



Health Connector Fiscal Year 2012 & Fiscal Year 2013 Administrative Budgets

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**Board of Directors Meeting
July 12, 2012**



Agenda

- **FY12 Administrative Budget Year-End Projection**
- **FY13 Administrative Budget Recommendation**
- **Health Connector Financial Position**



FY12 Year-End Summary

- In June 2011, the Health Connector Board approved a FY12 administrative budget of \$33.3M, which yielded a projected breakeven operating budget (\$64K net operating gain)
- We now project a year-end operating gain of \$1.5M
- The reasons for the improvement in our bottom line are:
 - We have received a federal Level 1 Exchange Establishment Grant that funds long-anticipated and new ACA transition activities
 - Some “Connector 1.0” expenses – Commonwealth Care and salaries – are lower than originally projected



FY12 Administrative Budget Year-End Projection

	FY12 Original Budget	FY12 Year-End Estimate	Variance	
Commonwealth Care Mbrs (non-AWSS)	175,542	164,923	(10,619)	-6%
Commonwealth Care MMs (non-AWSS)	2,070,399	1,922,460	(147,939)	-7% (1)
Commonwealth Choice Mbrs	39,475	40,059	584	1%
Commonwealth Choice MMs	473,579	481,312	7,733	2%
AWSS Mbrs (incl. former Bridge)	17,421	22,437	5,016	29%
AWSS MMs (incl. former Bridge)	209,052	180,767	(28,285)	-14% (2)
Total Members	232,438	227,419	(5,019)	-2%
Total Member Months	2,753,030	2,584,539	(168,491)	-6%
Revenue:				
Commonwealth Care	\$ 25,629,906	\$ 25,629,906	\$ -	0%
Commonwealth Choice	\$ 6,340,299	\$ 6,982,363	\$ 642,064	10% (3)
Bridge	\$ -	\$ -	\$ -	NA
Federal Grants	\$ 1,055,613	\$ 3,397,730	\$ 2,342,117	222% (4)
Investment Income	\$ 91,250	\$ 99,963	\$ 8,713	10%
Student Health Plan	\$ 200,000	\$ 220,000	\$ 20,000	10%
Miscellaneous	\$ 13,426	\$ 82,404	\$ 68,978	514% (5)
Total Revenue	\$ 33,330,494	\$ 36,412,366	\$ 3,081,872	9%
Expense:				
Salary & Benefits	\$ 4,794,842	\$ 4,559,452	\$ (235,390)	-5% (6)
OPEB Obligation	\$ 576,100	\$ 588,244	\$ 12,144	2%
Appeals Program	\$ 368,451	\$ 348,980	\$ (19,471)	-5%
Communications	\$ 1,050,000	\$ 1,060,255	\$ 10,255	1%
Commonwealth Care Customer Service & Premium Billing	\$ 10,969,793	\$ 10,270,068	\$ (699,725)	-6%
Commonwealth Care Enrollment & Eligibility Services	\$ 6,924,160	\$ 6,879,284	\$ (44,876)	-1%
Website Maintenance & Development	\$ 1,312,500	\$ 1,191,638	\$ (120,862)	-9% (7)
Commonwealth Choice Customer Service & Premium Billing	\$ 3,194,133	\$ 3,961,153	\$ 767,020	24% (8)
Consulting & Professional Support	\$ 2,845,450	\$ 4,237,175	\$ 1,391,725	49% (9)
Establishment Grant Expenses - Health Care for All	\$ -	\$ 514,312	\$ 514,312	NA (10)
Information Technology	\$ 593,156	\$ 600,428	\$ 7,272	1%
All Other	\$ 638,229	\$ 662,541	\$ 24,312	4%
Total Expense	\$ 33,266,814	\$ 34,873,531	\$ 1,606,717	5%
Net Gain / (Loss)	\$ 63,680	\$ 1,538,835	\$ 1,475,155	2317%
MassHealth AWSS Reintegration support	\$ 2,000,000	\$ 2,000,000	\$ -	0%



Discussion of Key Variances

- 1) Commonwealth Care (non-AWSS) Enrollment – 7% member month decrease
 - Decrease due to delay of MSP member transition as a result of the federal UI extension announced in February 2012

- 2) AWSS Membership – 14% member month decrease
 - Decrease due to natural attrition of the Bridge program through February 2012, partially offset by enrollment increase due to reintegration of previously-waitlisted AWSS members into Commonwealth Care starting in May 2012
 - Membership reflects AWSS coverage both under the former Bridge program (through February 2012) and under Commonwealth Care post-reintegration

- 3) Commonwealth Choice Revenue – \$642,064 increase
 - Increase reflects slightly higher-than-budgeted member months and average premium



Discussion of Key Variances (cont'd)

- 4) Federal Grant Revenue – \$2,342,117 increase
 - Increase predominantly attributable to the Level 1 Exchange Establishment Grant, awarded to the Health Connector in February 2012
- 5) Miscellaneous Revenue – \$68,978 increase
 - Increase due to one-time revenues (e.g., copying fees, MCO open enrollment package inserts)
- 6) Salary & Benefits – \$235,390 decrease
 - Decrease due to savings from vacancies as a result of staff turnover and organizational adjustments that reduced headcount in certain areas (e.g., Operations, Communications)
- 7) Website Maintenance & Development – \$120,862 decrease
 - Decrease due to less-than-projected maintenance demand during the year, offset by some increase in website testing in preparation for the July 2012 Commonwealth Choice non-group open enrollment



Discussion of Key Variances (cont'd)

- 8) Commonwealth Choice Customer Service & Premium Billing – \$767,020 increase
 - Increase due to additional spending on non-group residency verification and Business Express implementation projects in the second half of FY12
- 9) Consulting & Professional Support – \$1,391,725 increase
 - Increase due to projects related to ACA implementation (e.g., project management support and 3R implementation planning)
 - Incremental spending attributable to ACA transition is offset by the Exchange Establishment grant
- 10) Establishment Grant Expenses – Health Care for All – \$514,312 increase
 - The Health Connector retained Health Care for All to provide consumer assistance support as required by national health care reform
 - Spending is completely offset by the Exchange Establishment grant



Discussion of Key Variances (cont'd)

- Additional variances of note:
 - Support for MassHealth's AWSS Reintegration Work
 - As originally planned, the Health Connector funded \$2M from reserves to support MassHealth's system and infrastructure work related to AWSS reintegration
 - This is not reflected in the \$1.5M operating gain
 - Small Group Wellness Subsidy
 - The Health Connector held \$2.5M from reserves to help fund the small group wellness subsidy program
 - Due to the delay of the re-launch of Business Express, spending on the wellness subsidy is deferred until FY13



Agenda

- **FY12 Administrative Budget Year-End Projection**
- **FY13 Administrative Budget Recommendation**
- **Health Connector Financial Position**



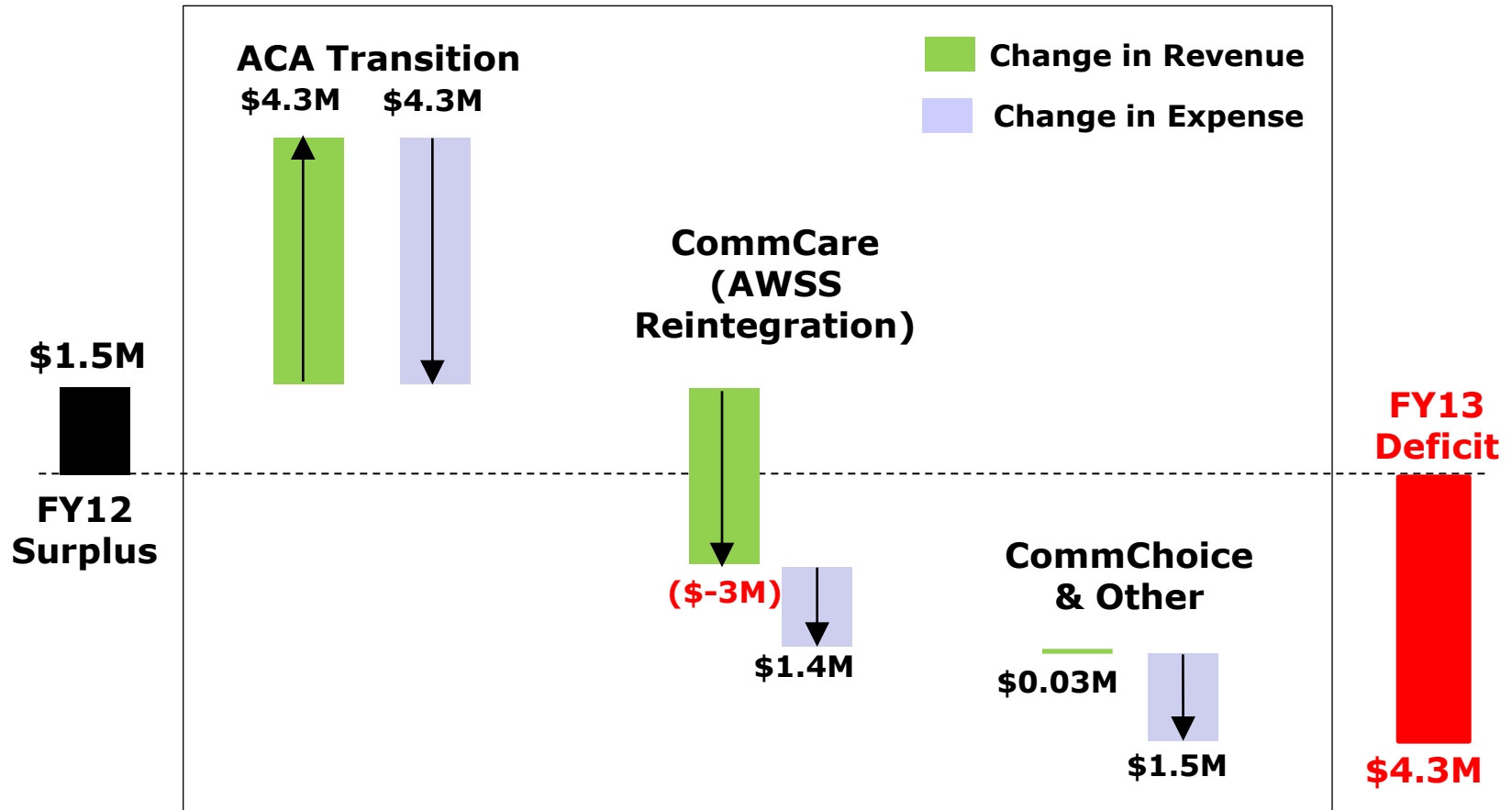
FY13 Budget Recommendation Summary

- The FY13 administrative budget projects a \$4.3M operating deficit. A portion of our reserves will be used to offset the deficit
- The operating budget deficit is principally driven by a \$3M reduction in state funding, as limited state resources are being diverted to fund increased Commonwealth Care program costs due to a significant enrollment increase as a result of AWSS reintegration
 - In the absence of this funding cut (*i.e.*, if state resources were level-funded), the budget would be closer to balance
- Total operating expenses are projected to increase by 20% from FY12 to FY13, or \$7.1M. The bulk of the increase is attributable to new ACA implementation activities that will be funded by incremental federal grant dollars
 - Federal grant revenue to increase by 126% from FY12 to FY13
- The remaining (smaller) portion of the deficit is due to increased Commonwealth Care operational costs stemming from additional enrollment, and critical investments to support Commonwealth Choice (*e.g.*, IT, communications)



FY13 Budget Recommendation Summary (cont'd)

Revenue & Expense Changes – FY13 vs. FY12





FY13 Budget Recommendation Summary (cont'd)

- Our current federal revenue projection is likely conservative, as it reflects a cut-off as of February 2013, when existing federal grants expire. Additional federal grant funding will be pursued, which, if successful, could increase FY13 total revenue and thus moderately reduce the draw from reserves



Summary of Federal Grant-Funded Expenditures

<u>SUMMARY OF FEDERAL GRANT REVENUE/EXPENSE</u>			
	FY11	FY12 Est.	FY13 Proj.
Exchange Planning Grant			
Connector Internal Costs		\$ 327,791	\$ -
Consultant Costs		\$ 491,343	\$ -
Sub Total	\$ 180,866	\$ 819,134	\$ -
Early Innovator Grant			
Connector Internal Costs		\$ 83,020	\$ 58,940
Consultant Costs		\$ 160,948	\$ 630,819
Sub Total	\$ 41,771	\$ 243,968	\$ 689,759
Exchange Planning Grant			
Connector Internal Costs		\$ 222,115	\$ 571,804
Consultant Costs		\$ 1,598,202	\$ 3,305,688
MassHealth Consultants		\$ -	\$ 1,749,550
MassHealth Staff		\$ -	\$ 621,961
Health Care For All		\$ 514,312	\$ 735,688
Sub Total	\$ -	\$ 2,334,628	\$ 6,984,691
TOTAL	\$ 222,637	\$ 3,397,730	\$ 7,674,451



FY13 Administrative Budget Recommendation

	FY12 Year-End Estimate	FY13 Budget Recommendation	Variance	
Commonwealth Care Mbrs (incl. AWSS)	187,360	210,777	23,417	12%
Commonwealth Care MMs (incl. AWSS)	2,103,227	2,477,560	374,333	18% (1)
Commonwealth Choice Mbrs	40,059	41,689	1,630	4%
Commonwealth Choice MMs	481,312	497,975	16,663	3%
Total Members	227,419	252,466	25,047	11%
Total Member Months	2,584,539	2,975,535	390,996	15%
<u>Revenue:</u>				
Commonwealth Care	\$ 25,629,906	\$ 22,629,906	\$ (3,000,000)	-12% (2)
Commonwealth Choice	\$ 6,982,363	\$ 7,029,326	\$ 46,963	1%
Bridge	\$ -	\$ -	\$ -	NA
Federal Grants	\$ 3,397,730	\$ 7,674,450	\$ 4,276,720	126% (3)
Investment Income	\$ 99,963	\$ 99,963	\$ -	0%
Student Health Plan	\$ 220,000	\$ 220,000	\$ -	0%
Miscellaneous	\$ 82,404	\$ 65,000	\$ (17,404)	-21%
Total Revenue	\$ 36,412,366	\$ 37,718,644	\$ 1,306,279	4%
<u>Expense:</u>				
Salary & Benefits	\$ 4,559,452	\$ 5,577,512	\$ 1,018,061	22% (4)
OPEB Obligation	\$ 588,244	\$ 675,000	\$ 86,756	15% (5)
Appeals Program	\$ 348,980	\$ 373,468	\$ 24,488	7%
Communications	\$ 1,060,255	\$ 2,410,000	\$ 1,349,745	127% (6)
Commonwealth Care Customer Service & Premium Billing	\$ 10,270,068	\$ 10,944,114	\$ 674,046	7% (7)
Commonwealth Care Enrollment & Eligibility Services	\$ 6,879,284	\$ 7,590,400	\$ 711,116	10% (8)
Website Maintenance & Development	\$ 1,191,638	\$ 1,200,000	\$ 8,362	1%
Commonwealth Choice Customer Service & Premium Billing	\$ 3,961,153	\$ 3,436,325	\$ (524,828)	-13% (9)
Consulting & Professional Support	\$ 4,237,175	\$ 5,091,211	\$ 854,036	20% (10)
Establishment Grant Expenses - MassHealth	\$ -	\$ 2,371,511	\$ 2,371,511	NA (11)
Establishment Grant Expenses - Health Care for All	\$ 514,312	\$ 735,688	\$ 221,376	43%
Information Technology	\$ 600,428	\$ 933,195	\$ 332,767	55% (12)
All Other	\$ 662,541	\$ 680,090	\$ 17,548	3%
Total Expense	\$ 34,873,531	\$ 42,018,513	\$ 7,144,982	20%
Net Gain / (Loss)	\$ 1,538,835	\$ (4,299,869)	\$ (5,838,704)	-379%



Discussion of Key Variances

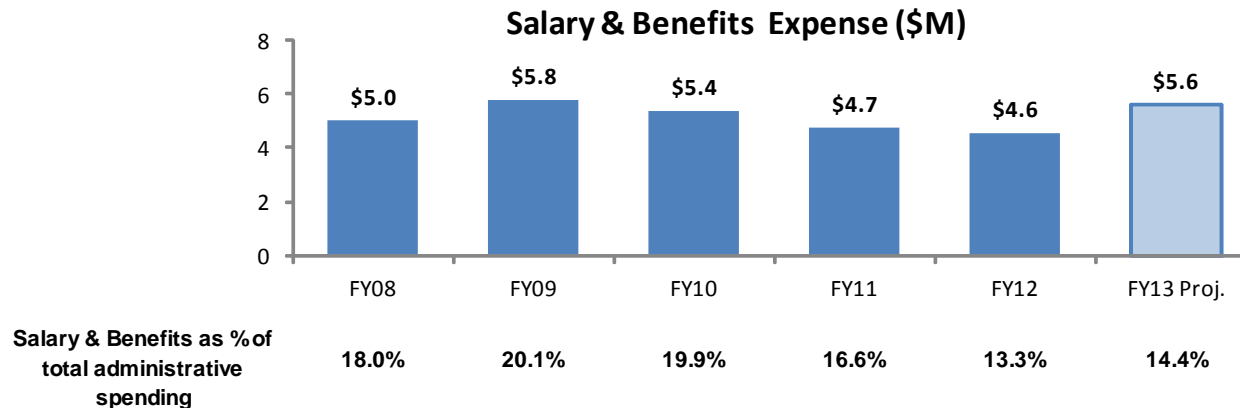
- 1) Commonwealth Care (including AWSS) Enrollment – 18% member month increase
 - Increase due to reintegration of AWSS members (full-year impact on FY13 vs. partial-year impact on FY12) and expected inflow of former MSP members
- 2) Commonwealth Care Revenue – \$3,000,000 decrease
 - Consistent with FY13 state funding adjustment
- 3) Federal Grant Revenue – \$4,276,720 increase
 - Increase associated with ACA-related project spending funded by the Early Innovator and the Level 1 Exchange Establishment Grants



Discussion of Key Variances (cont'd)

4) Salary & Benefits – \$1,018,061 increase

- Increase due to new, predominantly ACA-required positions (\$438K), backfilling of vacant positions (\$233K), increase in employee benefit costs (\$102K) and up to 3% annual salary adjustment based on performance evaluation (max. \$126K)
- The Health Connector aggressively manages salary & benefit expenditures, which has resulted in a steady spending decline in the past several years
- While continuing to apply exceptional fiscal discipline, the FY13 budget recommendation reflects a critical staffing increase that is required to accomplish goals for this budget period, as well as retain a highly productive workforce





Discussion of Key Variances (cont'd)

- 5) OPEB Obligation – \$86,756 increase
 - Increase in tandem with salary & benefits
- 6) Communications – \$1,349,745 increase
 - Increase reflects higher budget for market research and communications campaigns to support non-group open enrollment and Business Express
- 7) Commonwealth Care Customer Service & Premium Billing – \$674,046 increase
 - Increase due to projected enrollment increase and contractual COLA adjustment of PMPM rate
- 8) Commonwealth Care Enrollment & Eligibility Services – \$711,116 increase
 - Reflects a 10% increase in MassHealth ISA, attributable to projected Commonwealth Care enrollment increase



Discussion of Key Variances (cont'd)

9) Commonwealth Choice Customer Service & Premium Billing – \$524,828 decrease

- Decrease due to completion of one-time projects in FY12 (*e.g.*, BE re-launch and non-group residency verification implementation)

10) Consulting & Professional Support – \$854,036 increase

- Increase due to ACA transition projects supported by federal grant revenue:
 - 3R implementation (Level 1 Establishment Grant)
 - IT business analysts (Early Innovator Grant)
- Additional consulting expenditures related to ACA transition might be added later in the year; we would pursue federal grant resources to fund them



Discussion of Key Variances (cont'd)

11) Establishment Grant Expenses for MassHealth – \$2,371,511

- Funds MassHealth staff and project costs to support ACA transition activities
- 100% funded by Exchange Establishment grant

12) Information Technology – \$332,767 increase

- \$134K is due to the reclassification of recurring spending on the wellness program and the provider search tool, offset by a decrease in consulting & professional support
- Remaining increase is reserved for planned IT enhancements, including a decision-support tool



Agenda

- **FY12 Administrative Budget Year-End Projection**
- **FY13 Administrative Budget Recommendation**
- **Health Connector Financial Position**



Health Connector Financial Position

- As of FY12 year-end, the Health Connector's reserves have a balance of \$24.2M. This is close to the \$25M "start up" appropriation provided to the Health Connector upon enactment of Chapter 58 in 2006
- The Health Connector has managed its spending very carefully and, recently, been very effective in leveraging federal grant dollars for ACA implementation
- This has meant that the Health Connector has been able to work with the Commonwealth to reallocate state dollars originally slated for its administrative expenses to pressing programmatic needs



Health Connector Financial Position Summary (cont'd)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12 Est.
Enrollment (Member Months)							
Commonwealth Care & Bridge	-	364,283	1,779,967	2,021,095	2,095,922	2,137,733	2,103,227
Commonwealth Choice	-	-	150,899	229,266	295,082	464,724	483,886
Total	-	364,283	1,930,866	2,250,361	2,391,004	2,602,457	2,587,113
Revenue							
State (Commonwealth Care)	\$ -	\$ 6,469,107	\$ 28,175,559	\$ 32,383,767	\$ 27,714,314	\$ 25,629,018	\$ 25,629,906
Carriers (Commonwealth Choice)	\$ -	\$ -	\$ 1,768,920	\$ 3,063,765	\$ 4,479,541	\$ 6,668,780	\$ 6,982,363
Miscellaneous (investment, etc.)	\$ -	\$ 956,295	\$ 948,692	\$ 575,342	\$ 243,652	\$ 206,433	\$ 402,367
Federal Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,637	\$ 3,397,730
Total	\$ -	\$ 7,425,402	\$ 30,893,171	\$ 36,022,874	\$ 32,437,507	\$ 32,726,868	\$ 36,412,366
Expense							
Operating Expense (Recurring)	\$ -	\$ 19,479,369	\$ 27,786,846	\$ 28,695,665	\$ 26,951,990	\$ 28,142,663	\$ 31,475,801
ACA Transition (federally funded)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 222,637	\$ 3,397,730
Total	\$ -	\$ 19,479,369	\$ 27,786,846	\$ 28,695,665	\$ 26,951,990	\$ 28,365,300	\$ 34,873,531
One-Time Expenses*				\$ 5,500,000	\$ 500,000	\$ 2,500,000	\$ 2,000,000
Total Net Gain / (Loss)	\$ -	\$ (12,053,967)	\$ 3,106,325	\$ 1,827,208	\$ 4,985,517	\$ 1,861,568	\$ (461,165)
Reserves	\$ 24,949,436	\$ 12,895,469	\$ 16,001,795	\$ 17,829,003	\$ 22,814,520	\$ 24,676,088	\$ 24,214,923

*One-time expenses include:

- Contribution to CCTF: \$5M in FY09
- Enrollment and Outreach grant: \$500 each in FY09 and FY10; \$2.5M in FY11
- MassHealth IT development for AWSS reintegration: \$2M in FY12



Health Connector Financial Position Summary (cont'd)

- For FY13, spending a portion of reserves to meet our expenses is the right course of action
 - FY12 budget dynamics along with our fiscal discipline has made us better situated to use reserves in FY13
 - Our reserves will be ~\$4M more favorable (\$1.5M operating gain + delay of \$2.5M spending on wellness subsidy) than anticipated when we first adopted the FY12 administrative budget
 - It is critical that the Health Connector make the investments anticipated in this budget to comply with the ACA as well as to effectively position the Exchange for meaningful impact
- Leveraging the Health Connector reserves to help fund our FY13 administrative operations is a necessary component of the state's fiscal solution for AWSS reintegration



Health Connector Financial Position Summary (cont'd)

- With the contemplated investment for FY13, we are still able to maintain an adequate level of reserves required to protect the organization's financial stability
 - Our estimated reserves at the end of FY13 is \$17~19M (taking into account anticipated contribution towards small group wellness subsidy)
 - This covers expenses for 5~6 months, which is commonly recommended as the minimum reserves for an independent entity
- Having adequate reserves is particularly crucial for the Health Connector for the next several years
 - Just as when our reserves were first capitalized in 2006, we face major organizational changes and some uncertainties over the next few years
 - It is especially important that we maintain adequate reserves to help the Connector manage through a rapidly changing landscape



FY13 Administrative Budget Recommendation - Vote

- Connector staff recommends that the Health Connector Board of Directors vote to approve the FY13 administrative budget recommendation of \$42 million