

Health Connector Fiscal Year 2013 & Fiscal Year 2014 Administrative Budgets

(VOTE)

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**Board of Directors Meeting
July 11, 2013**





Agenda

- Overview of FY13 & FY14
- FY13 Administrative Budget Year-End Projection
- FY14 Administrative Budget Recommendation



Focus of FY13 and FY14: ACA Implementation

- The Health Connector's FY13 and FY14 administrative budgets are heavily influenced by Affordable Care Act (ACA) implementation initiatives
- Modeled after the Massachusetts reform but not identical, the ACA offers not only groundbreaking opportunities to the rest of the nation but also tremendous benefits to the Commonwealth
 - Significantly enhanced federal resources to help cover people already served by the Commonwealth's health insurance programs
 - Expanded federal subsidies that make it easier for many individuals and small employers to find and maintain affordable coverage
 - Major investments in infrastructure that empower consumers by promoting transparency and innovation in health insurance
 - Federal support for delivery system reforms that promote better, more affordable care



The ACA Strengthens the Health Connector

The ACA makes the Health Connector better and stronger at what it is designed to do.

- Provides subsidies to more people and businesses who need them to maintain coverage
 - Federal and state subsidies for low-income workers who cannot afford their employer-sponsored insurance
 - Tax credits for qualified individuals with moderately-low income (300-400% of the Federal Poverty Level)
 - Tax credits for qualified small businesses with low wage employees, on top of the Health Connector's existing Wellness rebate program
- Modernizes the Health Connector's technology and infrastructure
 - Real-time eligibility determination, cutting-edge website with easy-to-use decision support
- Provides new rules and tools to help streamline the market and promote competition
 - Metallic-tier based, simplified product framework to be applied market-wide
 - Risk adjustment to strengthen long-term premium stability and competition
 - Essential Health Benefits, among other things, help improve access to dental coverage

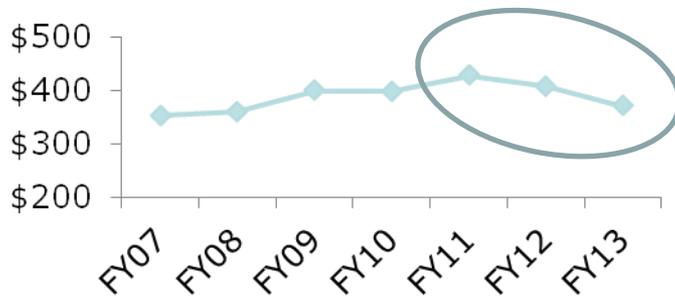


The ACA Strengthens the Health Connector (cont'd)

Building upon the Health Connector's track record to date.....

Bending the Cost Curve

**Commonwealth Care
Capitation Rate
(\$PMPM)**



- Annual trend ~1% over the life of program
- 2-year (FY12 and FY13) savings in excess of \$260M relative to inflation

Creating a Vibrant Marketplace

- Helped establish a functional, easy-to-access non-group market – did not previously exist
- Brought more carriers into the market
- Experimented with new models/programs such as narrower networks, employee choice, small business wellness etc.

Improving lives and saving \$ for real people



**Ada May & Donald Roberts
Owners, Amelia Payson
House Bed & Breakfast,
Salem, MA**

Ada May came to the Health Connector and saved \$300 compared to her old plan.

"It's truly creditable, affordable coverage that focuses on primary preventive care and early detection with hospitalization coverage should you need it."



The ACA Strengthens the Health Connector (cont'd)

Our transition to Health Connector 2.0 seeks not only to comply with the ACA but also to achieve greater benefits and savings for consumers and businesses.



- More people actively shopping for insurance, comparing options and saving money
- More competition that dynamically rewards value and yields savings
- Faster, more vibrant innovation that seeks to contain cost by improving care delivery



We Have A Lot To Accomplish

To achieve and maximize the benefit of the ACA, the Health Connector has chosen an ambitious path of ACA implementation.

Building the foundation of ACA-compliance that applies to all states

Introducing key enhancements that:

- Define the Health Connector's transition to "2.0"
- Differentiate Massachusetts as a national leader

Managing unique challenges associated with our mission to preserve the success of Massachusetts reform



We Have A Lot To Accomplish (cont'd)

Like other state-based Marketplaces, we must build many core capabilities from the ground up.

- Brand-new IT system capable of processing ACA-required eligibility determination based on Modified Adjusted Gross Income (MAGI)
 - Currently the Health Connector largely relies on a paper-based function provided by MassHealth
- New system interface to handle data exchange with the federal data hub (IRS, CMS/CCIIO, Dept of Homeland Security)
- New privacy and security mechanisms that meet ACA-defined standards
- New reporting and financial management functionalities associated with the administration of federal tax credits and cost-sharing reductions
- New infrastructure to support Navigators and other enrollment assisters



We Have A Lot To Accomplish (cont'd)

In addition, we are taking bold steps to invest in key enhancements that position the Health Connector and the Massachusetts market for long-term success and continued national leadership.

- New product platform with a fully-redesigned and expanded portfolio
- “Version 2.0” customer experience, with a revamped website, a suite of decision-support tools, along with significantly-enhanced customer service featuring new solutions such as mobile access, web chat, etc.
- Our approach to IT development entails substantially greater scope and complexity relative to most other states
 - Customized and reusable technology (vs. “off-the-shelf”), which is federally preferred as it allows additional states to leverage the intellectual property
 - A fully-integrated development that not only powers the Marketplace, but also modernizes Medicaid
 - Harder development upfront but lower ongoing cost (we will own the system)
- Massachusetts is the only state that has successfully developed a federally certified state-based risk adjustment model, calibrated for superior performance and leveraging the state’s All Payer Claims Database



We Have A Lot To Accomplish (cont'd)

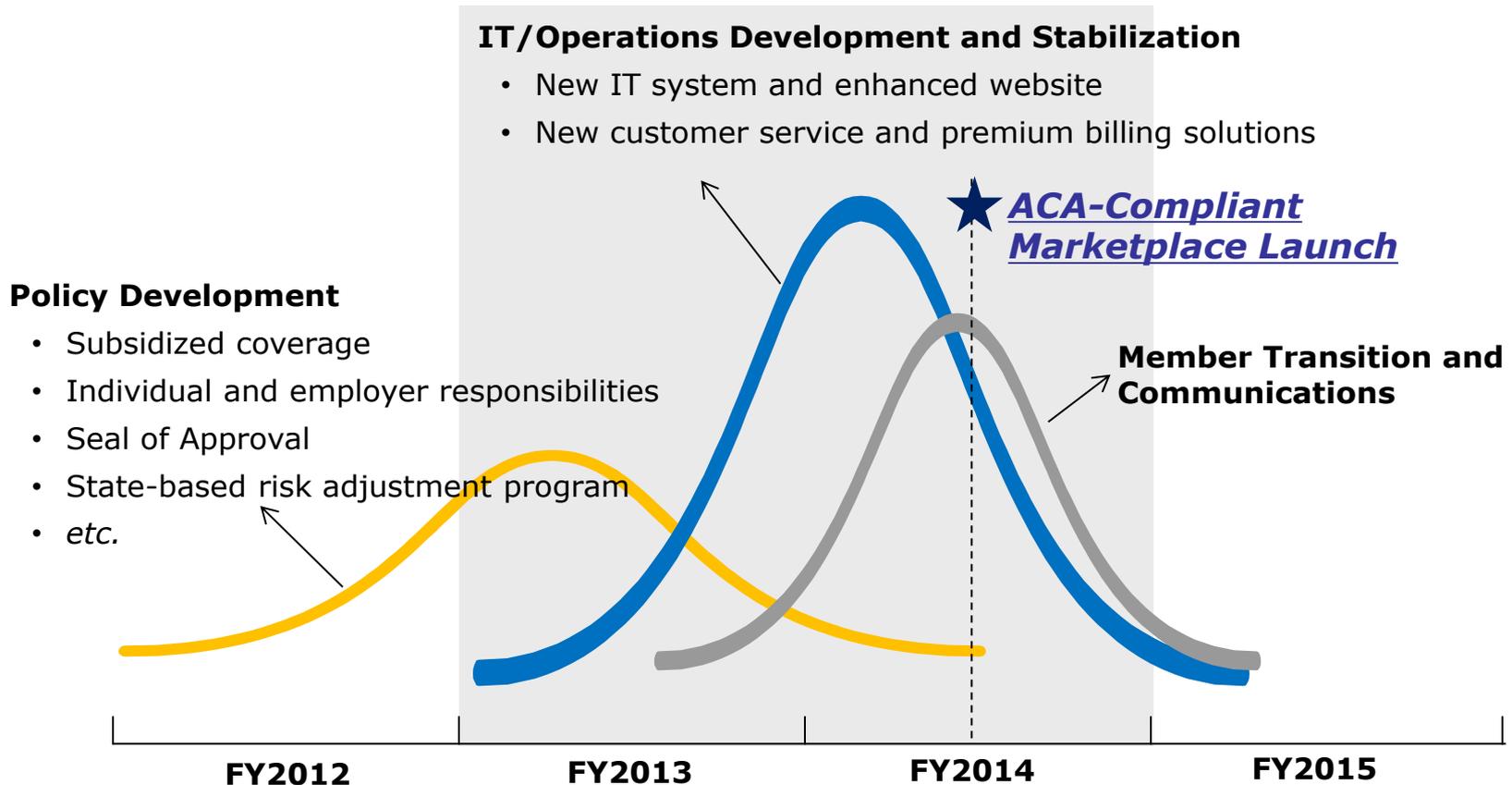
Finally, ACA implementation in Massachusetts cannot succeed without the fulfillment of our unique mission: preserving the gains achieved by the state reform.

- Policies that responsibly reconcile Massachusetts reform with the ACA (e.g., MCC, individual mandate)
- A unique model of subsidized insurance through the Health Connector – the “wrap” program – that combines state and federal assistance and preserves existing access and affordability
- Our effort is multiplied as we must achieve ACA transition while maintaining active coverage for 250,000 individuals
 - Must maintain continued high-quality service and member experience until the last days of Commonwealth Care and Commonwealth Choice
 - Our highest priority for the upcoming home stretch is to mobilize all possible resources to ensure a seamless member transition without dropping coverage



ACA Implementation Trajectory

The Health Connector's ACA implementation efforts have been under way since 2010, with the highest concentration of activities in FY13 and FY14.





Projects & Resources

The roadmap of ACA transition comprises a series of vendor-assisted projects, combined with short-term staffing increases to support the Connector 2.0 ramp up while maintaining Connector 1.0.

Major Projects	Output	Vendor Type
Subsidized Insurance	Policy and programmatic decisions on Medicaid Expansion and Exchange subsidies (e.g., QHP wrap)	Policy and Actuarial
IT Development and Stabilization	New IT system that supports: <ul style="list-style-type: none"> • Real-time, integrated eligibility determination for both the Health Connector and MassHealth • Enhanced on-line shopping (e.g., new website, decision support) 	IT System Integration
Customer Service	New call center and premium billing solution coordinated with the core Health Connector IT system	Servicing and Operations
Seal of Approval Strategy	Design of a completely-new product platform with expanded offerings	Policy and Actuarial
Risk Adjustment	Design and implementation of a state-based program calibrated to Massachusetts experience and leveraging All Payer Claims Database	Actuarial and Data Infrastructure
Outreach and Education	<ul style="list-style-type: none"> • Member transition campaign (e.g., outbound calls/mailing) • Media campaign (paid media, earned media, social media) • Grassroots outreach (e.g., assister programs, road shows) 	PR, Marketing and Community organizations



Federal Grant Support

Fully funded by federal grants, ACA implementation does not impose new state funding needs or additional charges on carriers.

- Qualified expenses include vendor costs and staff time dedicated to ACA projects, as well as indirect costs attributable to organizational overhead
 - In addition to the Health Connector, federal grants also fund qualified activities at other agencies (e.g., EOHHS, ANF and CHIA)
- Besides implementation, federal grants will also fund Health Connector's operations in Calendar Year 2014 (1st year operation of ACA-compliant Marketplaces)
 - One exception is that federal revenue cannot be used to fund the Navigator grant, which must leverage state resources
- The Health Connector, along with all other state-based Marketplaces, must operate without federal funding starting 2015



Federal Grant Support (cont'd)

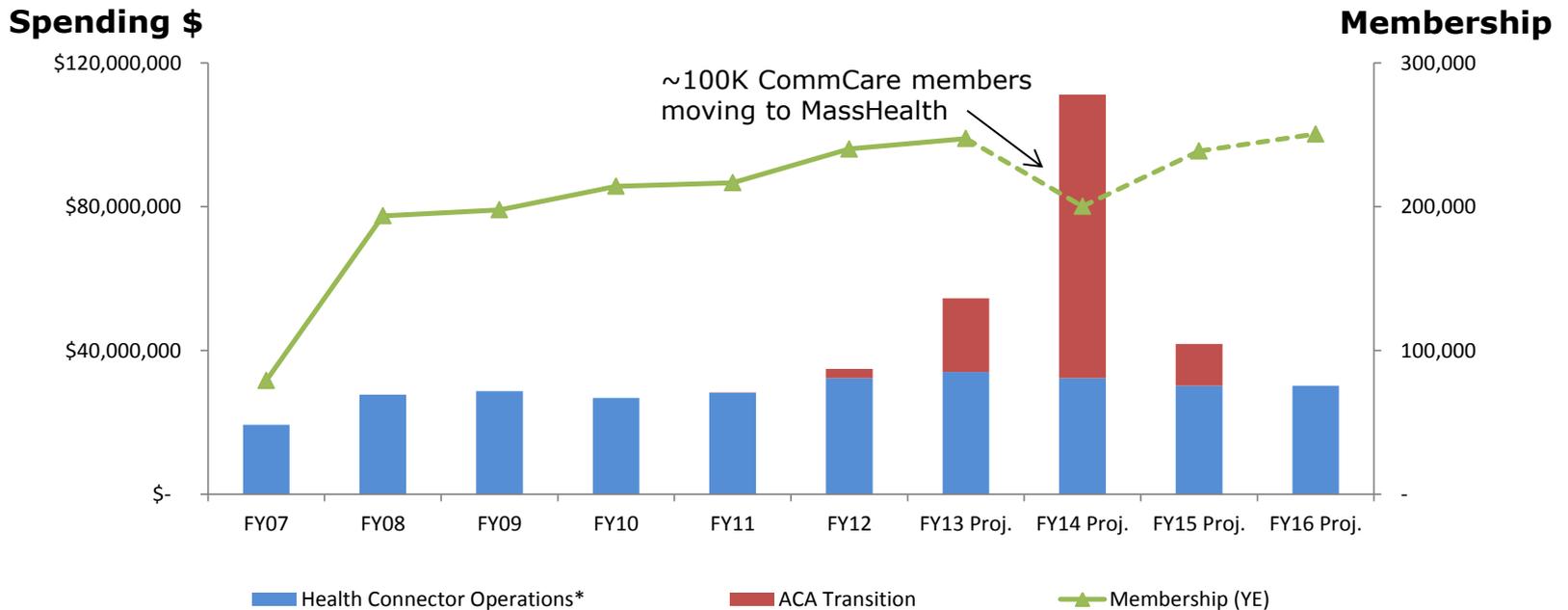
Since 2010 the Commonwealth has applied for and secured over \$270M in support of ACA implementation, including about \$135M awarded through the Health Connector. We have aggressively pursued these funds so that Massachusetts is positioned to remain a national leader in state-based health insurance Marketplaces.

	Awardee	Amount
Exchange Planning Grant	Health Connector	\$1M
Early Innovator Grant	UMass Medical School	\$44.5M
MassHealth Implementation Advanced Planning Document (IAPD) funding	EOHHS	\$92.0M
Level 1 Exchange Establishment Grant	Health Connector	\$11.6M
Level 1A Exchange Establishment Grant	Health Connector	\$41.7M
Level 2 Exchange Establishment Grant	Health Connector	\$80.2M



Impact of ACA Transition on Overall Administrative Budget

ACA transition expenses will ramp down in FY15, with the Health Connector's administrative budget stabilizing in FY16.



Health Connector 2.0 operations will be more heavily weighted towards fixed costs (e.g., we will "own" the IT system vs. outsourcing core capabilities), which supports "leaner" operations as our scale grows.

* Does not reflect broker/Navigator costs.



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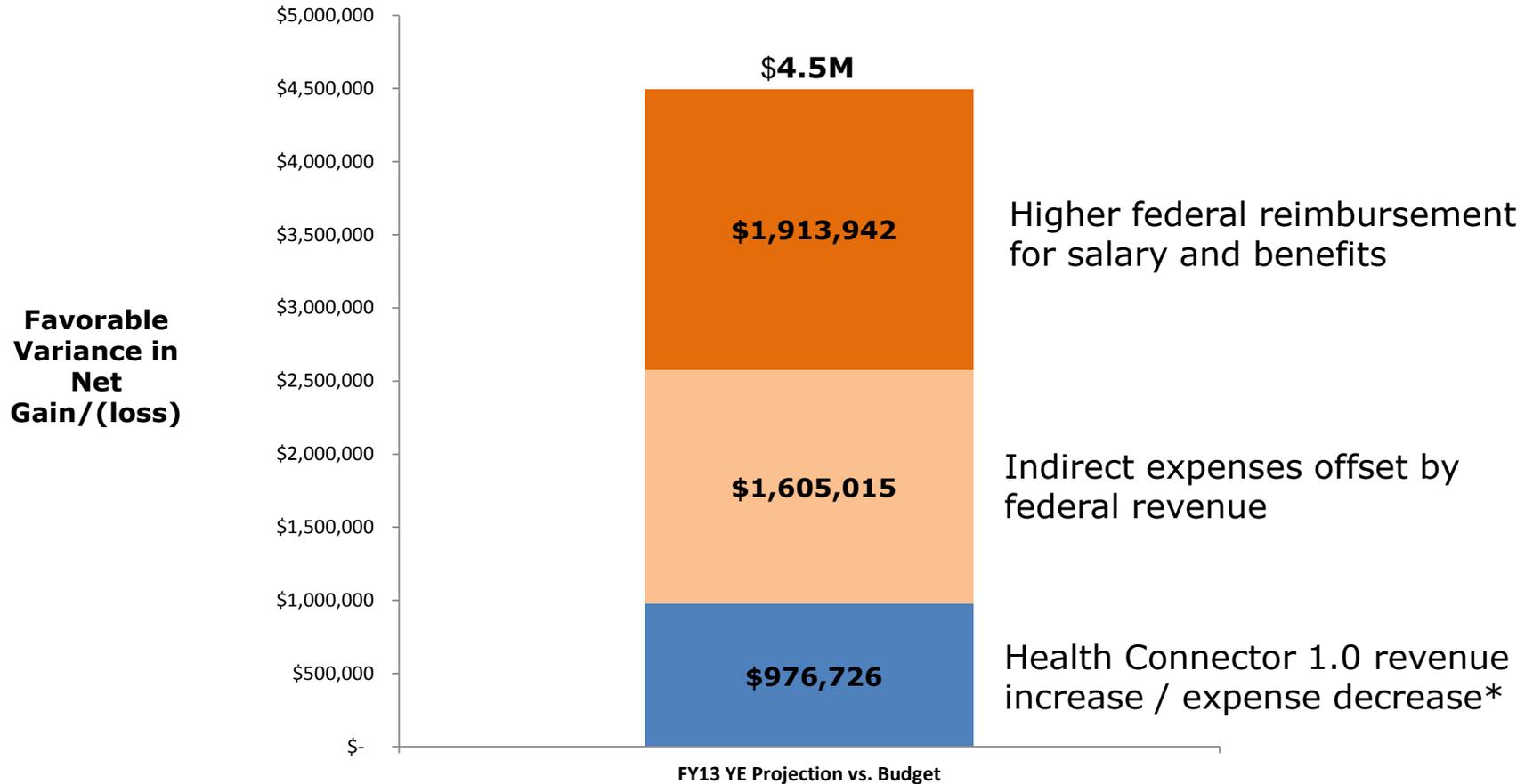
FY13 Administrative Budget Summary

- In July 2012, the Health Connector Board approved an FY13 administrative budget of \$42M, with a projected net loss of \$4.3M
 - Primarily due to reduced state funding for Commonwealth Care administration (\$3M reduction from FY12 funding)
 - Also reflected an increase in anticipated operational costs due to Commonwealth Care enrollment growth
- The current year-end projection indicates a net gain of \$196K
 - Favorable variance principally due to greater offset of administrative expenses by federal grants
 - The two latest grant awards were received *after* the FY13 budget was approved (Level 1A in September 2012 and Level 2 in January 2013)
 - Reimbursement for indirect expenses requires CMS approval, which was obtained in fall 2012
 - Additional savings from managing Health Connector 1.0 spending, including salary, website maintenance and consultants



FY13 Variance: Net Gain/(Loss)

The FY13 favorable variance of \$4.5M is primarily driven by higher federal revenue and lower Health Connector 1.0 spending.



* Includes expense decreases for personnel, 1.0 consultants, website maintenance and development and IT.



FY13 Variance: Total Expense

- Total expense projection for FY13 increased from \$42M in the Budget to \$55M for year-end
- The principal driver of the increase is federally funded, predominantly one-time costs associated with ACA implementation activities
 - Certain major grant-funded activities were not incorporated in the original Budget as their federal funding sources had not yet been secured at the time
 - The original Budget reflected preliminary timelines of various key work tracks, which have been subject to dynamic adjustments during the course of implementation
- Expense variance related to ACA transition projects is largely offset by federal revenue in parallel, with minimal impact on net gain/(loss)
 - Only federal revenue that offsets staff and indirect costs affects the net gain/(loss): these expenses were accounted for in the original budget, but the year-end projection reflects greater federal reimbursement for them as a result of new grants

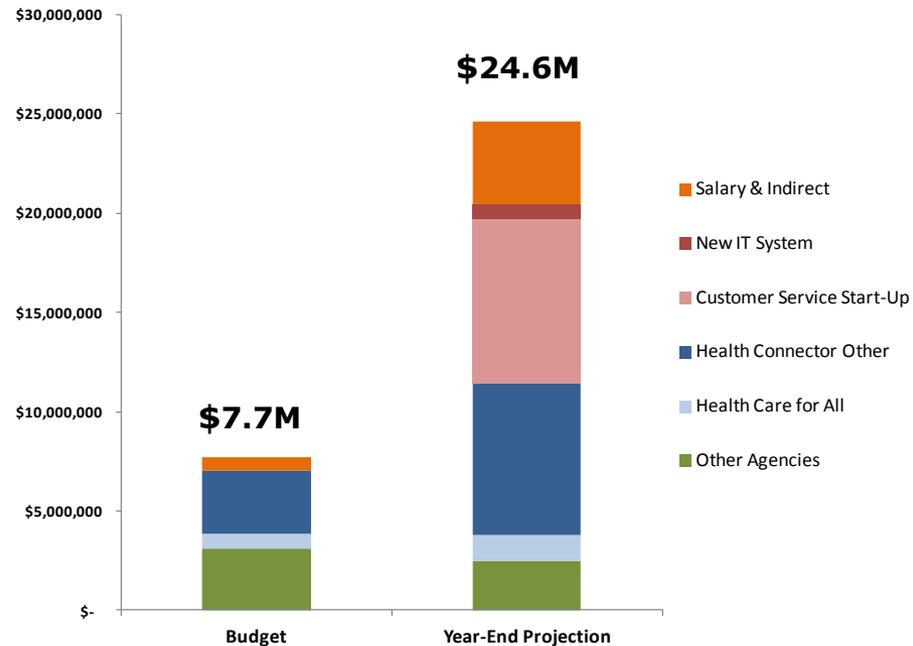


FY13 Variance: Total Expense (cont'd)

Year-end total expense projection is \$55M for FY13, including \$24.6M funded by federal grants.

- **New IT System:** Reflects spending funded by the Exchange Establishment grant only; excludes Early Innovator grant & IAPD that have to date funded the majority of the project
- **Customer Service Start-Up:** Dell contract executed in March 2013
- **Health Connector Other:** Projects funded by Level 1A and Level 2 Establishment grants include Seal of Approval launch, state-based risk adjustment program and project management, etc.
- **Health Care for All:** Consumer assistance hotline and outreach campaign for Spanish/Portuguese speakers
- **Other Agencies:** EOHHS/CHIA/ANF vendor and staff costs

Federally Funded Expenses





FY13 Administrative Budget Year-End Projection

	FY13 Budget	FY13 Year-End Projection	Variance FY13 (YE to Budget)	
Commonwealth Care Members (inc. AWSS) Year-End	210,777	206,374	(4,403)	-2%
Commonwealth Care Member Months (incl. AWSS) Year-End	2,477,560	2,369,366	(108,194)	-4%
Commonwealth Choice Members Year-End	41,689	41,669	(20)	0%
Commonwealth Choice Member Months Year-End	497,975	501,624	3,649	1%
Total Members Year-End	252,466	248,043	(4,423)	-2%
Total Member Months Year-End	2,975,535	2,870,990	(104,545)	-4%
Revenue:				
Commonwealth Care (State)	\$ 22,629,906	\$ 22,629,906	\$ -	0%
Commonwealth Choice (Carriers)	\$ 7,029,326	\$ 7,197,681	\$ 168,355	2%
Federal Grants	\$ 7,674,450	\$ 24,624,937	\$ 16,950,487	221%
Investment Income	\$ 99,963	\$ 77,959	\$ (22,003)	-22%
Student Health Plan	\$ 220,000	\$ 227,050	\$ 7,050	3%
Miscellaneous	\$ 65,000	\$ 65,000	\$ -	0%
Total Revenue	\$ 37,718,644	\$ 54,822,533	\$ 17,103,888	45%
Expense:				
Salary and Benefits	\$ 5,577,512	\$ 5,235,488	\$ (342,024)	-6% (1)
OPEB Obligation	\$ 675,000	\$ 501,000	\$ (174,000)	-26%
Appeals Program	\$ 373,468	\$ 364,955	\$ (8,513)	-2%
Communications - Health Connector 1.0	\$ 2,410,000	\$ 2,312,774	\$ (97,226)	-4%
Commonwealth Care Customer Service and Premium Billing	\$ 10,944,114	\$ 10,867,096	\$ (77,018)	-1%
Commonwealth Care Enrollment and Eligibility Services	\$ 7,590,400	\$ 7,658,345	\$ 67,945	1%
Website Maintenance and Development	\$ 1,200,000	\$ 987,109	\$ (212,891)	-18% (2)
Commonwealth Choice Customer Service and Premium Billing	\$ 3,436,325	\$ 3,950,995	\$ 514,670	15% (3)
Consulting and Professional Support - Health Connector 1.0	\$ 1,154,704	\$ 686,487	\$ (468,217)	-41% (4)
Consulting and Professional Support - Health Connector 2.0	\$ 3,936,507	\$ 17,257,164	\$ 13,320,657	338%
Consulting and Professional Support - UMass (New IT System & Website)	\$ -	\$ 758,289	\$ 758,289	NA
Consulting and Professional Support - EOHHS, ANF and CHIA	\$ 2,371,511	\$ 1,128,667	\$ (1,242,844)	-52%
Consulting and Professional Support - Health Care for All	\$ 735,688	\$ 1,331,115	\$ 595,427	81%
Information Technology	\$ 933,195	\$ 827,513	\$ (105,682)	-11% (5)
Other	\$ 680,090	\$ 759,721	\$ 79,631	12% (6)
Total Expense	\$ 42,018,514	\$ 54,626,719	\$ 12,608,205	30%
Net Gain / (Loss)	\$ (4,299,870)	\$ 195,814	\$ 4,495,684	105%



Additional Line Item Variances

- 1) Salary and Benefits: \$342,024 favorable variance
 - Primarily due to staff turnover
- 2) Website Maintenance and Development: \$212,891 favorable variance
 - Scaled back spending on development of our existing website to prioritize new website development
- 3) Commonwealth Choice Customer Service and Premium Billing: \$514,670 unfavorable variance
 - Higher-than-anticipated expenses related to new customer service and eligibility verification requirements
- 4) Consulting and Professional Support – Health Connector 1.0: \$468,217 favorable variance
 - Lower-than-budgeted expenses for actuarial and legal consultants that support 1.0 programs



Additional Line Item Variances (cont'd)

5) Information Technology: \$105,682 favorable variance

- The Budget assumed a one-time expense for the scheduled upgrade of telephone system and network servers; actual reflects capitalization with multi-year depreciation

6) All Other: \$79,631 unfavorable variance

- Due to short-term space increase to accommodate vendors supporting ACA transition initiatives



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FY14 Administrative Budget Summary

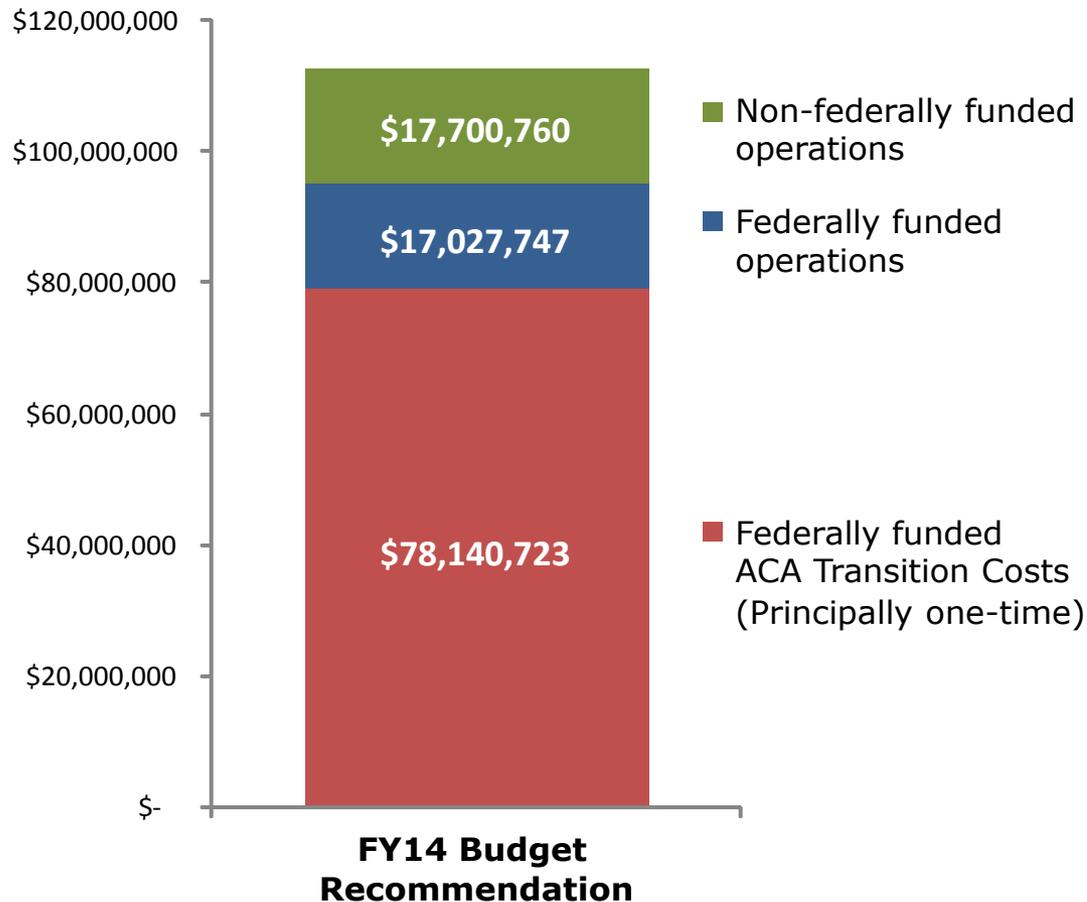
FY14 is a transition year, with our administrative budget reflecting three distinct segments.

- 1) Federally funded, predominantly one-time costs associated with ACA implementation and stabilization will be the largest segment
 - Major ACA implementation activities, including development of the new IT system and website, will continue into FY14
 - Substantial efforts supporting the launch of Health Connector 2.0, including member transition, outreach and communications will occur during this period
- 2) Health Connector 1.0 programs will continue during FY14 and begin to phase out
 - Commonwealth Care through December 2013
 - Commonwealth Choice through November 2014 on a rolling basis (non-group through March 2014)
- 3) The new, ACA-compliant Marketplace will begin operation on January 1, 2014



FY2014 Administrative Budget Summary (cont'd)

Total expense of \$112.9M is projected, including \$78.1M in predominantly one-time, fully federally funded ACA transition costs.





Federally Funded ACA Transition Costs Detail

Approximately 50% of the ACA transition costs relate to standing up new Health Connector IT and customer service/billing operations.

**FY14 Total
Cost
Projection**



**ACA
Transition
Costs**

**\$38.9M
(50%)**

\$26.1M

\$12.8M

IT Development and Stabilization (HIX-IES)

- New IT system to fully replace current functionality (paper-based or vendor-provided) and enhance/supplement our current decision-support tools
- Delivers real-time eligibility and enhanced shopping experience with one integrated system
- Development and testing will continue through 2014, with phased launch starting October 1, 2013
 - Post-implementation costs will be limited to IT maintenance

Customer Service and Premium Billing Launch

- New and enhanced system developed and operated by Dell, with back-end integration with HIX-IES
- Call center training and operation during October-December 2013
 - Post-implementation cost will transition to PMPM-based payment tied to enrollment



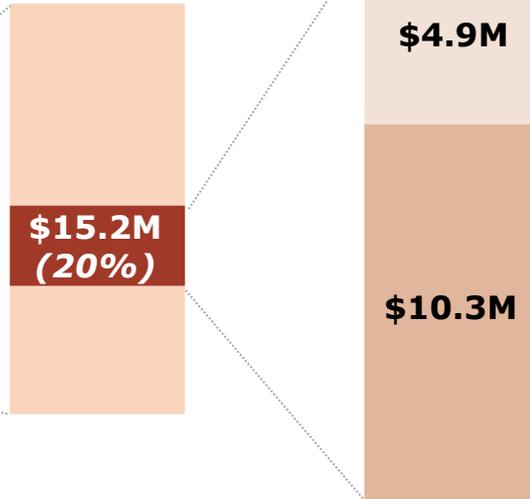
Federally Funded ACA Transition Costs Detail (cont'd)

Another 20% funds the Health Connector's member transition and outreach campaign.

FY14 Total Cost Projection



ACA Transition Costs



Member Transition

- A unique task and challenge of MA
- Must proactively reach out to existing Commonwealth Care/Choice members to ensure that they take action to re-enroll
 - Outbound calls, mailings and collaterals

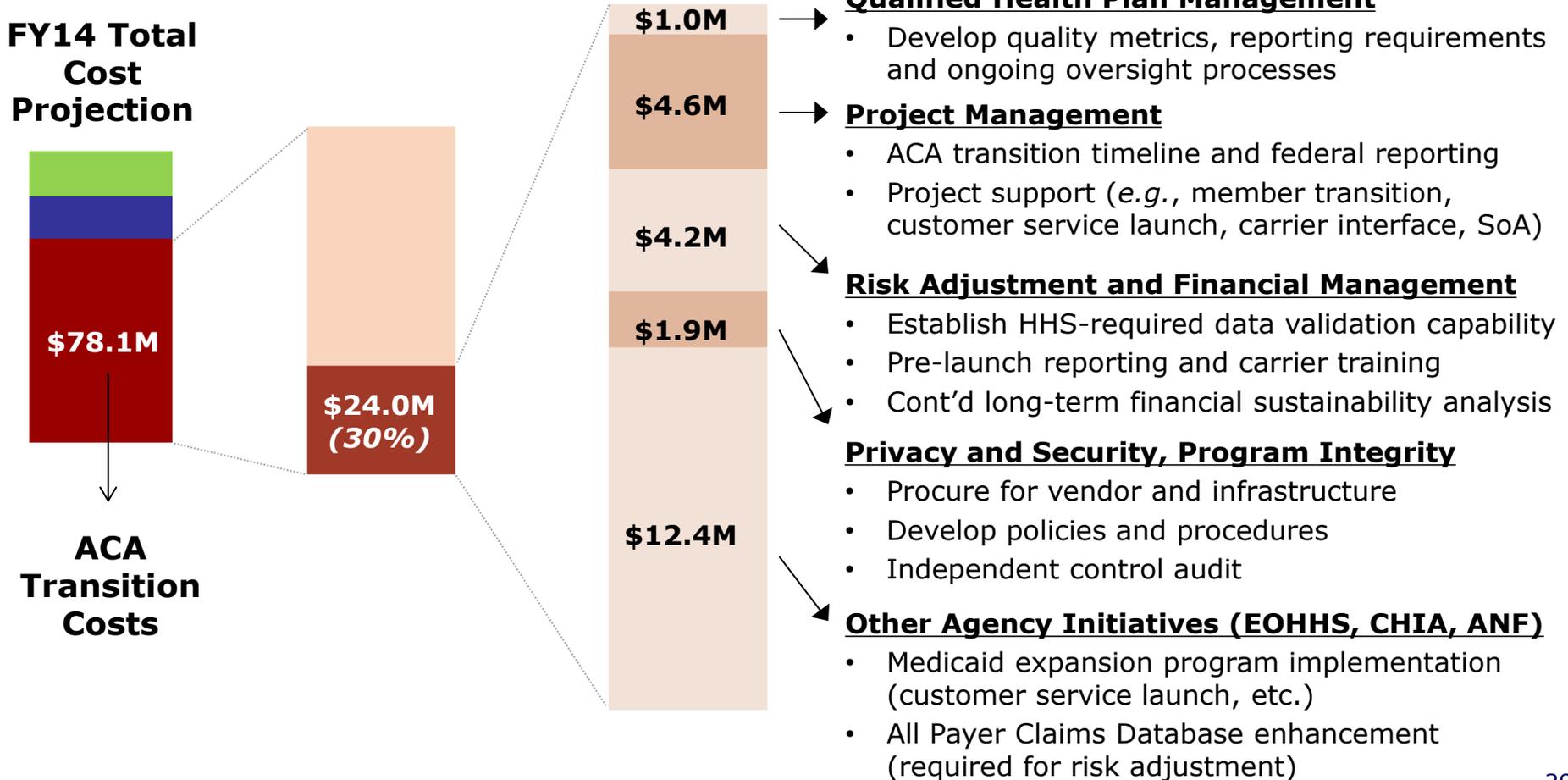
Outreach Campaign

- Significant market demand for information and assistance in transitioning to 2014
- Outreach focuses on explaining changes, highlighting opportunities and facilitating actions
 - Enrollment Assister program (e.g., Navigators) administration and training
 - Educational material development
 - Community and employer road shows
 - Public Information Unit (PIU)
 - Media campaign



Federally Funded ACA Transition Costs Detail (cont'd)

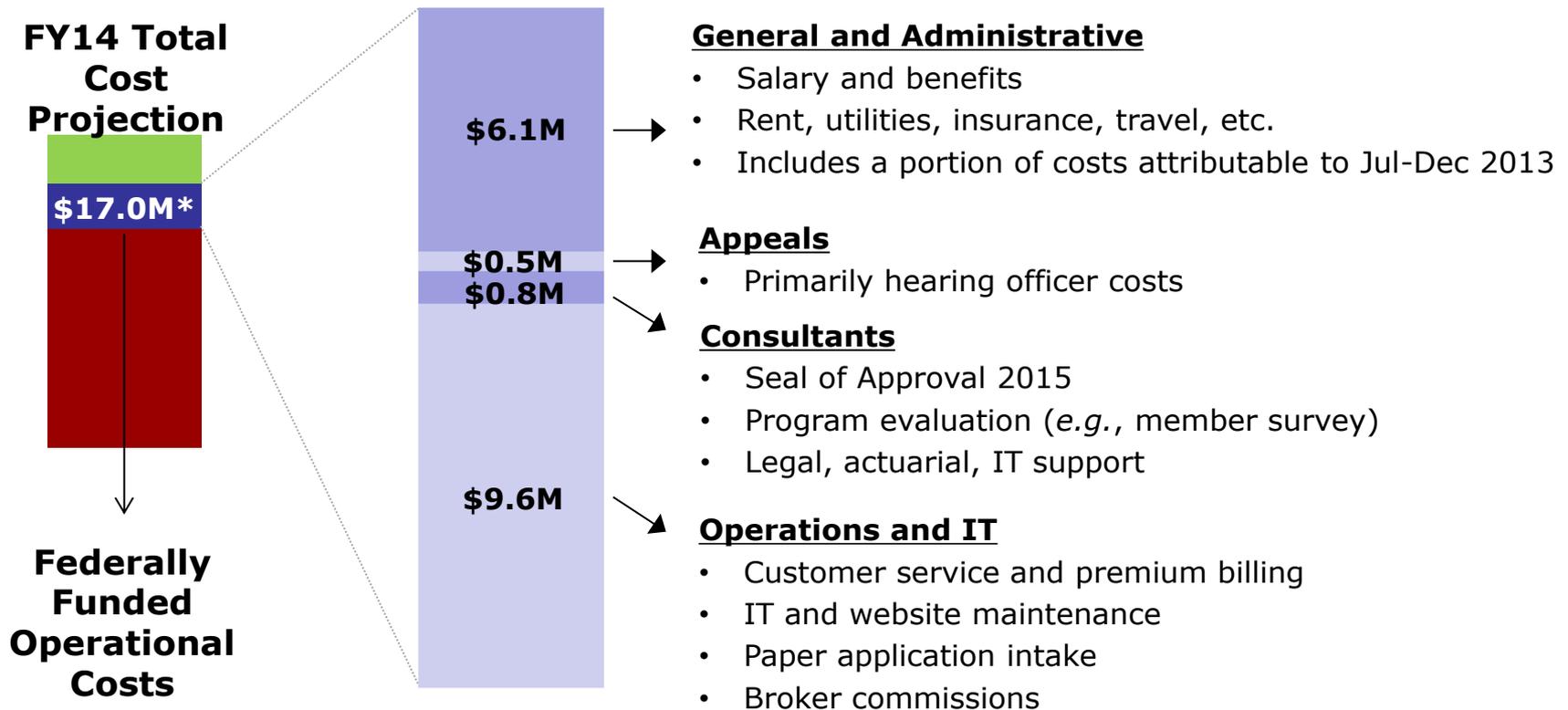
The remaining 30% funds the continued implementation of a variety of other ACA-required functions.





Federally Funded Operational Costs

Besides implementation, federal revenue will also fund certain recurring costs of ACA-compliant Marketplaces in Year 1 operation.

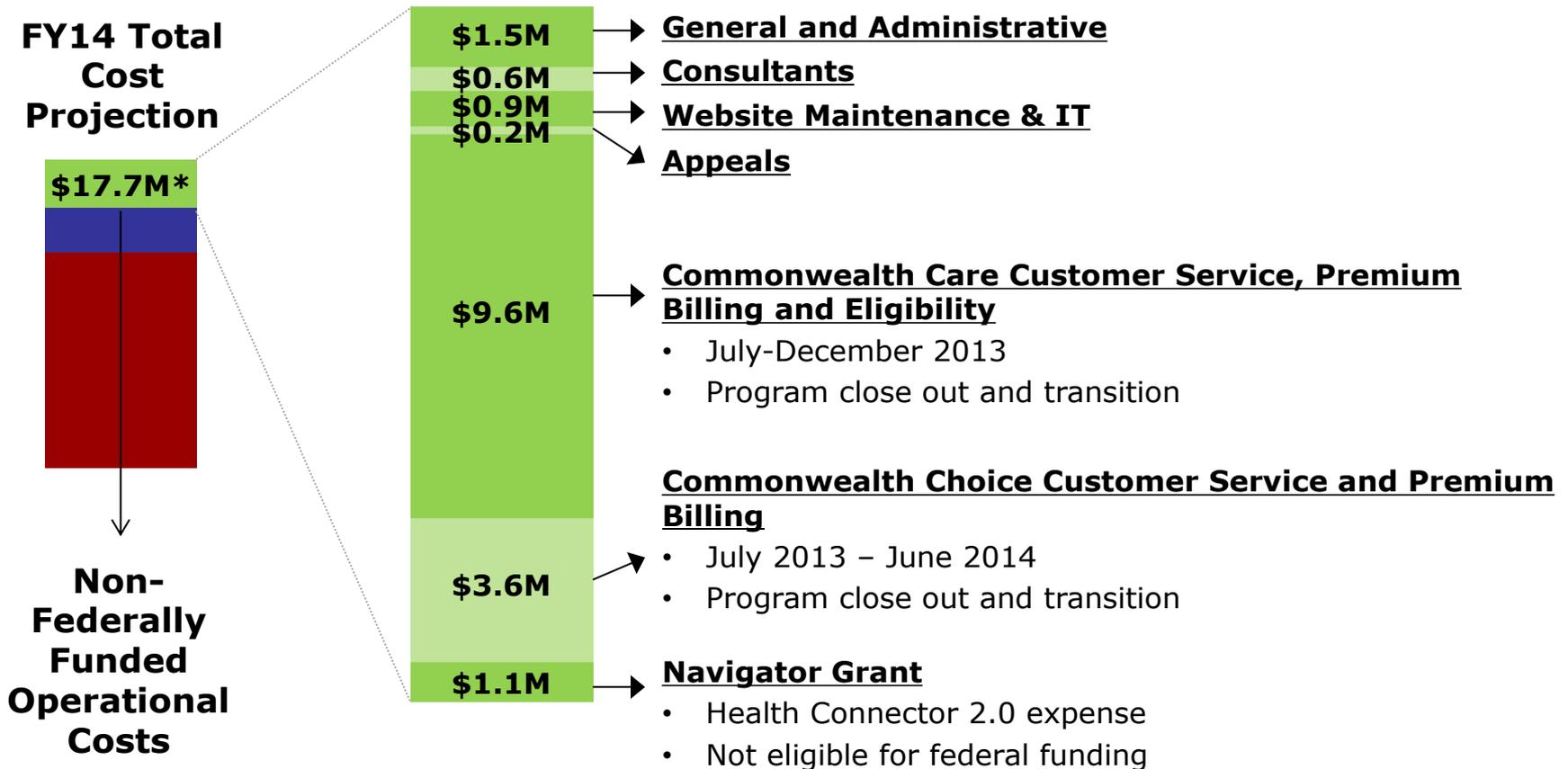


**Certain recurring expenses (e.g., risk adjustment, communications) may be underrepresented in January-June 2014 compared with expected long-term cost structure due to the unique nature of 1st year operation, where these expenses are integrated with transition costs.*



Non-Federally Funded Operational Costs

State funds are required to support the ramp-down of Connector 1.0 activities, as well as other expenses not qualified for federal funding.



*We expect to receive ~\$1M in federal reimbursement for "indirect expenses" to help offset these costs.



FY14 Revenue

Federal funding for ACA transition costs and, temporarily, a portion of FY14 operating costs allows us to balance the FY14 budget with reduced state revenue.

- State funding goes from \$22.6M in FY13 down to \$13.3M
 - Transition away from “Commonwealth Care administrative fee” after Dec 2013
 - Also funds:
 - Navigator grant
 - Administration of Small Business Wellness Program and Student Health Program, MCC and other state policy roles
- No carrier administrative fee for the 2nd half of FY14

Revenue		
	Federal	\$95,811,764
	State	\$13,314,953
	Carrier	\$3,458,960
	Other (investment, SHP, etc.)	\$300,214
	Total Revenue	\$112,885,890
Expense		\$112,869,230
Net Gain		\$16,661



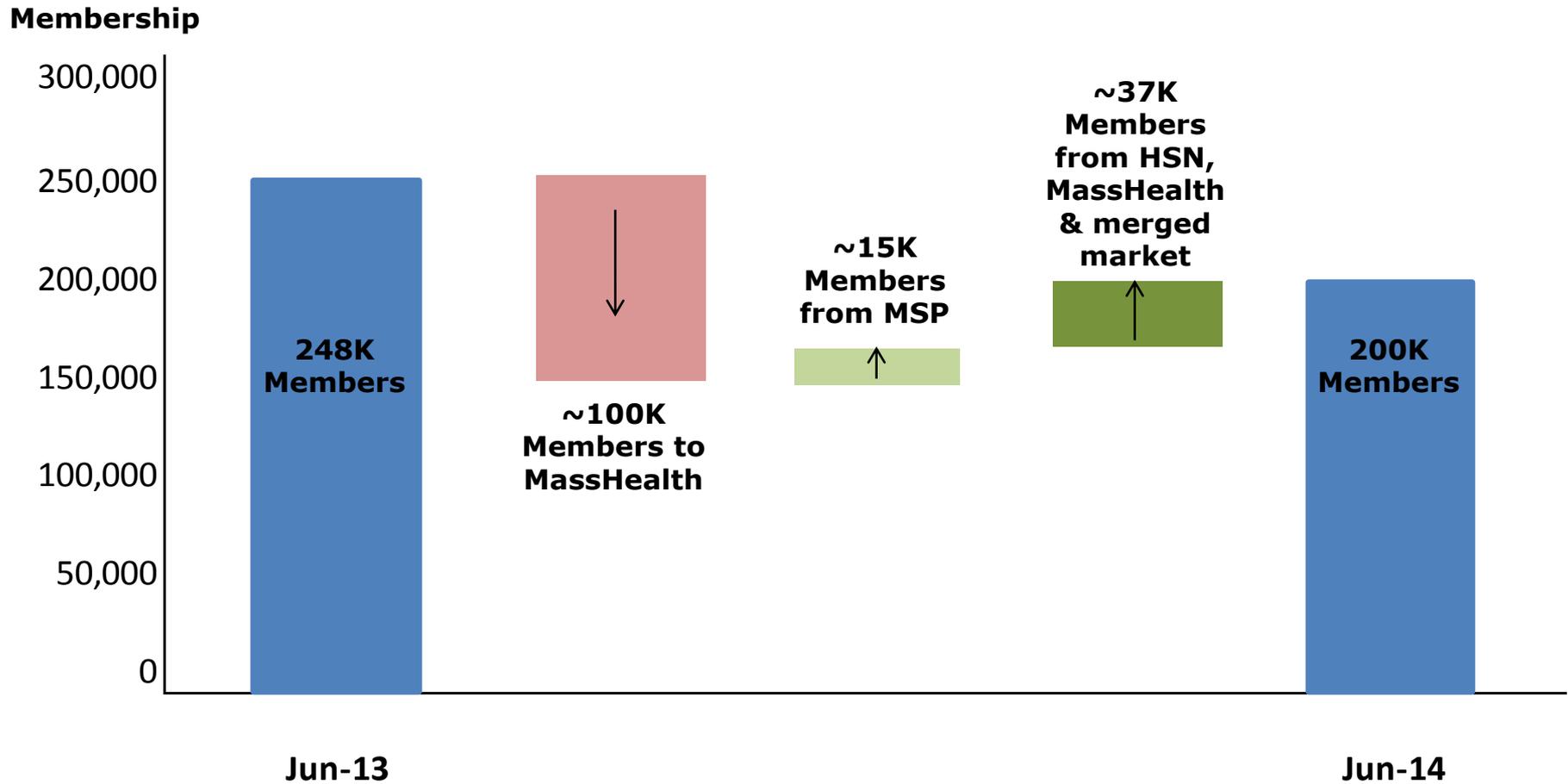
FY14 Enrollment Assumption

- A key input to our FY14 budget development is the enrollment projection for Health Connector 2.0 programs
- Our recommendation reflects an estimated year-end QHP/QDP membership of 200,232, compared with current enrollment of 248,043
 - Reflects ~100,000 Commonwealth Care members moving to MassHealth
 - Assumes successful transition of remaining members, plus modest growth from the Medical Security Program, the Health Safety Net and the broader market
- For calendar year 2014, while enrollment is highly critical to our mission, it is not quite as consequential from a fiscal perspective due to reliance on federal funding
- Maximizing the impact of federal grants by using them strategically (e.g., infrastructure investment, outreach efforts) enhances Health Connector enrollment prospects for the future, where enrollment will directly and critically affect our long-term fiscal sustainability



FY14 Enrollment Assumption (cont'd)

Membership is expected to decrease by ~50K members by June 2014 due to expanded Medicaid eligibility and growth from other programs.





FY14 Administrative Budget Recommendation

	FY13 Year-End Projection	FY14 Recommendation	Variance (FY14 to FY13 YE)	
Commonwealth Care Members (inc. AWSS) Year-End	206,374	216,002	9,628	5%
Commonwealth Care Member Months (incl. AWSS) Year-End	2,369,366	1,260,803	(1,108,563)	-47%
Commonwealth Choice Members Year-End	41,669	42,828	1,159	3%
Commonwealth Choice Member Months Year-End	501,624	253,385	(248,239)	-49%
Exchange 2.0 (QHP & QDP) Members Year-End		200,232	200,232	NA
Exchange 2.0 (QHP & QDP) Member Months Year-End		1,054,610	1,054,610	NA
Total Members Year-End	248,043	200,232	(47,811)	-19%
Total Member Months Year-End	2,870,990	2,568,797	(302,193)	-11%
Revenue:				
Commonwealth Care (State)	\$ 22,629,906	\$ 11,314,953	(11,314,953)	-50%
Commonwealth Choice (Carriers)	\$ 7,197,681	\$ 3,458,960	(3,738,721)	-52%
Federal Grants	\$ 24,624,937	\$ 95,811,764	71,186,827	289%
State Appropriation (post-Commonwealth Care)	\$ -	\$ 2,000,000	2,000,000	NA
Investment Income	\$ 77,959	\$ 72,000	(5,959)	-8%
Student Health Plan	\$ 227,050	\$ 228,214	1,164	1%
Miscellaneous	\$ 65,000	\$ -	(65,000)	-100%
Total Revenue	\$ 54,822,533	\$ 112,885,890	58,063,357	106%
Expense:				
Salary & Benefits	\$ 5,235,488	\$ 6,182,967	947,478	18% (1)
OPEB Obligation	\$ 501,000	\$ 545,805	44,805	9%
Appeals Program	\$ 364,955	\$ 722,432	357,477	98% (2)
Website Maintenance & Development	\$ 987,109	\$ 550,000	(437,109)	-44%
Information Technology	\$ 827,513	\$ 769,494	(58,019)	-7%
All Other	\$ 759,721	\$ 931,758	172,037	23%
Commonwealth Care Customer Service & Premium Billing	\$ 10,867,096	\$ 6,160,013	(4,707,083)	-43% (3)
Commonwealth Care Enrollment & Eligibility Services	\$ 7,658,345	\$ 3,432,431	(4,225,914)	-55% (4)
Commonwealth Choice Customer Service & Premium Billing	\$ 3,950,995	\$ 3,646,317	(304,678)	-8% (5)
Consulting & Professional Support - Health Connector 1.0	\$ 686,487	\$ 624,728	(61,759)	-9%
Communications - Health Connector 1.0	\$ 2,312,774	\$ -	(2,312,774)	-100%
CCA 2.0 Operations - Customer Service & Premium Billing	\$ -	\$ 8,898,433	8,898,433	NA (6)
CCA 2.0 Operations - MassHealth Application Intake	\$ -	\$ 325,000	325,000	NA
CCA 2.0 Operations - Navigator Program	\$ -	\$ 1,139,129	1,139,129	NA (7)
Consulting & Professional Support - Health Connector	\$ 17,257,164	\$ 40,532,890	23,275,726	135%
Consulting & Professional Support - UMass (New IT System & Website)	\$ 758,289	\$ 26,053,875	25,295,585	3336%
Consulting & Professional Support - EOHS, ANF and CHIA	\$ 1,128,667	\$ 11,627,276	10,498,609	930%
Consulting & Professional Support - Health Care for All	\$ 1,331,115	\$ 726,682	(604,433)	-45%
Total Expense	\$ 54,626,719	\$ 112,869,230	58,242,511	107%
Net Gain / (Loss)	\$ 195,814	\$ 16,661	(179,154)	-91%

← Health Connector 1.0 only

← Health Connector 2.0 only

← ACA-transition



Additional Key Line Items

1) Salary and Benefits: \$6.2M

- Staffing increase in several key areas to support Health Connector 2.0 launch and stabilization through 2014 (e.g., IT/operations, outreach and communications)
- Backfill of open positions
- Also includes a maximum 3% annual salary adjustment based on performance evaluation, subject to approval for COLA adjustments for the Executive branch

2) Appeals: \$722K

- Reflects a projected increase in volume associated with member transition as well as an increase in the hourly rate paid to hearing officers from \$50 to \$60 (still competitive relative to market)

3) Commonwealth Care Customer Service and Premium Billing: \$6.2M

- Commonwealth Care ends December 31, 2013; budgeted funds will support a contract extension through January 31, 2014 for close-out and transition activities



Additional Key Line Items (cont'd)

- 4) Commonwealth Care Enrollment and Eligibility Services: \$3.4M
 - Continuation of current MassHealth ISA and program integrity efforts through December 31, 2013
- 5) Commonwealth Choice Customer Service and Premium Billing: \$3.6M
 - Current Commonwealth Choice service fees through December 31, 2013
 - Plus a contract extension with SBSB through March 31, 2014 for close-out activities
 - Also includes transition services after April 1st, 2013, to be provided by Dell
- 6) Health Connector 2.0 Customer Service and Premium Billing: \$8.9M
 - Customer service and premium billing services for Qualified Health Plan and Qualified Dental Plan members, plus broker commissions
- 7) Navigator grant: \$1.1M
 - Reflects recommended program funding (Total = \$1,139,129) based on proposals received



Reserve Position

- The Health Connector's reserve balance is projected to be \$26.1M as of June 30, 2013
- This outcome provides a more favorable fiscal position for the Health Connector as we prepare for operational uncertainties over the transition period
 - The Health Connector will fund the FY14 Small Business Wellness rebate from our reserves

FY12 Reserve Balance (6/30/12)	\$25,918,211
FY13 Net Gain	\$195,814
FY13 Projected Reserve Balance (6/30/13)	\$26,114,025
FY14 Net Gain	\$16,661
FY14 Projected Reserve Balance (6/30/14)	\$26,130,686



Next Steps

- We plan to remain closely engaged with the Board and the A&F Subcommittee during the course of the year to carefully monitor our FY14 budget performance
 - Given the unique nature of the transition year, the Health Connector’s administrative budget is likely to be materially influenced by ongoing changes in our ACA implementation process
 - We expect updates to the Board after the October 1, 2013 go live and likely after the January 1, 2014 effective date
- In addition, we expect to follow up on our long-term financial model by early 2014
 - In conjunction with preparation for the 2015 Seal of Approval, we plan to return to the Board with further-developed considerations towards a recommendation on our revenue model



FY14 Administrative Budget Recommendation – Vote

Health Connector staff recommends that the Health Connector Board of Directors vote to approve the FY14 administrative budget.



Appendix

- Federal Grant Administrative Budget Detail
- Federal Reimbursement of Indirect Expenses
- Establishment Grant Projects



FY14 Administrative Budget Impact By Federal Grant

SUMMARY OF FEDERAL GRANT REVENUE/EXPENSE						
	FY13 Year-End		FY14		Variance (FY14 to FY13 YE)	
	FY13 Budget	Projection	Recommendation			
Early Innovator Grant						
Connector Personnel	\$ 58,940	\$ 337,642	\$ -	\$ (337,642)	-100%	
Connector Consultants	\$ 630,819	\$ 540,116	\$ 199,195	\$ (340,921)	-63%	
Indirect Costs	\$ -	\$ -	\$ -	\$ -	NA	
Sub Total	\$ 689,759	\$ 877,758	\$ 199,195	\$ (678,564)	-77%	
Exchange Establishment Grant Level 1						
Connector Personnel	\$ 571,804	\$ 1,113,918	\$ -	\$ (1,113,918)	-100%	
Connector Consultants	\$ 3,305,688	\$ 2,732,137	\$ 139,366	\$ (2,592,771)	-95%	
EOHHS Consultants	\$ 1,749,550	\$ 780,851	\$ 968,698	\$ 187,847	24%	
EOHHS & ANF Personnel	\$ 621,961	\$ 147,816	\$ 474,144	\$ 326,328	221%	
Health Care For All	\$ 735,688	\$ 967,774	\$ -	\$ (967,774)	-100%	
Indirect Costs	\$ -	\$ 849,158	\$ -	\$ (849,158)	-100%	
Sub Total	\$ 6,984,691	\$ 6,591,654	\$ 1,582,208	\$ (5,009,446)	-76%	
Exchange Establishment Grant Level 1A						
Connector Personnel	\$ -	\$ 821,806	\$ 861,377	\$ 39,572	5%	
Connector Consultants	\$ -	\$ 5,552,238	\$ 16,682,350	\$ 11,130,112	200%	
UMass (HIX-IES)	\$ -	\$ 758,289	\$ 14,487,974	\$ 13,729,685	1811%	
EOHHS Consultants	\$ -	\$ -	\$ 293,265	\$ 293,265	NA	
EOHHS & ANF Personnel	\$ -	\$ -	\$ 577,780	\$ 577,780	NA	
Travel	\$ -	\$ 23,416	\$ 13,472	\$ (9,945)	-42%	
Indirect Costs	\$ -	\$ 540,637	\$ 483,991	\$ (56,646)	-10%	
Sub Total	\$ -	\$ 7,696,387	\$ 33,400,209	\$ 25,703,822	334%	
Exchange Establishment Grant Level 2						
Connector Personnel	\$ -	\$ 271,320	\$ 4,326,602	\$ 4,055,282	1495%	
Connector Consultants	\$ -	\$ 8,432,672	\$ 23,511,979	\$ 15,079,307	179%	
UMass (HIX-IES)	\$ -	\$ -	\$ 11,565,901	\$ 11,565,901	NA	
EOHHS Consultants	\$ -	\$ -	\$ 6,245,101	\$ 6,245,101	NA	
EOHHS, ANF & CHIA Personnel & Indirect Costs	\$ -	\$ -	\$ 1,035,825	\$ 1,035,825	NA	
CHIA Consultants & Equipment	\$ -	\$ 200,000	\$ 2,032,463	\$ 1,832,463	916%	
Health Care for All	\$ -	\$ 363,341	\$ 726,682	\$ 363,341	100%	
Travel	\$ -	\$ 4,977	\$ 13,472	\$ 8,495	171%	
Operating Costs	\$ -	\$ -	\$ 10,602,358	\$ 10,602,358	NA	
Indirect Costs	\$ -	\$ 186,827	\$ 569,769	\$ 382,942	205%	
Sub Total	\$ -	\$ 9,459,137	\$ 60,630,151	\$ 51,171,014	541%	
TOTAL	\$ 7,674,450	\$ 24,624,937	\$ 95,811,764	\$ 71,186,827	289%	
<i>Health Connector Personnel - All Grants</i>	\$ 630,744	\$ 2,544,686	\$ 5,187,980	\$ 2,643,293	104%	
<i>Health Connector Travel/Indirect/Operating - All Grants</i>	\$ -	\$ 1,605,015	\$ 11,683,061	\$ 10,078,046	628%	
<i>Health Connector Consultants - All Grants</i>	\$ 3,936,507	\$ 17,257,164	\$ 40,532,890	\$ 23,275,726	135%	
<i>UMass (HIX-IES) - All Grants</i>	\$ -	\$ 758,289	\$ 26,053,875	\$ 25,295,585	3336%	
<i>Other Agency Personnel and Consultants - All Grants</i>	\$ 2,371,511	\$ 1,128,667	\$ 11,627,276	\$ 10,498,609	930%	
<i>Health Care for All - All Grants</i>	\$ 735,688	\$ 1,331,115	\$ 726,682	\$ (604,433)	-45%	



Federal Reimbursement of Indirect Expenses

- Indirect expenses account for the “overhead” expenses (*e.g.*, rent and utility, support staff, etc.) associated with direct staff cost
 - Indirect expenses are claimed based on an “indirect expense rate” derived in accordance with the organization’s cost structure, subject to negotiation with and approval by HHS
- We finalized the indirect rate approval process with HHS in fall 2012
 - The approved indirect expense rate is 75% (*i.e.*, for every \$100 of direct staff expense, we can also claim revenue on \$75 worth of indirect expenses)
 - The indirect rate is subject to refresh each year with updated cost structure information
- The effect of recognizing federal funding on indirect expenses is an incremental revenue of \$1.6M on three separate awards: Level 1, Level 1A and Level 2 Establishment grants



Level 1A Exchange Establishment Grant

- Our Level 1A Establishment grant funds the following projects (not including personnel)*:
 - New IT System and Enhanced Website (\$15.2M)
 - Outreach and Education (\$7.7M)
 - 3R Development, Implementation and Management (\$4.4M)
 - Project Management (PMO, Customer Service and Business Operations, Ancillary Product Development, Staff Training) (\$3.6M)
 - Financial Management and Program Integrity (\$2.7M)
 - QHP Certification (\$1.7M)
 - Privacy & Security (\$1M)
 - Product Strategy and Development (\$419K)

** Project costs in parenthesis represent the total amount awarded under the Level 1A Establishment grant and not the FY13 /FY14 projected expense.*



Level 2 Exchange Establishment Grant

- Our Level 2 Establishment grant requests \$80.2 million to support*:
 - Health Connector Personnel and 2014 Operating Costs (\$25.3M)
 - Continued Software Development and Build for New IT System and Enhanced Website (\$17.3M)
 - Customer Service Startup & Transition (\$8.1M)
 - Marketing and Advertising Campaign (\$6M)
 - EOHHS Customer Service & Operations for Transition Populations (\$5.6M)
 - Outreach & Education (\$4.2M)
 - Member Retention/Transition Plan for the Health Connector and EOHHS (\$3.4M)
 - Massachusetts Risk Adjustment Program (\$3.2M)
 - Other Massachusetts Agency Staff & Equipment (\$2.9M)
 - Transition Program Initiatives (\$1.5M)
 - Plan Management (\$1.5M)
 - Appeals & Program Integrity (\$563K)
 - Financial Management (\$250K)
 - Technology (\$75K)

* Project costs in parenthesis represent the total amount awarded under the Level 2 Establishment grant and not the FY13/FY14 projected expense.