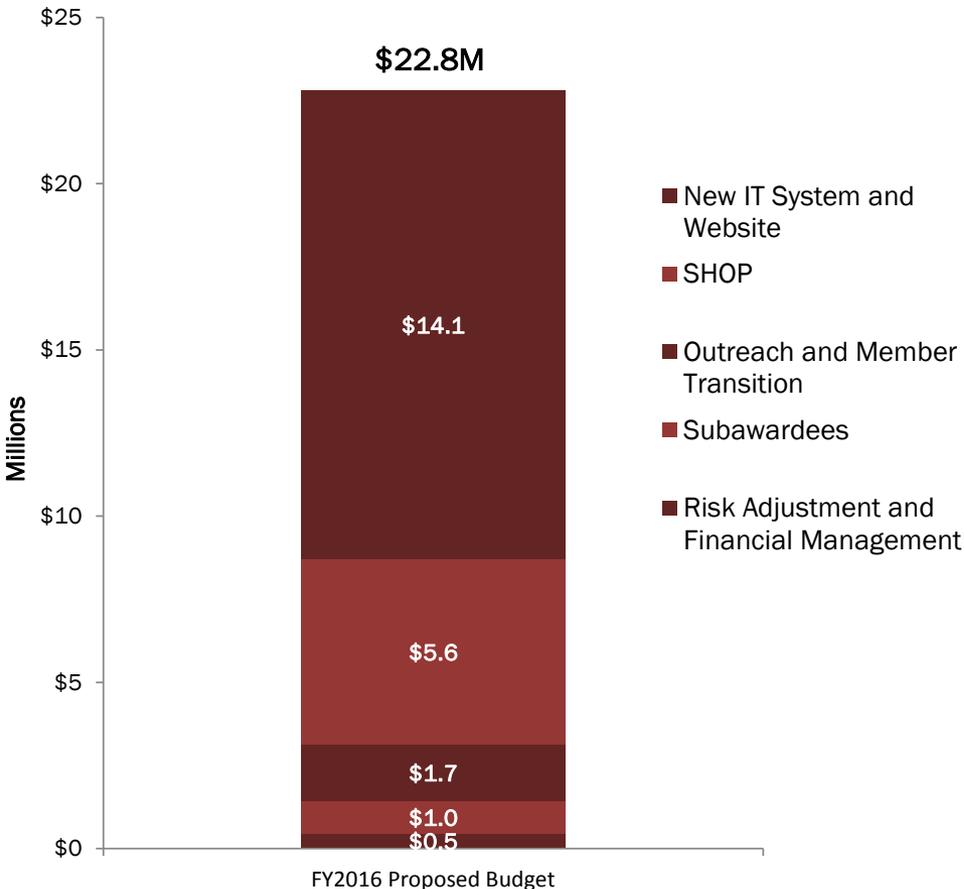


	FY2016 Proposed Budget
SBSB 1.0 and QHP/QDP Members Year-End	6,562
SBSB 1.0 and QHP/QDP Members Average	5,899
SBSB 1.0 and QHP/QDP Member Months Year-End	70,782
DeII QHP/QDP Members Year-End	230,860
DeII QHP/QDP Members Average	215,902
DeII QHP/QDP Member Months Year-End	2,590,830
Total Members Year-End	237,421
Total Members Average	221,801
Total Member Months Year-End	2,661,612
Revenue:	
Federal Grants	\$22,802,396
State Appropriation	\$19,000,000
Carrier Fee	\$27,390,164
Risk Adjustment Audit User Fee	\$600,000
Student Health	\$224,384
Miscellaneous/Investment	\$75,820
Total Revenue	\$70,092,763
Expense:	
Call Center, Enrollment and Premium Processing	\$36,818,645
HIX Operations and Maintenance	\$3,339,853
Appeals Program	\$306,737
Navigator Program	\$1,500,000
Outreach and Education	\$2,751,640
Personnel	\$7,776,725
OPEB Obligation	\$603,389
IT (non-HIX)/Facility/Administrative	\$1,551,146
Consulting and Professional Support	\$8,448,182
Consulting and Professional Support - CCA (Federally-Funded)	\$8,869,139
Consulting and Professional Support - HIX (Federally-Funded)	\$12,964,725
Consulting and Professional Support - Subawardees (Federally-Funded)	\$968,532
Total Expense	\$85,898,712
Net Position	-\$15,805,949

FY16 ACA Transition Costs



FY16 one-time ACA transition costs are anticipated to be \$22.8M.



New IT System and Website (\$14.1M)

- Includes HIX costs allocated to the Health Connector and new system functionality including EFT integration, provider search, renewals, etc.
- Funded by the L2, L1E and L1F Establishment Grants

SHOP (\$5.6M)

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

Outreach and Member Transition (\$1.7M)

- Includes unspent funds from the L1D Establishment Grant for member mailings, events and ethnic media outreach
- Health Connector will work with CMS to determine how these funds may be utilized in CY15

Subawardees (\$1M)

- Includes funds for CHIA to support risk adjustment and remaining funds for EOHHS personnel
- Funded by the L2 Establishment Grant

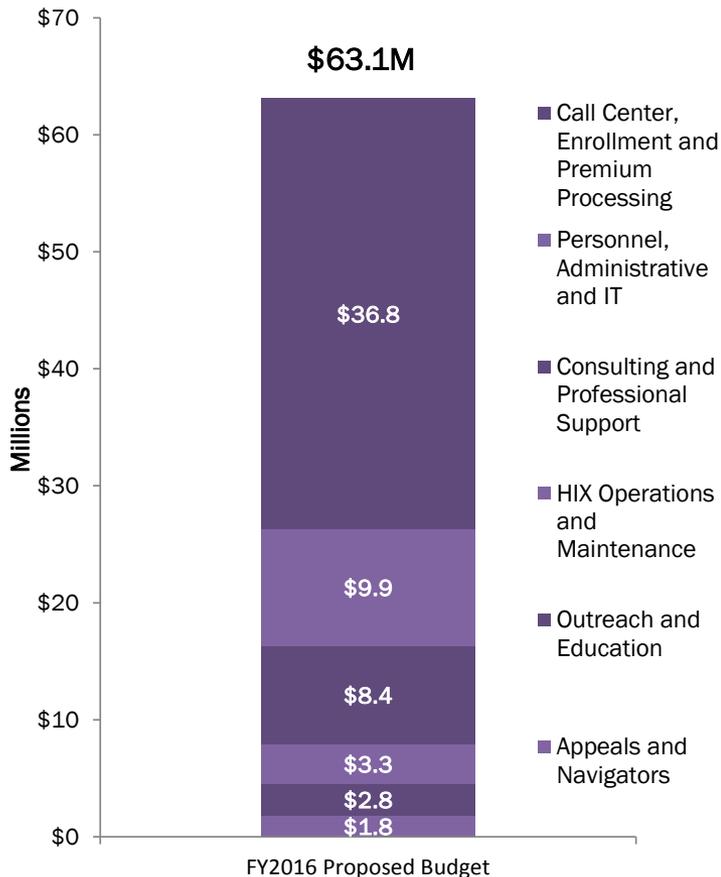
Risk Adjustment (\$0.5M)

- Includes funds for remaining implementation activities of the Massachusetts risk adjustment program
- Funded by the L2 Establishment Grant

FY16 Operations



Health Connector operations are projected to be \$63.1M in FY16, of which more than half funds call center, enrollment and premium processing.



- Call Center, Enrollment and Premium Processing (\$36.8M)
 - Includes PMPM, mailings, postage and work orders for multiple vendors
- Personnel, Administrative and IT (\$9.9M)
 - Includes Health Connector personnel, administrative, facility and non-HIX IT costs
- Consulting and Professional Support (\$8.4M)
 - Includes risk adjustment and RADV audit, provider search, project management, financial/programmatic audits and legal and IT consultants
- HIX Operations and Maintenance (\$3.3M)
 - Reflects HIX ongoing operations and maintenance costs allocated to CCA (e.g., hosting, software, consultants, etc.)
- Outreach and Education (\$2.8M)
 - Includes outreach for 2016 Open Enrollment, targeted messaging to small groups, collateral materials and annual member satisfaction survey
- Appeals and Navigators (\$1.8M)
 - Reflects \$1.5M for Navigators and \$0.3M for Appeals