KAISER PERMANENTE®

November 9, 2012

Peter Lee
Executive Director
California Health Benefits Exchange
560 J Street, Suite 290
Sacramento, CA 95814

RE: Exchange Blueprint

Dear ~~Mr. Lee~~: Peter:

Thank you for the opportunity to review the proposed blueprint for the California Health Benefits Exchange, and for the opportunity to meet with you and Andrea Rosen of your staff recently regarding the Blueprint and other pending issues. Below we summarize our views on the proposed Blueprint.

2014 Individual Exchange Fee Should Be Targeted at About 2.5 Percent
We appreciate the tremendous challenge of the Exchange in being successful. The proposed 4 percent assessment for the individual exchange, however, is too much in conflict with the shared goal of affordable coverage. An administrative fee of this magnitude also creates a potential incentive for carriers to avoid placing individuals in coverage available through the Exchange when "off-Exchange" coverage is a viable alternative. We recommend the Exchange target a fee of about 2.5 percent in 2014. We recognize that setting the assessment amount is, to a degree, somewhat arbitrary. We believe, however, that a fee in the range we suggest makes Exchange coverage more viable in the marketplace.

Assessments Should Not Be Frontloaded
The proposed Blueprint would essentially "frontload" assessments in 2014 to create a substantial reserve, which would be drawn down in subsequent years, depending on the success of the Exchange in attracting enrollment. Instead, we recommend that the Exchange look to scale its expenses, and adjust administrative fees, based on the pace of enrollment in 2014 and subsequent years. We do not believe it is wise for the budget of the Exchange to be, in effect, held harmless from an enrollment pace that is below projections for a period of years.

Assessments Should Be Per Member, Not a Percent of Premium
The administrative work of the Exchange does not vary based on the premium amounts collected, and therefore, fees to cover this work should not be assessed as a percent of premium. The work of the Exchange is focused on individuals – helping them understand their coverage choices, helping them enroll, and ensuring they have a high quality member experience while in Exchange-sponsored coverage. These services are vitally important, but they are not a function of age, or the particular benefit tier a member selects, which are the primary determinants of premiums, and therefore, should not be tied to premium revenues.

Assessments For Certain Services Should Be Allocated by Carrier Based on Utilization
Much of the work of the Exchange will be dedicated to the service of all Exchange members, and to an extent, of the individual and small group markets as a whole, including those who obtain

coverage outside the Exchange. In contrast, however, utilization of some services will vary based on the carrier the member selects.

Customer service calls and Navigator fees, for example, will be used to a greater extent by enrollees in some plans, and to a lesser extent by those who choose other plans. Claims-based coverage tends to result in higher customer service needs, for example. Similarly, products with large deductibles are more likely to result in customer service utilization. The price of such products should reflect this. Also, navigators may well enroll individuals in some plans more than others overall – even without engaging in "steerage."

The most efficient approach to covering these legitimate but variable Exchange costs is to assess carriers a fee based on the use of those services by each carrier's membership. This fairly matches the costs of the Exchange with the carriers and products that produce those costs – and it creates a strong incentive for carriers to provide excellent customer service on their own, thereby sparing the Exchange additional expense and improving the experience of Exchange members.

Fee Should Encourage Partnership

In addition to varying fees based on utilization of certain services, we believe the Exchange should use the assessment as a means to encourage partnership. Carriers that bring large blocks of membership to the Exchange at no cost, who advertise the availability of subsidized coverage, who actively work with employers to direct individuals losing group coverage due to unemployment to the Exchange – all of these activities could prove enormously consequential to the success of the Exchange, and at a rapid pace. We recommend that the Exchange structure its assessments to encourage these forms of partnership, beginning in 2014, and to an even greater extent in 2015 and subsequent years.

Fee for Off-Exchange QHP Products Discourages Exchange Participation; Encourages Non-Standard Products

We do not support the proposal to assess QHP products sold outside the Exchange to support the work of the Exchange. We understand the convenience of this approach, but it would have adverse consequences. First, it would discourage participation in the Exchange. Second, it would encourage the proliferation of non-standard products that would be exempt from the fee. Both of these are contrary to the policy goals of the Exchange. To the extent the Exchange believes its activities benefit the market overall, it should propose a funding mechanism that reflects this. It would be inequitable to levy an assessment on individuals that purchase one type of product, while those who purchase a slightly different product with exactly the same actuarial value would not share in the cost.

Again, thank you for the opportunity to provide input into the important work of the Exchange. Kaiser Permanente looks forward to a longstanding partnership with "Covered California."

Sincerely,

Bill Wehrle
Vice President, Health Insurance Exchanges