



COVERED
CALIFORNIA

COVERED CALIFORNIA POLICY AND ACTION ITEMS

April 17, 2014

BUDGET UPDATE FROM START-UP TO SUSTAINABILITY

Yolanda Richardson, Chief Deputy Executive Director

FROM START-UP TO OPERATIONS

2013-14 BUDGET UPDATE

- In 2013-14, Covered California continued the establishment process of launching a new marketplace incurring numerous one-time costs to build the necessary infrastructure to maximize enrollment and provide coverage.
- Enrollment has exceeded early estimates; exceeding base projections by 105 percent and enhanced projections by 43 percent. Enrollment reached approximately 1.4 million in April, 2014, about 1.2 million of whom are estimated likely to pay their premiums.
- Projected spending in 2013-14 is 16 percent or \$60 million higher than adopted last June. After accounting for the \$443.8 million in projected spending in 2013-14, \$363 million in federal funding remains available to continue to support the establishment of Covered California next fiscal year.

2013-14 START-UP UPDATE

Enrollment

	Current Estimate *	Base Estimate	% Difference vs. Base	Enhanced Estimate	% Difference vs. Enhanced
April 2014	1,190,000	580,000	105%	830,000	43%

* Estimated number of enrollees who are likely to pay their premiums from the approximately 1.4 million who have enrolled.

Positions & Operating Expenses

	FY 2013-14 Approved Budget	FY 2013-14 Recommended Budget	Difference	% Difference
Positions	1,230	1,430	200	16%
Total	\$ 383,947,628	\$ 443,843,615	\$ 59,895,987	16%

- Enrollment is more than two times the Base projection estimated last year
- Enrollment is 43 percent higher than in the enhanced forecast, which was the scenario used for budget projections for 2013-14
- Projected expenditures for 2013-14 are 16 percent higher than the Board approved budget

UPDATED 2013-14 START-UP BUDGET

	FY 2013-14 Board Approved Budget	FY 2013-14 Recommended Budget	Difference
<i>Major Functional Area</i>			
Service Center	\$ 91,080,758	\$ 64,732,239	\$ (26,348,519)
CalHEERS	\$ 108,152,275	\$ 220,783,803	\$ 112,631,528
Enrollment Activities	\$ 132,152,369	\$ 134,218,916	\$ 2,066,547
SHOP	\$ 8,645,183	\$ 9,504,885	\$ 859,702
Plan Management & Evaluation	\$ 25,250,890	\$ 22,788,018	\$ (2,462,872)
Administrative	\$ 34,408,774	\$ 36,556,839	\$ 2,148,065
Total Expenses	\$ 399,690,249	\$ 488,584,700	\$ 88,894,451
Cost Sharing/Reimbursements	\$ (15,742,621)	\$ (44,741,085)	\$ (28,998,464)
Total Operating Costs	\$ 383,947,628	\$ 443,843,615	\$ 59,895,987

The Recommended Budget reflects: funding numerous Board approved contract amendments related to CalHEERS and other programs; Service Center expenditures that are lower due to slower than anticipated hiring; and enrollment expenditures that capture higher spending on marketing (\$12 million) and delayed spending in community grants.

After paying for the updated 2013-14 costs, it is estimated that there will be \$363 million remaining in federal grant funds.

The Board Approved Budget reflects a shift of \$30 million for service center costs related to CalHEERS development activities that should have been reflected in the CalHEERS budget.

CALHEERS CHANGES FOR 2013-14 BUDGET

- CalHEERS enrollment platform that is sponsored by and supports both Covered California and Medi-Cal (for the Department of Health Care Service); and is managed by the state Office of Systems Integration.
- California secured \$375 million in federal grant funding to support the CalHEERS Project. Grant spending on CalHEERS is projected to be \$367.4 million through fiscal year 2014-15.
- CalHEERS was launched on time and it was successfully used by more than 3.5 million Californians to apply for coverage through Covered California and Medi-Cal.
- Late federal guidance, uncertainty in business requirements and changes in partner needs, have contributed to higher than anticipated CalHEERS costs in the 2013-14 fiscal year.

The following areas account for the majority of changes in 2013-14 CalHEERS costs:

- Covered California and DHCS business needs, primarily relating to enrollment, eligibility and plan management, and increased development costs (22 percent).
- Changes in the configuration of the Service Center to better meet workload demand required additional hardware and software (18 percent).
- Executed Board approved options including functionality to support SAWS as a system of record for Medi-Cal (22 percent).
- Costs associated with necessary interfaces with other systems including SAWS, EDD and FTB (32 percent).
- Required services to support system rollout (6 percent).

BUDGET PLANNING FOR 2014-15: THE ROAD TO SUSTAINABILITY

- Covered California's focus in 2014-15, will be to complete the establishment process for the marketplace, stabilize the program and prepare for the first renewal and second open enrollment cycle.
- By the end of 2014-15 Covered California will move into its 'sustainability' phase, we will transition from being funded by federal grants to being funded with assessment revenue.
- The 2014-15 preliminary budget was developed based on Covered California's experience to date, projections for future enrollment and anticipated work in the coming year. It is designed to:
 - Retain current enrollees
 - Continue to build enrollment – estimated to be 1.7 million by the end of open enrollment
 - Provide a better consumer experience to applicants and enrollees
 - Continue to provide the foundation for Covered California's work as an active health purchaser
- The enrollment and revenue projections, as well as the 2014-15 preliminary budget will be subject to Board consideration and approval in May and June.

ENROLLMENT FORECAST FOR 2014-15 AND BEYOND

Individual Market	FY 2013-14	FY 2014-15	FY 2015-16
Enrollees (<i>Fiscal Year End</i>)	1,200,000	1,700,000	1,900,000

- The Preliminary Enrollment Forecast is based on Covered California's experience to date, retention assumptions based on data available from other programs, and projections of new enrollment during months of special enrollment and during the 2015 open enrollment period.
- The preliminary forecast reflects the following major assumptions:
 - 85 percent of the 1.4 million individuals who have enrolled in Covered California will pay their premium.
 - Approximately 500,000 new subsidy eligible consumers enrolling (about 50% of initial open enrollment), an estimated 200,000 of whom will obtain coverage from Covered California during special enrollment as they become ineligible for Medi-Cal, lose of employer based coverage, or experience other qualifying circumstances including marriage, births and moves.
 - Approximately 2.5 percent of enrollees will leave the program every month and 10 percent of enrollees will leave the program at renewal.
 - 88 percent of Covered California enrollees receive subsidies.
 - Enrollment will continue to increase in future years with approximately another 200,000 eligible but unenrolled individuals enrolling in 2015-16.

PRELIMINARY 2014-15 BUDGET

	FY 2013-14 Recommended Budget	FY 2014-15 Preliminary Budget	Difference
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Major Functional Area

Service Center	\$ 64,732,239	\$ 89,300,509	\$ 24,568,270
CalHEERS	\$ 181,042,718	\$ 65,788,077	\$ (115,254,641)
Enrollment Activities	\$ 134,218,916	\$ 132,629,444	\$ (1,589,472)
SHOP	\$ 9,504,885	\$ 14,308,612	\$ 4,803,727
Plan Management & Evaluation	\$ 22,788,018	\$ 24,671,039	\$ 1,883,021
Administrative	\$ 36,556,839	\$ 34,466,095	\$ (2,090,744)
Expense Reserve	\$ -	\$ 20,000,000	\$ 20,000,000
Total Expenses	\$ 448,843,615	\$ 381,163,776	\$ (67,679,839)
Cost Sharing/Reimbursements	\$ (5,000,000)	\$ (2,708,077)	\$ 2,291,923
Total Operating Costs	\$ 443,843,615	\$ 378,455,699	\$ (65,387,916)

- The preliminary recommended budget assumes the \$363 million in remaining federal grant funding can be used to continue to support establishment activities into 2015.
- The preliminary budget reflects a modest decrease in personnel and an increase in the portion of CalHEERS that is covered by other departments (current estimate of \$124M).

SUSTAINABLE OUT-YEAR BUDGETS

	Recommended FY 2013-14	Preliminary FY 2014-15	Projected FY 2015-16
Enrollment	1,200,000	1,700,000	1,900,000
Beginning Balance	\$ 802,134,713	\$ 425,291,098	289,835,398
Projected Revenue	\$ 67,000,000	\$ 243,000,000	\$ 314,000,000
Expenditures	\$ 443,843,615	\$ 378,455,699	\$ 310,713,674
Year-End Balance	\$ 425,291,098	\$ 289,835,398	\$ 293,121,725

- The budget for fiscal year 2015-16 would be adjusted based on experience next year.
- Revenue projections reflect maintaining assessments at \$13.95 per member per month in 2016. Depending on enrollment and expenditure plans, the assessment for 2016 could be lowered to maintain a reserve level of 6 months.

RECOMMENDATION FOR APPROVAL

BOARD RESOLUTION NO. 2014-31

Per Government Code Section 100503 (o), which authorizes the Board to make expenditures to pay program expenses to administer the Exchange, the 2013-14 recommended budget is submitted to the Covered California Board for approval.

Staff Recommendation:

- Approve the recommended budget for Fiscal Year 2013-14, providing expenditure authority of \$488,584,700
- Authorize the Executive Director to adjust amounts budgeted for individual programs, as needed provided that total 2013-14 expenditures remain within the level of expenditure authority approved by the Board
- Adjustments to program budgets and positions shall be provided to the Board as part of the June Budget Update
- By September 1, 2014, review 2013-14 spending and make necessary budget adjustments to ensure appropriate, timely spending of federal grant funds and to capture spending in the correct fiscal year

TEST, LISTEN, LEARN, AND ADJUST: PROGRAM STRATEGIES FOR 2014-2015

ACTIVITIES FOR 2014-15 THAT PROMOTE SUSTAINABILITY

- Focus on the consumer experience, retention of enrollees and building enrollment, including focus on the new pool of subsidy eligible individuals.
- Restructure community based enrollment efforts to reduce administrative costs, increase efficiency and maximize direct contact with consumers.
- Phase-in changes to cost allocation to more appropriately reflect costs across programs and strengthen CalHEERS project governance.
- Evaluate the sales support and field work effort and restructure state activities to more effectively support local efforts to enroll and retain consumers.
- Put refreshed offering of affordable plans in market for 2015 and continue to assure plans are delivering timely and accessible care.
- Strengthen the organization's analytic and evaluation capacity to support Covered California's near term work to maximize enrollment and long-term goals.
- Continue to review and evaluate the organization to ensure the most efficient, effective and lowest cost structure possible.

ADJUSTMENTS TO KEY PROGRAM STRATEGIES

- Covered California is committed to *testing, listening, learning, and adjusting* our strategies to improve the consumer experience and meet our mission.
- The proposed budget reflects strategy adjustments in key areas to assure consumers get needed care, maximize retention, enrollment and service performance within available resources.
- Key areas include:
 - Plan Management and Evaluation
 - Marketing, Outreach and Enrollment Assistance
 - Service Center
 - CalHEERS
 - SHOP
 - Operations, Finance and Human Relations

PLAN MANAGEMENT AND EVALUATION

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
Plan Management & Evaluation	\$ 22,788,018	\$ 24,671,039	\$ 1,883,021

Budget Summary

The 2014-15 proposed plan management and evaluation budget recommendation:

- Includes Plan Management, Policy and External Affairs
 - Conduct recertification and selection process for 2015 Plan Year
 - Plan for broader assessment of plan design and contracting changes for 2016 Plan Year
 - Initiate significant analysis of care provided by contracted health plans
 - Coordinate evaluation across Covered California elements (care delivery, outreach, enrollment)
 - Actively monitor insurance market trends
 - Build platform for Covered California to partner and support care that addresses disparities and delivery system improvements
 - Strengthen organization's analytic and evaluation capacity to support Covered California's near term work to maximize enrollment and long term goals

ENROLLMENT ACTIVITIES BUDGET RECOMMENDATION

Includes Marketing, Outreach and Enrollment, Agent Support, Eligibility Administration, and Communications and Public Relations

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
Enrollment Activities	\$ 134,218,916	\$ 132,629,444	\$ (1,589,472)

Budget Summary

The 2014-15 proposed enrollment activities budget recommendation:

- Very modest reduction in spending.
- Maintains a robust paid marketing and social media campaign to achieve an estimated 500,000 new enrollments to reach 1.7 million enrollees by June 2015.
- Shift in strategy away from bifurcated outreach and enrollment expenditures to increased usage of Navigators to meet federal requirements, reduce administrative costs and maximize funding for direct education and enrollment services.
- Maintain strong support and referral for certified agents.
- Use marketing to support individuals who want to do self-service enrollment.

OUTREACH AND ENROLLMENT ASSISTANCE: STRATEGY ADJUSTMENT RECOMMENDATIONS FOR 2014-15

- Based on early results from data, listening, learning and testing in the initial open enrollment period, Covered California staff recommends the following for future consideration by the Board:
 - Support Certified Enrollment Counselors transition from a per application payment construct to a grant construct
 - Transition from bifurcated funding for outreach and enrollment activities to combined payment for the full spectrum of outreach, education and enrollment
 - Reduce administrative costs by combining outreach and enrollment programs to maximize available funding for enrollment activities
- Covered California will ensure availability and stability of the existing community-based enrollment structure through the continued support of Certified Enrollment Entities and Outreach Grantees through open enrollment 2014 during stand up of the Navigator grant program
- Covered California will allow both current Certified Enrollment Entities and Outreach Grantees to apply for Navigator grants through a competitive process in summer 2014
- Outreach Grantees will be able to shift remaining grant funds to their Navigator grant budget at the time of award

SERVICE CENTER BUDGET RECOMMENDATION

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
Service Center	\$ 64,732,239	\$ 89,300,509	\$ 24,568,270

Budget Summary

The 2014-15 proposed service center budget recommendation:

- Retain existing trained staff to stabilize operations and to improve services in 2014-15.
- Assumes the conversion of 504 staff from permanent intermittent to limited term positions during the course of the year. This conversion will allow Covered California to continue to provide improved levels of customer service. *
- Provides funding for an average of 379 permanent intermittent staff (284 on an FTE basis) over the course of the year.
- May be adjusted to reflect cost allocation based on planned evaluation of Service Center workload related to Medi-Cal.

** Actual number of staff converted will depend on workload and number of trained staff.*

CALHEERS BUDGET RECOMMENDATION

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
Covered CA CalHEERS Costs	\$ 181,042,718	\$ 65,788,077	\$(115,254,641)
CalHEERS Costs Funded by Other Depts	\$ 39,741,085	\$ 124,211,923	\$ 84,470,838
Total CalHEERS Project Costs	\$ 220,783,803	\$ 190,000,000	\$ (30,783,803)

Budget Summary

The 2014-15 proposed CalHEERS budget recommendation:

- Strengthen project governance to increase efficiency and contain costs
- Modify cost allocation to more appropriately reflect costs across programs
- Implement system improvements including the following:
 - Enhance renewal process to facilitate continuity of coverage and high retention
 - Improve support for Special Enrollment
 - Update the Single Streamlined Application
 - Improve system performance for interfaces with county SAWS (eHIT)
 - Medi-Cal Renewals, Redeterminations and Plan Selection
 - Remote Identity Proofing for all Consumers
 - IRS Reporting for APTC Consumers

SHOP BUDGET RECOMMENDATION

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
SHOP	\$ 9,504,885	\$ 14,308,612	\$ 4,803,727

Budget Summary

The 2014-15 proposed SHOP budget recommendation:

- Complete transition of operations to new administrative platform
- Improve Insurance Agent tools, support and educational outreach
- Leverage CoveredCA awareness toward small businesses
- Enhance product offering to meet evolving market

OPERATIONS, FINANCE, EXECUTIVE AND HUMAN RELATIONS BUDGET RECOMMENDATION

	FY 2013-14 Budget	FY 2014-15 Budget	Difference
Administrative	\$ 36,556,839	\$ 34,466,095	\$ (2,090,744)

Budget Summary

The 2014-15 proposed Operations, Finance and Human Relations budget recommendation:

- Manage our operation to promote efficiency and effective delivery of our mission
- Continue to work towards operational excellence in all areas
- Maintain transparent and accountable financial reporting
- Support our staff with growth opportunities and a good work environment
- Plan with recognition of potential uncertainty (with expense reserve)

PROPOSED STANDARDIZED PLAN DESIGNS

Leesa Tori, Interim Director, Plan Management

CRITERIA FOR UPDATES IN BENEFIT DESIGN

1. Limit changes from 2014 benefit designs
 - 2015 Actuarial Value (AV) Calculator
 - Embedded dental
 - Family dental
2. Facilitate portfolio price stability year to year
3. Create an affordable family dental plan
 - Pricing appeal and familiarity to consumer
 - Ease of family dental plan administration for dental plans

DESIGN REVIEW

- Covered CA initiated public review of QHP and dental benefit designs during February, March, and April 2014
- Consumer, children's, health stakeholders' requests: reconsider coinsurance; create parallel designs across metal tiers; review affordability and cost share structure; protect child access to dental coverage
- Covered CA consulted with regulators on policy and technical issues related to AV levels, design clarifications, and application of federal and state law
- Health and dental plan partners: technical, policy, practical feedback on designs; lessons learned from experience to date

OVERVIEW OF CHANGES IN FINAL 2015 BENEFIT DESIGNS

1. Entered all proposed 2015 health plan benefit designs in 2015 AV Calculator; adjusted plan designs as needed to meet actuarial value requirements
2. Reduced health plan out-of-pocket maximum to comply with Senate Bill 639 out-of-pocket maximum requirements
3. Conducted independent actuarial analysis of dental plan designs and elements of health plan designs outside the calculator

OVERVIEW OF CHANGES IN BENEFIT DESIGN BY METAL TIER

Metal Tier	Proposed Design Change
Bronze	<ul style="list-style-type: none"> Lowered generic drug copay Lowered out-of-pocket maximum
Silver	<ul style="list-style-type: none"> Lowered generic drug copay Lowered out-of-pocket maximum
Silver Enhanced	<ul style="list-style-type: none"> Lowered generic drug copay Increased deductible Increased two of three non-generic drug copays (Silver 73)
Gold	<ul style="list-style-type: none"> Lowered generic drug copay Lowered out-of-pocket maximum
Platinum	<ul style="list-style-type: none"> No changes

SUMMARY OF CHANGES FROM MARCH 20 SILVER 73 COINSURANCE PLAN

	2014 Plan Year	March 20, 2014 Proposed 2015 Plan Design	April 17 2014 Proposed 2015 Plan Design
Medical Deductible	\$1500	\$1500	\$1600
Imaging Cost Share	20%	30%	20%
Generic Drug Copay	\$19	\$15	\$15
Preferred Brand Copay	\$30	\$30	\$35
Non-Preferred Brand Drug	\$50	\$50	\$60

*Note: Items in **bold** are those changed since March 20 proposed design.*

- Proposed March 20th imaging cost share increase to 30% would have required same change to standard Silver Coinsurance Plan
- Actual AV was 74.3% which was non-compliant; however it was presented as 73.5%

SUMMARY OF CHANGES FROM MARCH 20 SILVER 73 COPAY PLAN

	2014 Plan Year	March 20, 2014 Proposed 2015 Plan Design	April 17, 2014 Proposed 2015 Plan Design
Medical Deductible	\$1500	\$1600	\$1600
Imaging Cost Share	\$250	\$250	\$250
Generic Drug Copay	\$19	\$15	\$15
Preferred Brand Copay	\$30	\$30	\$35
Non-Preferred Brand Drug	\$50	\$50	\$60

*Note: Items in **bold** are those changed since March 20 proposed design.*

- Non-generic (preferred and non-preferred) drug copays changed to align with Silver 73 Coinsurance plan design

STANDARD BENEFIT PLAN DESIGN

PEDIATRIC AND FAMILY DENTAL BENEFIT

	Proposed Design Elements (Bold items are new since 3/20 Board meeting)
Stand Alone Dental Plan (Pediatric Dental Essential Health Benefit)	<ul style="list-style-type: none"> • \$65 deductible for children in coinsurance design • \$350 pediatric out-of-pocket maximum • Compliance with 85% actuarial value requirement per federal rules • Copay and coinsurance options • No-cost diagnostic and preventive services
Family Dental (Pediatric Dental EHB + Family)	<ul style="list-style-type: none"> • Same pediatric EHB benefit as Stand Alone Dental Plan, plus: <ul style="list-style-type: none"> ○ Adult copay and coinsurance options ○ Adult coinsurance option: \$50 individual deductible, annual benefit limit & conditional waiting period ○ Adult no-cost diagnostic and preventive services ○ At least one adult enrollee in family dental plan ○ If one child enrolls, then all children enroll in same family dental plan

OTHER DENTAL NOTES

- Catastrophic coverage enrollees, with federally-set out-of-pocket-maximum of \$6,600, cannot buy up to 10.5 dental coverage. Pediatric dental coverage is embedded in benefit as in all other medical benefit designs.
- Coordination of benefits approach is pending analysis from Department of Managed Health Care.

REGULATION READOPTIONS

Katie Ravel, Director of Program Policy

REGULATION READOPTION PROCESS

- Today staff is request a 90-day readoption of the following program regulations:
 - SHOP Appeals Process
 - Enrollment Assistance
- No changes have been made to these regulations since the last adoption by the Board.
- Staff will be working with stakeholders on a parallel track to make these regulations permanent.