

## Individual Premium Payment Management

### Summary

The California Health Benefit Exchange is carefully considered three alternatives for handling payment of individual health care premiums to issuers. This briefing describes the alternatives, lists the advantages and disadvantages of each, and identifies a recommended approach.

### Background

The Exchange estimates that by the end of 2014, over 1.5 million Californians will have enrolled in a Qualified Health Plan (QHP) through the Exchange. By 2016 this number is expected to grow to over 2.5 million individuals. All of these individuals will be responsible for paying all or a portion of their monthly premium costs.

The Affordable Care Act (ACA) specifies that “a qualified individual enrolled in any qualified health plan may pay any applicable premium owed by such individual to the health insurance issuer issuing such qualified health plan” (Section 1312, Consumer Choice). As a result, the California Exchange cannot require its individual members to remit premium payments to the Exchange. Estimates of the number of members who will choose to remit payments directly to QHP issuers are not currently available. The Exchange could provide members with the option to remit premium payments directly to the Exchange. Any payment processing and aggregation services the Exchange offers would therefore apply only to a subset of Exchange members.

According to an August 2011 U.S. Department of Treasury informational directive, the Treasury will make direct deposits to insurance companies of federal subsidies such as Advance Premium Tax Credits (APTC) and Cost-Sharing Reductions (CSR). The directive specifies that the advanced payment will be reconciled against the amount of the family’s actual premium tax credit, as calculated on the family’s federal income tax return.

Whatever approach is selected will need to be fully in place by October 1, 2013, including systems and operational support in order to:

- Calculate premium payments
- Issue premium payment notices to members
- Manage electronic and paper check member premium payments
- Collect dishonored premium payments \*

The approach the Exchange selects regarding how issuers receive premium payments will have a significant impact on Exchange members, QHP issuers, and Exchange operations. Accordingly,

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\* Based on the California Department of Motor Vehicles’ dishonored payment volumes for FY 2010/11, the Exchange estimates that over 3% of payments will be dishonored, requiring substantial resources to trace and process these transactions.

the Exchange has analyzed the following three alternative approaches described below in the options chart:

1. Exchange Manages Collection and Aggregation
2. Vendor Manages Collection and Aggregation
3. Direct Payment Approach

**Recommended Approach**

Staff recommend that the Board choose Option 3, the Direct Payment Approach. Premium aggregation would involve creating and operating two procedures to manage premium payments and to assume financial responsibility for dishonored payments. The administrative difficulties inherent in the other approaches are likely to cause very high per member per month costs. Direct payment to the issuers eliminates this complexity while complying with federal mandates.

Individual Premium Payment Management  
 Options Chart

Option 1	Option 2	Option 3
Exchange Manages Collection and Aggregation	Vendor Manages Collection and Aggregation	Direct Payment Approach
<p><b>SUMMARY</b></p> <p>The Exchange would elect to manage the collection of individual premium payments from the subset of members who choose to remit payments to the Exchange, aggregate the collected payments, and forward them to QHP issuers. The Exchange will thus absorb, and must offset, the cost of premium payment administration for this subset of Exchange members.</p>	<p><b>SUMMARY</b></p> <p>The Exchange would elect to contract out the management of individual premium payment processing and aggregation for the subset of members who opt to remit payments to the Exchange.</p>	<p><b>SUMMARY</b></p> <p>The Exchange would leverage the QHP issuers' existing payment processing infrastructure and direct Exchange members to remit premium payments directly to their QHP issuer. Under this option, the Exchange would receive updates on premium payment status and still be able to serve members' service inquiries provider on payment issues, referring members directly to QHP issuers' service centers as appropriate.</p>
<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Reduces the cost to QHP issuers of premium payment administration; this may be a benefit to issuers in the Exchange</li> <li>▪ Provides the Exchange with more control over enrollment and associated premium payments for the subset of members who opt to remit payments to the Exchange</li> <li>▪ Provides the subset of Exchange members who opt to remit payments to the Exchange with a single point of contact for eligibility, enrollment, and premium payment status and problem resolution</li> <li>▪ Allows the Exchange to offset its administrative costs for the subset of members who opt to remit payments to the Exchange by subtracting them from the premiums collected rather than by invoicing QHP issuers</li> </ul>	<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Offers the same advantages as Alternative 1</li> <li>▪ Provides greater flexibility in establishing the infrastructure and operations required to process premium payments for this subset of Exchange members</li> </ul>	<p><b>PROS</b></p> <ul style="list-style-type: none"> <li>▪ Fully meets the ACA's requirement that members be allowed to remit payment directly to QHP issuers</li> <li>▪ Distributes premium payment processing to Exchange QHP issuers, which already have the requisite payment processing infrastructure and administrative overhead accounting procedures in place</li> <li>▪ Accords with Treasury policy related to the distribution and reconciliation of APTC and CSR.</li> <li>▪ Eliminates the complexity associated with accommodating two premium payment remittance processes</li> </ul>

**California Health Benefit Exchange  
Board Recommendations Brief: Individual Premium Payment Management**

Option 1	Option 2	Option 3
Exchange Manages Collection and Aggregation	Vendor Manages Collection and Aggregation	Direct Payment Approach
<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Requires the Exchange to implement two sets of processes for tracking and reconciling premium payments, one for payments remitted directly to the Exchange, and a second for those remitted to QHP issuers</li> <li>▪ Requires building a State payment processing infrastructure from the ground up in fewer than 18 months, including building this functionality into the Exchange IT system, establishing relationships with the State Controller and Treasurer, and hiring and training State staff</li> <li>▪ Because the number of members who will opt to remit payments to the Exchange is unknown, processing volume is unknown; scaling the staff to support this function will be difficult</li> <li>▪ Requires the Exchange to assume the cost of processing dishonored payments while building a financially sustainable operation by January 2015</li> <li>▪ May require a State clearing account for dishonored payment instruments and funding to cover ongoing losses</li> </ul>	<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Possesses the same disadvantages as Alternative 1, except for the requirements associated with standing up a State operation</li> <li>▪ Requires a comprehensive and transparent procurement process, including development of a Request for Proposal, competitive bid evaluation, and potential bidder protests; estimated time to complete – six months</li> <li>▪ Requires the selected vendor to stand up a complete payment processing infrastructure in less than one year, including the implementation of an IT system and hiring and training staff</li> </ul>	<p><b>CONS</b></p> <ul style="list-style-type: none"> <li>▪ Requires Exchange members to remit payments to an entity other than the Exchange; the role of the Exchange in members’ access to health coverage would be focused primarily on eligibility and enrollment processes, and support and referral services</li> <li>▪ Requires the Exchange to invoice QHP issuers for administrative costs</li> <li>▪ Could reduce level of identification of members with the Exchange (which could be mitigated by terms with QHPs regarding how the Exchange is represented to members)</li> </ul>