Covered California

DRAFT

Financial Sustainability Plan

November 14, 2012

COVERED CALIFORNIA

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Financial Sustainability Plan (Draft)

Contents

INTRODUCTION 1

ESTABLISHMENT OF THE CALIFORNIA HEALTH BENEFIT EXCHANGE 1

ELEMENTS OF A FINANCIAL PLAN FOR THE EXCHANGE FOR THE INDIVIDUAL MARKET . 3

Enrollment 3

Exchange Cost Structure 4

Staffing and Ongoing Operations 5

Service Center 5

IT Infrastructure 5

Marketing, Outreach and Education 5

Potential Revenue Sources 6

Estimated Cost and Revenue for the Non Group Operations of the Exchange 7

Operating Reserve 7

Planning for Uncertain Enrollment 7

FINANCIAL PLAN FOR THE SMALL EMPLOYER HEALTH OPTIONS EXCHANGE 10

CONCLUSION 13

INTRODUCTION

The California Health Benefits Exchange has developed a comprehensive financial plan to plan for the development, implementation and operation of the Exchange. The plan identifies the resources needed to build and operate the Exchange. During the start-up phase financial resources needed to plan, implement, and operate the Exchange in its first year will be provided by the federal government through cooperative agreements administered by the Center for Consumer Information and Insurance Oversight (CCIIO) within the Centers for Medicare and Medicaid Services. The Exchange's financial plan provides the information needed to shape the Exchange's Level 2 Establishment Grant request. After completion of the start-up year, the Exchange must itself provide resources it needs to operate. This document describes the plans of the Exchange to meet this requirement.

California established the Exchange through the enactment of Assembly Bill 1602 in 2010 which established the authority for the Exchange to be self-supporting. AB 1602 added Section 100503 (n) to the Government Code that provides that the Exchange may "assess a charge on the qualified health plans offered by carriers that is reasonable and necessary to support the development, operations, and prudent cash management of the Exchange."

This document provides the foundation for the future financial sustainability for the Exchange. It describes expected costs for the Exchange in its first years of operation and describes how the Exchange plans to support these operational costs. This plan is a key document supporting the financial portion of the Blueprint requirement for CCIIO, and provides additional narrative for our Level 2 grant the Exchange is preparing for the development and initial operations of the Exchange through December 31, 2014.

The plan provides for separate financial analysis for the two lines of business to be undertaken by the Exchange: individual enrollment and the Small Business Health Options Program (SHOP), which will offer employer-based coverage to employees of small businesses. The plan assumes that these two operations will each be supported by the revenues that each separately collects through plan assessments.

This plan reflects the planning estimated for the Exchange as of November 12, 2014 and may be revised further as planning is finalized.

ESTABLISHMENT OF THE CALIFORNIA HEALTH BENEFIT EXCHANGE

The California Health Benefit Exchange has been working since it was established through state legislation in 2010 to lay the groundwork for the unprecedented expansion of coverage that will benefit millions of Californians starting in 2014. The California Exchange has made, and continues to make, steady progress through comprehensive planning and development activities undertaken during funding periods of the state's first two Level I Exchange Establishment grants. The work of the California Exchange has involved not only the Board and staff of the Exchange, but a wide array

of committed partners across the state who have joined together to achieve the vision and mission of the California Exchange.

The Exchange has been guided in its work by the foundation adopted by the governing board early in 2012. The board adopted a vision to improve the health of all Californians by assuring their access to affordable, high quality care. The Board also articulated the mission to increase the number of insured Californians, improve health care quality, lower costs, and reduce health disparities through an innovative, competitive marketplace that empowers consumers to choose the health plan and providers that give them the best value. The board adopted values to guide its work including a consumer-focus, affordability, to be a catalyst for change, integrity, partnership, and to be accountable for results.

With the mission and values in mind, the Exchange has developed a financial plan to meet the needs of the Exchange based on the following guiding principles.

1. *Controlling Cost:* In keeping with our value of affordability, the Exchange aims to limit its cost of operations in order deliver products and services that offer high value to our consumers. This includes consideration of the cost impact of assessment fees on the cost of coverage.

2. *Stability:* The Exchange must have a reliable and predictable level of resources to support ongoing cost effective operations and must provide consumers and the health plans it offers with stable rates. This requires planning that can take into account the fact that the Exchange is establishing a new business operation, and there is uncertainty in the nature of the work and the scale of operation needed to provide high quality services to our enrolled subscribers. The uncertainty requires the establishment of prudent operating reserve, which the Exchange believes should be six months operation, with a minimum of at least 3 months of annual cost.

3. *Flexibility:* Given the uncertainties in planning for the operations of the Exchange, our financial plans need to be flexible to allow us to adapt our operational approaches and costs to match the actual services demands.

4. *Accountability:* The Exchange is answerable to the public for careful stewardship of public resources. All financial activities of the Exchange are recorded, monitored and controlled by the financial management staff, and audited independently to ensure that funds are being used appropriately. In addition to providing the Exchange's required federal reporting statements will be prepared according to Generally Accepted Accounting Principles (GAAP) and presented according to Government Auditing Standards Board (GASB) standards. Federal Single Audits will be conducted as required per OMB circular A-133 to monitor and ensure financial integrity of the California Health Benefit Exchange. Additionally, audits will be conducted annually beginning January 1, 2016 as required by Assembly Bill 1602.

5. *Transparency.* The Exchange has a responsibility to consumers and business partners to provide cost effective services. It has established financial policies and procedures to ensure uncompromised fiscal integrity. Financial reports will be prepared and submitted annually to the Board and made available to the public.

ELEMENTS OF A FINANCIAL PLAN FOR THE EXCHANGE FOR THE INDIVIDUAL MARKET

The Exchange has conducted a multi-year analysis of its activities, estimated costs, projected membership, and revenue estimates in order to understand how best to plan the scale of the Exchange operation in order to match the related cost to the capacity of its available revenue sources to support that operation in the long run. The financial modeling was designed to provide an understanding of how variations in membership, associated costs and revenues may affect the sustainability of the Exchange over time and how to manage the uncertainty that accompanies these estimates. This section focuses on the work of the Exchange related to its product offerings in the individual market. Small Business Options Program (SHOP) coverage for employees and dependents was considered separately below

Enrollment

The first step in planning for the scope of the Exchange operation is to estimate the potential level of participation in the three key programmatic offerings of the Exchange:

- Subsidized individual coverage
- Unsubsidized individual coverage

The Exchange has relied on the enrollment estimates for the Affordable Care Act programs that have been calculated by the University of California, Los Angeles (UCLA) Health Policy Research and the UC Berkeley Labor Center. Their California Simulation of Insurance Market (CalSIM) estimates, the most recent being Version 1.8, provide a richly detailed picture of potential responses to the programs offered under the Affordable Care Act and the resulting enrollment in programs from implementation through 2019.

The CalSIM estimates include two potential levels of enrollment. The lower estimate, called "Base," relies on enrollment probabilities found in the literature identified with changes in cost of coverage for individuals with different incomes, health status, English proficiency, and starting points of coverage. A second, higher level of enrollment is modeled, called the "Enhanced" scenario, in which it is assumed that lack of English language proficiency is not a barrier to enrollment, that eligibility and enrollment processes and systems are simplified, and that the state implements a robust outreach and education effort to make all potentially eligible individuals aware of their coverage opportunities.

The California Exchange Board has adopted as its enrollment goal the Enhanced enrollment level. The Board anticipates that the simplified enrollment approach including new eligibility rules, the single application, and on-line access will encourage enrollment. The Exchange also plans to implement an easily accessible customer service center and to establish a cadre of well-trained application assisters to provide one-on-one customer support and easy access to the information needed by the public to understand the offerings of the Exchange and to complete enrollment. It also proposes a large scale, multi-faceted outreach and education campaign with the multilingual components to reach the non-English speaking members of the eligible populations.

The projected levels of enrollment for the Enhanced levels of enrollment projected by the CalSIM model is detailed in Chart 1. These are the targeted enrollments that the Exchange is planning for in its efforts to design outreach and enrollment strategies, in scaling the size of Exchange operations

related to customer service and assister, and in estimating projected member-months of enrollment and related revenue.

The Exchange sustainability analysis must not only consider costs and revenue related to our targeted enrollment numbers, but also provide an understanding of how the Exchange can operate if these expectations are not met. The chart also below shows three additional enrollment scenarios: the Base enrollment scenario as estimated by the CalSIM model; a low enrollment scenario that sets enrollment at 20 percent below the base enrollment scenario; and a lower enrollment scenario with a slower initial enrollment trend. These additional enrollment scenarios provide a range of potential planning scenarios for enrollment expectations that set the framework for understanding how the Exchange can handle the risks associated with uncertainty about actual enrollment in Exchange products.

Chart 1

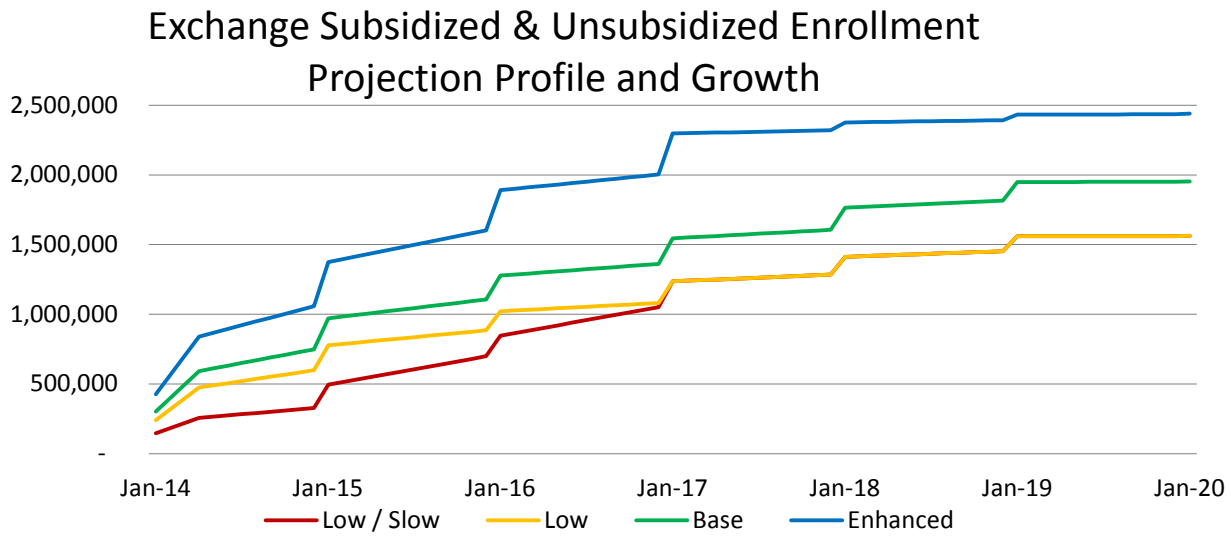

Table 1

	Jan-14	Jan-15	Jan-16	Jan-17	Jan-18	Jan-19	Jan-20
Low / Slow	150,000	490,000	850,000	1,240,000	1,410,000	1,560,000	1,560,000
Low	240,000	780,000	1,020,000	1,240,000	1,410,000	1,560,000	1,560,000
Base	300,000	970,000	1,280,000	1,550,000	1,770,000	1,950,000	1,950,000
Enhanced	430,000	1,380,000	1,890,000	2,300,000	2,380,000	2,430,000	2,440,000

Exchange Cost Structure

The Exchange has constructed financial plans that are based on the Enhanced enrollment scenario. The following discusses how this enrollment level plays out in establishing a cost structure for the Exchange and the related revenue expectations. The Exchange has prepared a financial plan and a related Level 2 grant request that addresses the financial needs through the end of calendar 2014 and

a planning horizon through 2017. This plan provides for both start-up cost that are one-time costs as well as the core operating costs for the Exchange through 2017. Below are the descriptions of the key elements of that operating budget.

Staffing and Ongoing Operations

The Exchange plans to operate with a staff, excluding service center personnel, growing to 293 by 2014 and continuing at that level through 2017. Salaries and benefits for the staff, other than exempt employees, are determined based on standard State of California personnel classifications, benefits and related operating expenses. Salaries for exempt positions are established by the Board. Exchange staff perform functions such as health plan contracting, eligibility and enrollment design and operations, IT system oversight, financial processes, and other required administrative activities.

Service Center

Key to the achievement of planned enrollment levels is a service center operation that is responsive to the public's needs. This requires a significant investment in technology to be able to plan for and handle the fluctuating demand for information about the Exchange and opportunities to enroll in coverage and to provide ongoing information to those enrolled in Exchange-offered coverage. Current estimates of staffing needed to handle the expected demand grow to 860 by 2014.

Current plans call for staff to be located in three separate facilities: the main facility will be in Sacramento, a secondary facility targeted for south/central California, and a third facility at a County-based site. An annual surge of staff resources is anticipated to handle the health plan open enrollment periods and are included in this total number. Staffing will need to be adjusted throughout the year to accommodate fluctuations in demand between open enrollment periods and other times of the year.

IT Infrastructure

California has contracted with an independent vendor to design, develop, and implement the California Health Benefit Enrollment and Eligibility Retention System (CalHEERS) to determine eligibility and manage the enrolled population for the Exchange. This system will provide a robust capability to manage all eligibility, enrollment, premium reconciliation for the individual market and the same functions along with premium aggregation for the Small Group Health Options Program (SHOP).

Marketing, Outreach and Education

Marketing, outreach, and education programs will be an important element in achieving our enrollment goals. The broad, varied business functions of the Exchange and the diverse population of California will demand considerable resources to reach effectively the target population during the start-up period and in 2015 and beyond. We estimate that approximately 5.3 million Californians will be eligible to participate in the Exchange programs for individual coverage. Another 2 million employees of small employers could also be in a position to enroll in Exchange-offered coverage.

Our marketing function will educate and begin enrolling our culturally and linguistically diverse population, with potential enrollees living in both large urban and remote rural areas spread over a large geographic area. California faces multiple challenges to ensure that it reaches eligible individuals with information about the new health coverage options and with support to help them

enroll in the Exchange or other public coverage programs. California's outreach and marketing efforts must factor in the many languages spoken by California's target populations. As a reference point, the state's Medicaid program uses 13 spoken and 12 written threshold languages to serve program beneficiaries. Stakeholders and experts provided ideas on strategies and best practices for marketing, eligibility, assisters/navigators, enrollment and retention programs for communities with distinct cultural preferences and differences, as well as approaches to reach individuals with special literacy, health care literacy or language needs as well as those with multiple language and literacy challenges. Functions include coordination and partnerships, media coverage, advertisements, research and program evaluation. These functions will demand considerable resources during implementation and into operational years in 2015.

Potential Revenue Sources

After the startup period through December 2014 which is supported by federal funding, the costs of the Exchange will have to be supported by the revenue that the Exchange collects. The Exchange is authorized in its founding legislation to assess a fee to be paid by participating health plan issuers. These issuers will contract with the Exchange to offer products called Qualified Health Plans, either through the Exchange or separately in the individual market. The Exchange is considering several revenue generating options:

- A fixed percentage of the total premium for Qualified Health Plans offered in the Exchange;
- A fixed percentage of the total premium for products with the same Qualified Health Plan designs that are sold outside of the Exchange;
- A fixed participation fee charged to issuer;
- A fixed participation fee charged to enrollees, including in the individual market and/or the SHOP;
- A participation fee for supplemental services such as vision and dental coverage sold within the Exchange; and
- A participation fee for other insurance products such as life and/or disability insurance that may be offered for employers in the SHOP.

At this time, the Exchange anticipates charging a participation fee on Qualified Health Plans sold by issuers both inside and outside of the Exchange. The participation fee charged for enrollment outside the Exchange would be at 50% of the in-Exchange rate and only apply to enrollment in the same product, not carrier wide. The Exchange would also charge a fee for enrollment in the stand-alone or supplemental vision and dental products that are sold through the Exchange. However, for the financial modeling shown below the Exchange has only included the in-Exchange Qualified Health Plan participation fee.

Other states are considering supporting the operations of their Exchange with a charge on enrollment both inside and outside of the Exchange, with different plans regarding whether such a charge would entail the individual, small group and/or large group markets. While the work of the Exchange benefits all Californians by reducing the amount of uncompensated care, the cost-shifting that can result from such care and poor health from individuals not having coverage – the Exchange is not considering such revenue models at this time as they would require legislation.

If revenue is collected from fees on non-Exchange Qualified Health Plan enrollment and supplemental products, it would be applied to reduce fees required on in-Exchange Qualified Health Plans.

Estimated Cost and Revenue for the Non Group Operations of the Exchange

The following table (Table 2) shows the financial plan for the Exchange that shows the projected membership, related premium payments, projected grant income and revenue, Exchange costs, year-end balance and operating reserves. As depicted in this table the Exchange would establish an initial fee level at 3% of premium during 2014.

This plan shows the year end enrollments based on the Enhanced projection. At the initial assessment rate of 3% this would generate revenue of $138 million in 2014. Revenue would steadily increase each year as enrollment increases. Costs during 2014 are estimated at $390 million which are covered by both the Level 2 grant funds and the collected revenue. Then in 2015 costs reduce to $315 million and continue at that level through 2017.

Based on the enrollment expected under the Exchange's enrollment targets, the Exchange can expect to end 2014 with a reserve of $133 million. The assessment fee rate for the following year would remain at 3% of premium to collect sufficient revenue to establish a working reserve at the end of 2015 of $76 million.

Table 2
Planned Enrollment & Operating Budget

	2013	2014	2015	2016	2017
Key Variables					
Premium Collected	$ -	$ 4,593,636,060	$ 8,606,230,770	$ 12,078,402,954	$ 15,369,903,069
Members	0	1,058,791	1,602,078	2,002,972	2,319,902
FTEs - Program Operations (Ex. Service Center)	272	293	293	293	293
FTEs - Service Center	530	860	761	761	761
Revenue					
HHS Establishment Grant 1.1-1.2 Funds	$ 79,850,010	$ -	$ -	$ -	$ -
HHS Establishment Grant 2.0 Funds	285,121,369	384,585,858	-	-	-
Plan Assessment Revenue	-	137,809,082	258,186,923	301,960,074	307,398,061
Total Revenue	**$ 364,971,379**	**$ 522,394,940**	**$ 258,186,923**	**$ 301,960,074**	**$ 307,398,061**
Plan Assessment %	-	3.00%	3.00%	2.50%	2.00%
Total Expenses					
Program Operations	54,146,282	57,032,843	47,675,385	49,585,457	50,728,010
Outreach, Education, & Grants	88,715,463	129,884,207	100,217,447	98,695,760	98,695,760
In-Person Assistance	17,522,532	36,738,170	24,700,929	25,346,554	25,346,554
Customer Service Center	87,812,637	102,100,905	91,890,815	91,890,815	91,890,815
CalHEERs System Development & Support	142,620,714	77,924,552	71,596,676	56,864,035	47,036,340
Subtotal Expenses	**390,817,627**	**403,680,677**	**336,081,251**	**322,382,621**	**313,697,479**
Allocated Cost Offsets	(25,846,247)	(14,094,819)	(20,739,715)	(17,121,581)	(14,735,341)
Total Operating Cost	**$ 364,971,379**	**$ 389,585,858**	**$ 315,341,536**	**$ 305,261,039**	**$ 298,962,137**
Expense PMPM			17.65	13.07	10.79
Net Income	**$ -**	**$ 132,809,082**	**$ (57,154,613)**	**$ (3,300,965)**	**$ 8,435,924**
Year-end Reserve Balance	$ -	$ 132,809,082	$ 75,654,469	$ 72,353,504	$ 80,789,428
Minimum Target Year-End Balance (3 months)	$ -	$ 77,000,000	$ 77,000,000	$ 77,000,000	$ 77,000,000
Difference - Surplus (Gap from 3 month minimum)	**$ -**	**$ 55,809,082**	**$ (1,345,531)**	**$ (4,646,496)**	**$ 3,789,428**

Operating Reserve

The Exchange is required to establish a prudent operating reserve to ensure liabilities are adequately covered in the event a precipitous drop in enrollment occurs. As enrollment stabilizes in the

Exchange, operating reserves will be consistently reevaluated to verify if there is a proportional balance between reserves and working capital and the need for an adequate amount to reinvest. A target reserve of six months of expected operating costs, with the minimum level set at three months operating expense. The planning budgets provided here do not seek to have six months operating for the initial years of the Exchange, reflecting the trade-off of wanting to keep the Exchange's participation fee as low as possible especially in the initial years.

Planning for Uncertain Enrollment

The uncertainty associated with projections in Exchange enrollment requires an analysis of how the Exchange can manage if the planned enrollment at the Enhanced level does not materialize. Reduced enrollment has a direct effect on revenue, but slow enrollment growth can also be expected to have an effect on costs because some costs will vary with enrollment, (e.g. assister payments and services center staffing).

The following table (Table 3) provides a view of the financial status of the Exchange if the enrollment at the Enhanced level fails to be realized, and instead, enrollment matches the Base estimate from the CalSIM model. These events would result in a reduction in revenue collected by the Exchange in 2014 because enrollment would be lower. There would also be a corresponding reduction in some of the operating expenses of the Exchange because of less demand in the customer service center and lower reimbursements for assister services. The financial condition at the end of 2014 shows a lower reserve than in the case where the Enhanced enrollment projections are reached. The lower reserve would require the Exchange to increase its assessment fee to 4% of premium throughout 2015 and would leave a reserve at the end of that year of $58 million. Once the enrollment level for 2015 is known, plan assessment fee could be reduced in future years in line with actual membership growth.

An enrollment scenario that is as low as the lowest path shown in Table 4 would present challenges to the Exchange. The financial projections of this eventuality are shown in Table 4. This slow level of growth would result in a minimal reserve at the end of 2014 which, depending on revenue generated from beyond in-Exchange Qualified Health Plans, would require an increase from the initial 2014 fee percentage of 3% in later years in order to maintain an adequate reserve. As shown in Table 4, a 5% fee in 2015 would end the year for the Exchange with a deficit of $27 million and would require further cost reductions than shown in Table 4.

Again, the reduction in enrollment results in corresponding reductions in the costs of the Exchange. In the case that the Exchange experiences enrollment growth that is as slow as this scenario depicts, additional measures will be necessary to reduce the overall costs of the Exchange to better match the costs with the financial capacity to support it. In addition to lower service center and in-person assistance costs, these measures would include reductions in controllable expenses around program operations and outreach, education and grants.

Under all of the planning scenarios, the Exchange will be closely monitoring costs in all areas and adjusting them based both on enrollment but also on demonstrated benefit of investments. For example, the level and nature of outreach and marketing spending in 2015 will be directly informed by the data on what works during nine months of open enrollment in 2013 and 2014, as well as the first six months experience converting to Exchange subsidy enrollment individuals who have a change in life circumstance.

Table 3
Operating Budget under Base Enrollment

	2013	2014	2015	2016	2017
Key Variables					
Premium Collected	$ -	$ 3,245,139,082	$ 5,962,323,790	$ 8,226,038,880	$ 10,633,812,599
Members	0	747,975	1,106,088	1,361,699	1,605,903
FTEs - Program Operations (Ex. Service Center)	272	293	293	293	293
FTEs - Service Center	530	860	501	491	500
Revenue					
HHS Establishment Grant 1.1-1.2 Funds	$ 79,850,010	$ -	$ -	$ -	$ -
HHS Establishment Grant 2.0 Funds	285,121,369	384,120,613	-	-	-
Plan Assessment Revenue	-	97,354,172	238,492,952	287,911,361	265,845,315
Total Revenue	**$ 364,971,379**	**$ 481,474,785**	**$ 238,492,952**	**$ 287,911,361**	**$ 265,845,315**
Plan Assessment %	-	**3.00%**	**4.00%**	**3.50%**	**2.50%**
Total Expenses					
Program Operations	54,146,282	56,567,598	46,825,269	48,431,048	49,573,602
Outreach, Education, & Grants	88,715,463	129,884,207	80,173,958	78,956,609	78,956,609
In-Person Assistance	17,522,532	36,738,170	19,802,604	20,224,904	20,224,904
Customer Service Center	87,812,637	102,100,905	74,938,563	74,290,841	74,887,129
CalHEERs System Development & Support	142,620,714	77,924,552	71,596,676	56,864,035	47,036,340
Subtotal Expenses	**390,817,627**	**403,215,432**	**293,337,070**	**278,767,437**	**270,678,583**
Allocated Cost Offsets	(25,846,247)	(14,094,819)	(20,739,715)	(17,121,581)	(14,735,341)
Total Operating Cost	**$ 364,971,379**	**$ 389,120,613**	**$ 272,597,354**	**$ 261,645,856**	**$ 255,943,242**
Expense PMPM			**22.03**	**16.44**	**13.35**
Net Income	**$ -**	**$ 92,354,172**	**$ (34,104,403)**	**$ 26,265,505**	**$ 9,902,073**
Year-end Reserve Balance	$ -	$ 92,354,172	$ 58,249,770	$ 84,515,275	$ 94,417,348
Minimum Target Year-End Balance (3 months)	$ -	$ 77,000,000	$ 70,000,000	$ 70,000,000	$ 70,000,000
Difference - Surplus (Gap from 3 month minimum)	**$ -**	**$ 15,354,172**	**$ (11,750,230)**	**$ 14,515,275**	**$ 24,417,348**

Table 4
Operating Budget under Low Enrollment

	2013	2014	2015	2016	2017
Key Variables					
Premium Collected	$ -	$ 1,425,594,396	$ 3,448,885,352	$ 5,886,535,461	$ 8,390,685,455
Members	0	326,393	698,530	1,050,886	1,284,723
FTEs - Program Operations (Ex. Service Center)	272	293	248	246	245
FTEs - Service Center	530	860	253	327	376
Revenue					
HHS Establishment Grant 1.1-1.2 Funds	$ 79,850,010	$ -	$ -	$ -	$ -
HHS Establishment Grant 2.0 Funds	285,121,369	383,492,852	-	-	-
Plan Assessment Revenue	-	42,767,832	172,444,268	235,461,418	335,627,418
Total Revenue	**$ 364,971,379**	**$ 426,260,684**	**$ 172,444,268**	**$ 235,461,418**	**$ 335,627,418**
Plan Assessment %	-	**3.00%**	**5.00%**	**4.00%**	**4.00%**
Total Expenses					
Program Operations	54,146,282	55,939,837	40,305,463	42,113,172	43,093,981
Outreach, Education, & Grants	88,715,463	129,884,207	70,152,213	69,087,032	69,087,032
In-Person Assistance	17,522,532	36,738,170	17,326,854	19,370,904	19,370,904
Customer Service Center	87,812,637	102,100,905	58,822,852	63,602,547	66,833,771
CalHEERs System Development & Support	142,620,714	77,924,552	71,596,676	56,864,035	47,036,340
Subtotal Expenses	**390,817,627**	**402,587,671**	**258,204,058**	**251,037,690**	**245,422,029**
Allocated Cost Offsets	(25,846,247)	(14,094,819)	(20,403,386)	(16,775,161)	(14,378,529)
Total Operating Cost	**$ 364,971,379**	**$ 388,492,852**	**$ 237,800,672**	**$ 234,262,529**	**$ 231,043,500**
Expense PMPM			**33.22**	**20.57**	**15.27**
Net Income	**$ -**	**$ 37,767,832**	**$ (65,356,405)**	**$ 1,198,890**	**$ 104,583,919**
Year-end Reserve Balance	$ -	$ 37,767,832	$ (27,588,573)	$ (26,389,683)	$ 78,194,235
Minimum Target Year-End Balance (3 months)	$ -	$ 77,000,000	$ 60,000,000	$ 60,000,000	$ 60,000,000
Difference - Surplus (Gap from 3 month minimum)	**$ -**	**$ (39,232,168)**	**$ (87,588,573)**	**$ (86,389,683)**	**$ 18,194,235**

FINANCIAL PLAN FOR THE SMALL BUSINESS HEALTH OPTIONS EXCHANGE

Many of the considerations for constructing a financial model for the SHOP Exchange are similar to that of the Individual Exchange. The model here depicts the estimated cost and revenues for the SHOP component of the Exchange's work. It includes the added element of paying the agents for enrolling employers, but unlike the Individual Exchange, it does not have payments for assisters but does contemplate payments to agents.

Chart 2 shows the estimated enrollment in the SHOP Exchange based on three enrollments scenarios, High, Medium, and Low. Estimates for financial modeling in the SHOP Exchange rely on the Medium scenario enrollment projections.

Chart 2

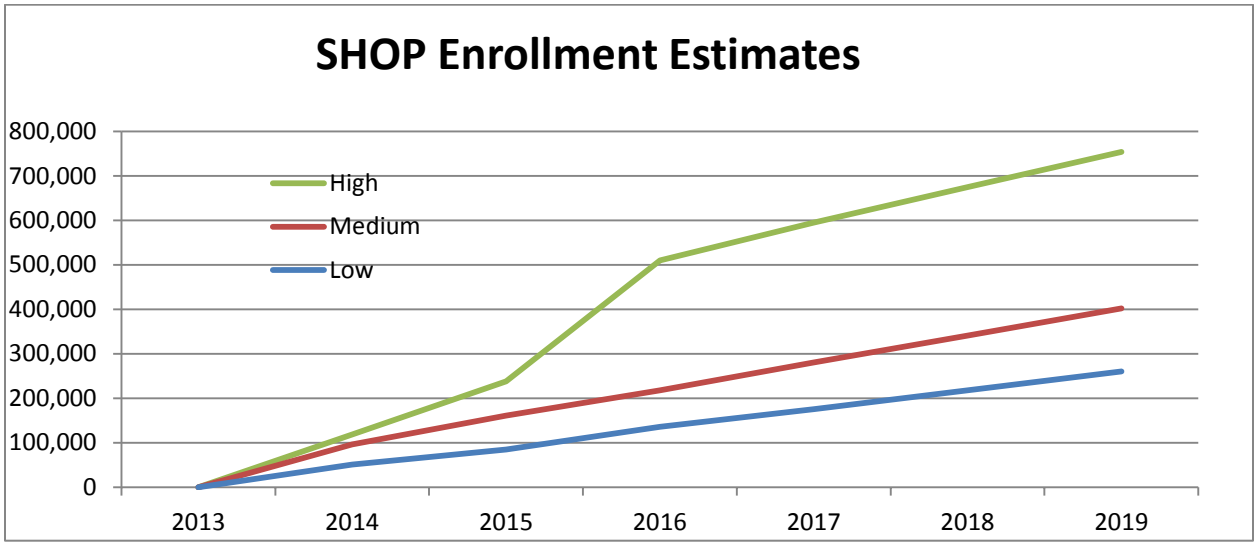

Table 5 below shows the estimated costs and revenues for the SHOP based on the midrange estimate of SHOP enrollment.

Table 5
SHOP Planned Enrollment & Operating Budget

	2013	2014	2015	2016	2017
Key Variables					
Premium Collected (Year End)	$ -	$ 325,448,471	$ 791,471,441	$ 1,221,258,887	$ 1,712,164,782
Members (Year End)	0	96,000	161,000	218,000	280,333
FTEs (Year End)	7	7	7	7	7
Revenue					
HHS Establishment Grant 1.1-1.2 Funds	$ -	$ -	$ -	$ -	$ -
HHS Establishment Grant 2.0 Funds	15,642,039	21,203,227	-	-	-
Plan Assessment	-	13,017,939	25,722,822	30,531,472	29,962,884
Total Revenue	**15,642,039**	**34,221,166**	**25,722,822**	**30,531,472**	**29,962,884**
Plan Assessment %		*4.00%*	*3.25%*	*2.50%*	*1.75%*
Collected for Commissions*		**17,574,217**	**42,739,458**	**65,947,980**	**82,183,910**
Total Revenue and Collected Commissions	**15,642,039**	**51,795,383**	**68,462,280**	**96,479,452**	**112,146,793**
Total Expenses					
Program Operations	11,142,039	14,703,227	15,255,607	15,693,663	16,135,054
Marketing	3,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Partnerships	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Subtotal Expenses	**15,642,039**	**21,203,227**	**21,755,607**	**22,193,663**	**22,635,054**
Allocated Cost Offsets					
Program Operations and Administrative			$ 2,826,146	$ 2,891,172	$ 2,961,856
CalHEERs System Development & Support			$ 5,011,767	$ 3,980,482	$ 3,292,544
Subtotal Allocated Cost Offsets	-	-	$ 7,837,914	$ 6,871,655	$ 6,254,400
Total Operating Cost	**15,642,039**	**21,203,227**	**29,593,521**	**29,065,318**	**28,889,454**
Expense PMPM			*18.01*	*12.30*	*9.36*
Commissions Expense	-	**17,574,217**	**42,739,458**	**65,947,980**	**82,183,910**
Net Income	**$ -**	**$ 13,017,939**	**$ (3,516,869)**	**$ 1,830,074**	**$ 1,447,742**
Year-end Reserve Balance	$ -	$ 13,017,939	$ 9,501,070	$ 11,331,145	$ 12,778,887
Minimum Target Year-End Balance (3 months)	$ -	$ 9,000,000	$ 9,000,000	$ 9,000,000	$ 9,000,000
Difference - Surplus (Gap from 3 months minimum)	**$ -**	**$ 4,017,939**	**$ 501,070**	**$ 2,331,145**	**$ 3,778,887**

The financial plan for the SHOP Exchange Medium scenario plans for an average annual cost of $29 million between 2015 and 2017. An initial Plan Assessment rate of 4% of premium would be sufficient to cover direct and allocated costs in the first two years, and it is likely over time that this percentage could decline in later years.

Agent commissions will also be collected at the SHOP Exchange. The level of collected commissions assumes 1) 80% of premiums are agent-managed, and 40% involve general agents, 2) commission rates assumed are 6% for agent commissions, and 1.5% for general agent commissions.

Enrollment projections below the Medium level result in lower revenue collections that could have an impact on the Exchange and its operation. To some degree the reduction in revenue will reduce the administrative cost of the Exchange. These adjustments are shown in the following table that shows the financial structure of the Exchange SHOP program in enrollment meets only the Low enrollment projection.

The financial plan for the SHOP Exchange Low scenario plans for an average annual cost of $21 million between 2015 and 2017. The reduced costs from the Medium scenario reflects expected lower spend on SHOP Administration, Marketing and Partnerships. An initial Plan Assessment rate of 4% of premium would be sufficient to cover direct and allocated costs in the first year of operation, but would fall short in future years.

The plan assessment would require an increase in the assessment rate in 2015 to adequately fund operations and the year-end reserve. In subsequent years the SHOP Exchange acquires enough members to allow for a reduction in the plan assessment rate.

CONCLUSION

The analysis of the financial sustainability of the Exchange demonstrates that its operation can be self-supporting under a wide range of enrollment conditions. The financial plan described here provides an analysis of a reasonable set of estimates for the expected costs and revenues for the Exchange under a varied set of assumptions regarding demand for Exchange-offered coverage. While the financial condition of the Exchange is dependent on the level of participation in its products, the Exchange's plans for operation are sustainable in the long run under a wide range of potential enrollment scenarios. In addition the Exchange will have the ability to adapt its scale of operation to meet the demand for coverage through its offerings.