

**D78Y01**  
**Maryland Health Benefit Exchange**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 14</u> <u>Actual</u>	<u>FY 15</u> <u>Working</u>	<u>FY 16</u> <u>Allowance</u>	<u>FY 15-16</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$19,340	\$15,514	\$0	-\$15,514	-100.0%
Deficiencies & Back of Bill Reductions	0	5,213	0	-5,213	
<b>Adjusted General Fund</b>	<b>\$19,340</b>	<b>\$20,727</b>	<b>\$0</b>	<b>-\$20,727</b>	<b>-100.0%</b>
Special Fund	0	12,968	35,000	22,032	169.9%
Contingent & Back of Bill Reductions	0	0	-1,550	-1,550	
<b>Adjusted Special Fund</b>	<b>\$0</b>	<b>\$12,968</b>	<b>\$33,450</b>	<b>\$20,482</b>	<b>157.9%</b>
Federal Fund	133,112	128,714	42,761	-85,952	-66.8%
<b>Adjusted Federal Fund</b>	<b>\$133,112</b>	<b>\$128,714</b>	<b>\$42,761</b>	<b>-\$85,952</b>	<b>-66.8%</b>
<b>Adjusted Grand Total</b>	<b>\$152,452</b>	<b>\$162,409</b>	<b>\$76,211</b>	<b>-\$86,198</b>	<b>-53.1%</b>

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- A January 2015 Board of Public Works across-the-board cost containment action reduced the agency's general fund appropriation by \$310,277.
- There are three proposed general fund deficiencies for fiscal 2015: funds for the contract with Deloitte to build the new Maryland Health Benefit Exchange (MHBE) information technology (IT) system (\$2.3 million); funds to support increased call center expenditures (\$2.0 million); and funds for the retention of outside legal counsel (\$1.2 million).

Note: Numbers may not sum to total due to rounding.

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- The fiscal 2016 allowance for MHBE decreases by \$86.2 million (53.1%) from the fiscal 2015 working appropriation. General funds are eliminated as MHBE becomes supported by a combination of special funds and federal funds only.

***Personnel Data***

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	<b><u>FY 14</u></b>	<b><u>FY 15</u></b>	<b><u>FY 16</u></b>	<b><u>FY 15-16</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	72.00	69.00	69.00	0.00
Contractual FTEs	<u>0.00</u>	<u>1.00</u>	<u>0.00</u>	<u>-1.00</u>
<b>Total Personnel</b>	<b>72.00</b>	<b>70.00</b>	<b>69.00</b>	<b>-1.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	2.75	3.98%
Positions and Percentage Vacant as of 1/1/15	18.00	26.09%

- The fiscal 2016 allowance includes the same number of regular full-time equivalents (FTEs) as the fiscal 2015 working appropriation but 1.0 fewer contractual FTE.
- The agency's vacancy rate has decreased significantly from last year's rate (38.89%) but remains high at 26.09%. The agency anticipates that its vacancy rate will decrease as the agency endeavors to hire regular employees to take over work – notably, in areas such as IT and marketing – that has to now been performed by contractors.

## ***Analysis in Brief***

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### **Major Trends**

**Measuring Success:** MHBE has submitted formal Managing for Results performance measures for the first time. However, data to assess the success of health care reform in the State (with consideration of metrics such as accessibility, affordability, comprehensiveness of coverage, changes in the number of uninsured individuals, and changes in health care safety net utilization) is still limited.

### **Issues**

**Progress Report on MHBE:** The switch to a new IT platform (based on Connecticut’s existing platform) has been generally successful. In addition, MHBE has made progress with regard to enrollment and carrier participation.

**Use of the Maryland Health Insurance Plan Fund Balance for Reinsurance in MHBE:** One of the changes made by Chapter 159 of 2013, the Maryland Health Progress Act, was to establish a State Reinsurance Program, with funding for the program to be derived from the Maryland Health Insurance Plan fund balance (and the hospital assessment that currently supports the plan). However, the future of the reinsurance program is unclear.

### **Recommended Actions**

	<b><u>Funds</u></b>
1. Reduce funds for operations.	
2. Reduce funds for grants to connector entities.	\$ 4,000,000
3. Reduce funds for operations.	1,498,276
4. Reduce funds for marketing.	1,000,000
<b>Total Reductions</b>	<b>\$ 6,498,276</b>

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**Maryland Health Benefit Exchange**

***Operating Budget Analysis***

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**Program Description**

The Maryland Health Benefit Exchange (MHBE) was created during the 2011 session in response to the federal Patient Protection and Affordable Care Act of 2010. MHBE is intended to provide a marketplace for individuals and small businesses to purchase affordable health coverage.

**Performance Analysis: Managing for Results**

**1. Measuring Success**

MHBE has submitted formal Managing for Results performance measures for the first time. However, data to assess the success of health care reform in the State (with consideration of metrics such as accessibility, affordability, comprehensiveness of coverage, changes in the number of uninsured individuals, and changes in health care safety net utilization) is still limited.

To date, MHBE has reported actual data for calendar 2014 related to:

- the average total single person premium for all small group plans divided by the Maryland minimum wage (10.5%);
- the average cost of a small group plan as a percent of the affordability cap (101.0%); and
- the proportion of individuals under 65 with health insurance (88.0%).

MHBE will use this initial data, along with enrollment data, to measure its progress in future years. Additionally, MHBE will also begin reporting data on enrollee satisfaction with services (as measured in an annual survey) as well as on the proportion of individuals under 100% of the federal poverty level, age 19-64, without health insurance.

**Fiscal 2015 Actions**

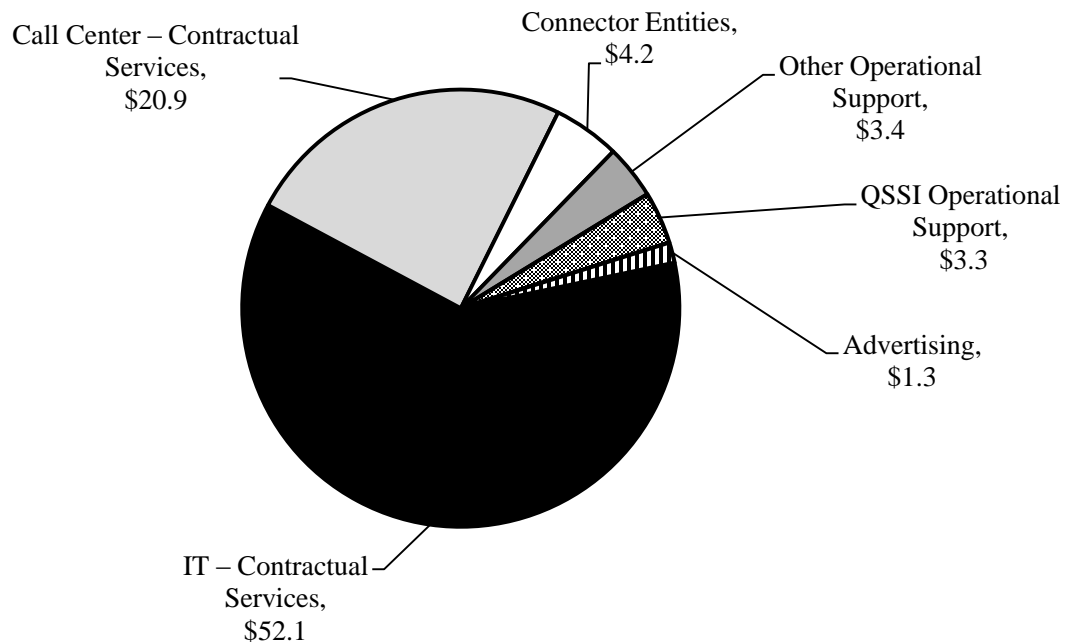
**Significant Additions to Fiscal 2015 Legislative Appropriation**

Although MHBE's fiscal 2015 legislative appropriation was originally intended to support operations and maintenance rather than development, critical technological issues that occurred during MHBE's initial rollout period resulted in much higher than anticipated expenditures related to the redevelopment of the MHBE information technology (IT) platform. Notably, one budget amendment

increased the federal fund appropriation for MHBE by \$85.2 million. Specifically, that budget amendment authorized the use of federal grant funds that will be used for IT contractual services (\$52.1 million) and various operating costs (\$33.1 million), as shown in **Exhibit 1**.

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**Exhibit 1**  
**Maryland Health Benefit Exchange**  
**Use of New Funds from Fiscal 2015 Budget Amendment**  
**(\$ in Millions)**



IT: information technology  
QSSI: Quality Software Services, Inc.

Source: Maryland Health Benefit Exchange

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The approved use of new funds reflected that MHBE’s second open enrollment period would be – due to last year’s troubled rollout and the State’s subsequent adoption of a brand new system – less like a second open enrollment period and more akin to a second rollout. IT contractual services (\$52.1 million) made up the bulk of new fiscal 2015 spending and represented costs associated with:

- the design, development, and implementation (by Deloitte Consulting) of the MHBE new IT system, which would replace MHBE’s original faulty system; and
- oversight through a Project Management Office (PMO) contract, which continued to be necessary due to the transition between systems.

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Operating costs (\$33.1 million) made up the remainder of new spending and included:

- call center contractual services (\$20.9 million), which included additional staff and costs associated with moving the call center to a new location;
- connector entities (\$4.2 million), which included additional staff;
- IT contractor operational support (\$3.3 million), which included costs related to the transition between systems (including workarounds);
- advertising (\$1.3 million); and
- other operational support (\$3.4 million).

Federal funds to support the budget amendment were available from the Medical Assistance Program (\$58.7 million) and Cooperative Agreements to Support Establishment of State Operated Health Exchange – Level 2 Grant (\$26.6 million), which MHBE advised were required to be spent prior to the end of the calendar year.

Due to various encumbrances (and cancellations of federal grant funds) over the years, federal grant funds were never brought in to support the full amount of federal establishment grants previously awarded to MHBE. The approved budget amendment, therefore, did not add to total federal grant fund spending but rather recycled federal grant funds by reappropriating federal grants funds that had been previously budgeted. Thus, while federal grant spending increased by \$26.6 million in fiscal 2015 under the approved budget amendment, total federal grant spending from fiscal 2011 through fiscal 2015 remained constant. Rather, the primary source of funds driving the increase in new spending under the budget amendment was federal Medicaid funds, reflecting MHBE's new funding methodology due to the relatively higher use of cost centers by Medicaid than was initially assumed.

### **Cost Containment**

A January 2015 Board of Public Works across-the-board cost containment action reduced the agency's general fund appropriation by \$310,277. **Exhibit 2** shows the overall impact of cost containment and deficiencies on the fiscal 2015 appropriation.

**Exhibit 2**  
**Fiscal 2015 Reconciliation**  
**(\$ in Thousands)**

<u>Action</u>	<u>Description</u>	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Legislative Appropriation with Budget Amendments</b>		<b>\$15,514</b>	<b>\$12,968</b>	<b>\$128,714</b>	<b>\$0</b>	<b>\$157,196</b>
<b>Working Appropriation</b>		<b>\$15,514</b>	<b>\$12,968</b>	<b>\$128,714</b>	<b>\$0</b>	<b>\$157,196</b>
January BPW Across the Board	2% across-the-board reduction.	-310	0	0	0	-310
Deficiency Appropriations		5,524	0	0	0	5,524
<b>Total Actions Since January 2015</b>		<b>\$5,213</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$5,213</b>
<b>Adjusted Working Appropriation</b>		<b>\$20,727</b>	<b>\$12,968</b>	<b>\$128,714</b>	<b>\$0</b>	<b>\$162,409</b>

BPW: Board of Public Works

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

## Deficiencies

As a result of the significant changes to planned spending in fiscal 2015, there are three proposed general fund deficiencies for fiscal 2015:

- funds for the contract with Deloitte Consulting to build the new MHBE IT system (\$2.3 million);
- funds to support increased call center expenditures (\$2.0 million); and
- funds for the retention of outside legal counsel (\$1.2 million), as MHBE has a potential claim against its original IT contractor, Noridian.



## Proposed Budget

The fiscal 2016 allowance for MHBE decreases by \$86.2 million (53.1%) from the fiscal 2015 working appropriation adjusted for deficiencies and cost containment. As shown in **Exhibit 3**, general funding is eliminated as MHBE becomes supported by a combination of special funds and federal funds only.

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**Exhibit 3**  
**Proposed Budget**  
**Maryland Health Benefit Exchange**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Total</u></b>
Fiscal 2014 Actual	\$19,340	\$0	\$133,112	\$152,452
Fiscal 2015 Working Appropriation	20,727	12,968	128,714	162,409
Fiscal 2016 Allowance	<u>0</u>	<u>33,450</u>	<u>42,761</u>	<u>76,211</u>
Fiscal 2015-2016 Amt. Change	-\$20,727	\$20,482	-\$85,952	-\$86,198
Fiscal 2015-2016 Percent Change	-100.0%	157.9%	-66.8%	-53.1%

**Where It Goes:**

**Personnel Expenses**

Increments and general salary annualization (prior to cost containment).....	\$417
Employee and retiree health insurance .....	397
Turnover adjustments.....	330
Employee retirement contribution .....	134
Other fringe benefit adjustments.....	6
Section 20: 2% salary reduction.....	-52
Voluntary Separation Program savings.....	-52
Miscellaneous adjustments .....	-624

**Other Changes**

**Nonpersonnel Operations**

Various nonpersonnel operations (see text for additional discussion).....	-26,228
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**Information Technology Contracts**

Various information technology contracts (see text for additional discussion) .....	-60,525
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<b>Total</b>	<b>-\$86,198</b>
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Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

## **Cost Containment**

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes an elimination of employee increments and a 2% salary reduction. MHBE's share of the 2% salary reduction is \$52,000, as reflected in Exhibit 3. However, the MHBE share of the reduction to employee increments (\$110,170 in special funds) was not included in the agency's budget as introduced. This reduction will be included in the Department of Budget and Management – Personnel budget analysis.

## **Personnel Expenses**

Personnel expenses increase MHBE's budget by \$556,000. Outside of general salary actions, the budget increases by \$397,000 for employee and retiree health insurance and by \$134,000 for employee retirement. The budget increases by an additional \$330,000 to reflect turnover adjustments, as the agency continues to fill vacant positions. Finally, miscellaneous adjustments that had enabled MHBE to hire personnel at salaries above base-level in fiscal 2015 decrease in fiscal 2016 by \$624,000.

## **Information Technology**

As noted previously, significant additional IT spending was authorized per a budget amendment in fiscal 2015 due to the need to replace MHBE's original faulty IT system. In fiscal 2016, MHBE moves away from development and toward regular operations and maintenance. Accordingly, MHBE's budget decreases by \$60.5 million due to reductions to various IT contracts, including contracts for:

- the design, development, and implementation by Deloitte Consulting of MHBE's new IT system, which replaced MHBE's original, faulty system (\$28.1 million);
- various IT support from Quality Software Services, Inc. (QSSI), including IT project management, hosting, maintenance, and operations (\$16.4 million);
- website and other IT support from Xerox State and Local Solutions (\$9.0 million);
- independent validation and verification (\$2.6 million);
- testing, training, and business process redesign (\$2.4 million); and
- other IT contracts (\$2.0 million).

## **Nonpersonnel Operations**

Because MHBE's second open enrollment period ultimately proved to be more like a second initial enrollment period, the agency incurred significant additional operational expenses in fiscal 2015

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than had been expected. Nonpersonnel operational costs in fiscal 2016 are more reflective of what had been anticipated for fiscal 2015 when that budget was being built. In fiscal 2016, MHBE's budget decreases by \$26.2 million due to decreased operational costs, including:

- operational support from QSSI and Maximus, primarily related to the call center (\$14.7 million);
- grants to connector entities (\$6.4 million);
- marketing contracts with Weber Shandwick (\$2.0 million); and
- other operational support (\$3.1 million).

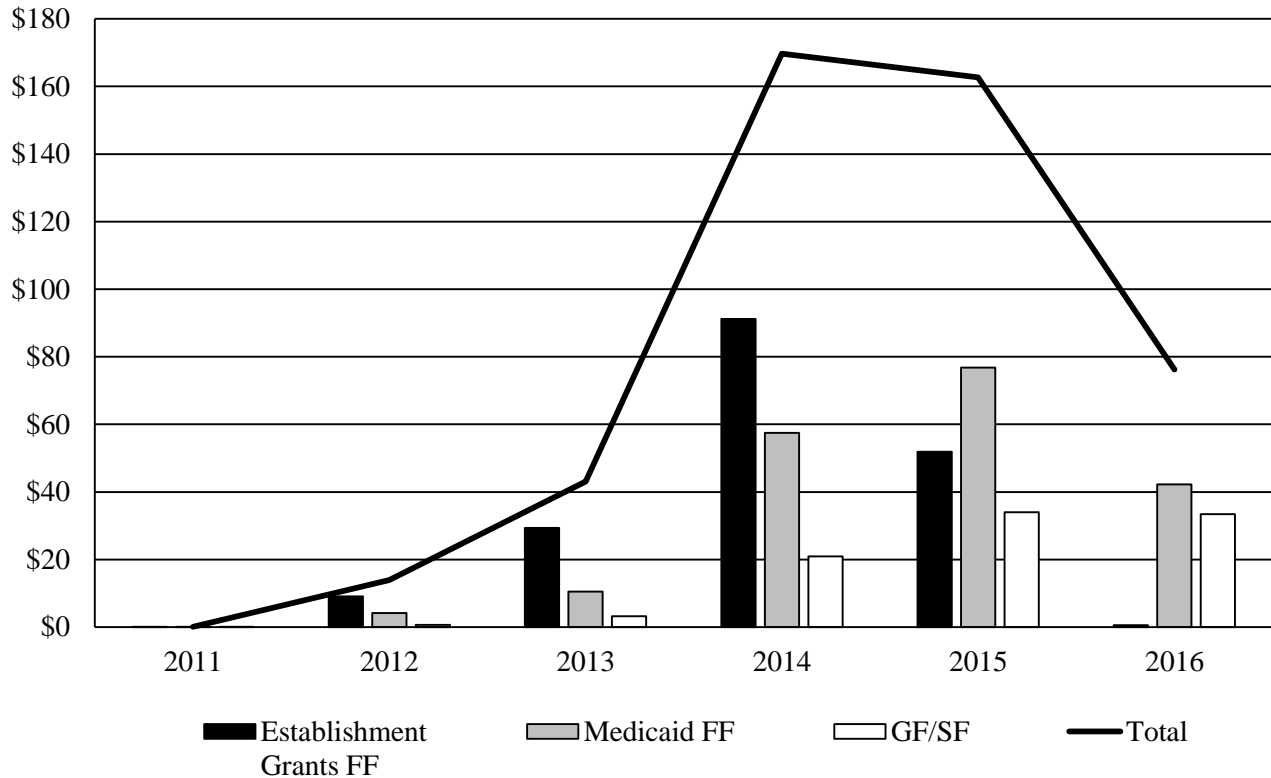
It should be noted that the fiscal 2016 allowance still includes \$12 million (approximately half special funds and half federal funds) for grants to connector entities, which provide outreach and enrollment mechanisms to assist consumers in learning about, applying for, and enrolling in appropriate health insurance products. Six organizations serve as prime connector entities throughout the State. Given that MHBE's second open enrollment period has been successful (as discussed in the Issues section of this document) and that it is now past the implementation phase, it is not clear that this level of State funding is necessary. Furthermore, it should be noted that an October 2012 analysis produced by the Wakely Consulting Group on MHBE's behalf had estimated quality health plan per-member per-month costs for these services at \$2.40 in the first year of implementation and \$1.73 in the second year of implementation. Even if the higher of these estimates is used (on the basis that MHBE's second year of implementation is similar to an initial rollout), grants for connector entities should cost approximately \$3.4 million in fiscal 2016 (although they are budgeted at \$12.0 million). **Accordingly, the Department of Legislative Services (DLS) recommends reducing grants to connector entities by \$2.0 million in special funds and \$2.0 million in federal funds.**

Included among the other costs estimated by the Wakely report were those associated with marketing. On a quality health plan per-member per-month basis, these costs were estimated at \$0.06 in the first year of implementation and \$0.05 in the second year of implementation. Again using the higher of these estimates, costs for marketing and advertising should be less than \$100,000 in fiscal 2016; yet, they are budgeted at \$2.5 million. **Accordingly, DLS recommends reducing funds for marketing by \$1.0 million in total funds (\$430,000 special funds and \$570,000 federal funds).**

### **Sources of Funding**

As noted previously, in fiscal 2016, MHBE becomes supported by a combination of special funds and federal funds only, with the elimination of general fund support. Furthermore, federal establishment grant funds cease (and are replaced by State funds), while MHBE leverages a greater share of Medicaid revenue. Sources of funding for MHBE are shown in **Exhibit 4**.

**Exhibit 4  
Budget by Fund Source  
Fiscal 2011-2016  
(\$ in Millions)**



FF: federal fund  
GF: general fund  
SF: special fund

Source: Maryland Health Benefit Exchange; Department of Legislative Services

Current law mandates an annual appropriation of at least \$35.0 million in special funds to fund MHBE beginning in fiscal 2016. However, it should be noted that a provision in the Budget Reconciliation and Financing Act (BRFA) of 2015 repeals the specified amount from the mandate that funds be provided at a level “adequate to fully fund the operations” of MHBE. A contingent reduction lowers the amount of MHBE’s special fund appropriation by \$1.5 million and requires MHBE to achieve savings in that amount.

## **Total Expenditures**

Accounting for cost containment and deficiencies, total expenditures for MHBE from fiscal 2011 through 2016 are estimated at \$465.8 million, as shown in **Exhibit 5**.

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**Exhibit 5**  
**Maryland Health Benefit Exchange**  
**Total Expenditures**  
**Fiscal 2011-2016**  
**(\$ in Millions)**

	<u>2011-2014</u>	<u>2015</u>	<u>2016</u>	<u>Total All Years</u>
State Funds	\$24.8	\$34.0	\$33.4	\$92.3
Federal Funds	202.0	128.7	42.8	273.5
<b>Total Funds</b>	<b>\$226.8</b>	<b>\$162.7</b>	<b>\$76.2</b>	<b>\$465.8</b>

Source: Maryland Health Benefit Exchange; Department of Legislative Services

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## ***Issues***

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### **1. Progress Report on MHBE**

The switch to a new IT platform (based on Connecticut's existing platform) has been generally successful. In addition, MHBE has made progress with regard to enrollment and carrier participation.

#### **Initial Open Enrollment Period Marred by IT Problems**

The Maryland Health Connection went live on October 1, 2013, for individuals seeking coverage through the Individual Exchange. Problems almost immediately arose that prevented consumers from creating accounts and enrolling in coverage. While some consumers were ultimately successful in enrolling through the website or were assisted through the call center or consumer assisters, the IT system never worked as anticipated. MHBE's executive director resigned, ties with the original IT contractor were severed, new consultants were hired, and the Secretary of the Department of Information Technology (DoIT) was put in charge of getting the IT system on track. Despite IT problems, MHBE enrolled 66,203 individuals into commercial plans during the initial open enrollment period.

#### **Second Open Enrollment Period Generally Successful**

Following the problems of the initial open enrollment period, MHBE weighed several options for the IT system. In April 2014, MHBE decided to upgrade to the Connecticut IT platform. This option allowed for rapid implementation of a proven IT solution, was feasible given the timeline for the upcoming 2014 open enrollment period, and maximized use of existing software licenses and hardware components. Development costs of \$40 million to \$50 million (from a combination of reallocated grant funds, Medicaid funds, and other State funds) were in line with the costs of the alternative of migrating to the federally facilitated marketplace and less than the cost of fixing the existing system.

All major milestones for the development of MHBE's new IT platform were completed on time, and the new platform went live with no issues at the start of the second open enrollment period on November 15, 2014. In fact, no major system issues were observed until the final week of open enrollment, when some users had difficulty accessing the system. These issues were relatively minor (particularly compared with the significant issues with the system in the last open enrollment period), but open enrollment was consequently extended from February 20 to February 28, 2015. The Maryland Health Connection website has since been reported to be functioning well.

Going forward, IT management responsibilities that had previously been handled by the Secretary of DoIT will be handed off to MHBE's PMO as MHBE transitions from an implementation phase to an ongoing operations phase.

## **Limitations of New IT System**

It should be noted that MHBE's new IT system, mirroring the Connecticut model, does not offer the level of functionality – particularly with regard to Medicaid enrollment – that had been promised of the MHBE's original system. At this point, new Medicaid enrollees who are eligible on the basis of Modified Adjusted Gross Income (MAGI) are applying through MHBE's new IT platform, and enrollees who had initially enrolled through MHBE's original IT platform will be redetermined through the new platform. However, because there is still no ability to convert income and other data from the Client Automated Resource and Eligibility System (CARES) to MHBE's new platform, MAGI-eligible enrollees who initially enrolled through CARES will have to apply through MHBE's new platform. Furthermore, because MHBE's new IT platform was not designed to handle non-MAGI-based determinations, eligibility for non-MAGI-eligible groups will continue to be determined through CARES. Thus, the system remains fractured.

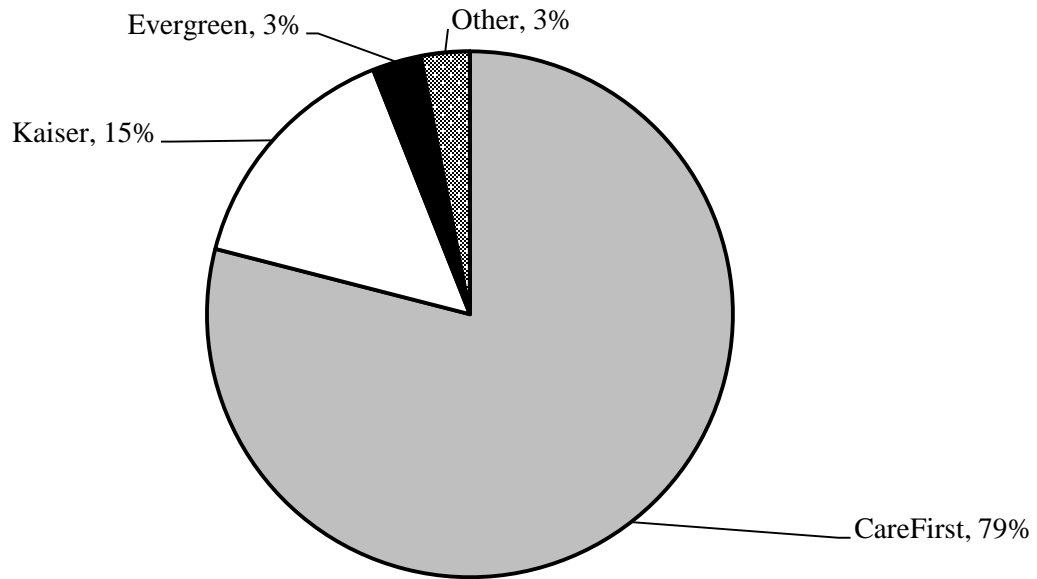
Although the federal government has extended enhanced funding (90% Federal Medicaid Assistance Percentage) for system integration for an additional three years, it is unclear at this point whether the State will pursue an integrated eligibility as originally planned. It should be noted that the development of a system that would fulfill the promise of a single point-of-entry for benefits determinations would likely have significant additional costs. **The agency should comment on plans to move to an integrated system.**

## **Progress in Enrollment and Carrier Participation**

As of February 18, 2015, 269,062 individuals had enrolled during the current enrollment period, with 119,776 individuals enrolled in commercial plans and 149,286 individuals enrolled in Medicaid. (This includes some Medicaid redeterminations, which are made on a rolling basis throughout the year.)

Two new carriers, Cigna and UnitedHealthcare, are now offering qualified health plans through MHBE – joining CareFirst, Kaiser, Evergreen, and All Savers. Enrollment by carrier is shown in **Exhibit 6**. As of February 18, 2015, a significant majority of enrollees, 79%, are enrolled in CareFirst. However, this represents a more diverse market than the previous year, when over 90% of enrollees were enrolled in CareFirst. MHBE attributes this change to the improved browsing capabilities afforded by the new Maryland Health Connection website as well as to changes in premium rates.

**Exhibit 6  
Enrollment by Carrier  
February 18, 2015**



Source: Maryland Health Benefit Exchange; Department of Legislative Services

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Average premium rate changes from 2014 to 2015 range from a decline of 14.1% for Kaiser to an increase of 16.2% for CareFirst. Premium rates vary according to age, geographic region, and the metal level of the health plan (the percentage of medical costs paid by the health plan, compared with the percentage paid by the consumer). For example, a 40-year-old in the Baltimore Metro area will pay between \$226 and \$340 per month for a silver plan (though this amount may be lowered by any potential federal premium subsidy).

Plan levels offered range from catastrophic to bronze, silver, gold, and platinum. It is worth noting that, as of February 18, 2015, more than 88% of enrollees are enrolled in a bronze plan – a relatively high-deductible plan that represents the lowest tier of coverage besides the catastrophic level. Approximately 4% of enrollees are enrolled in catastrophic-level coverage. **The agency should comment on what the evident popularity of these high-deductible plans means for the core issue of health care affordability.**



## **Status of the Small Business Health Options Program Exchange**

Due to IT problems in the initial enrollment period, the Small Business Health Options Program (SHOP) Exchange for small businesses was delayed, though small businesses have gained access to a federal tax credit through authorized SHOP Exchange brokers. Hilltop had projected that more than 8,000 employees of small businesses would enroll in the first year; however, as of November 2014, only 42 small employers with about 250 employees were enrolled in the SHOP Exchange, through a paper-based process. Enrollment in other states has also been reported to be low.

However, MHBE has approved a three-phase plan to implement a more robust SHOP Exchange, which will function in partnership with selected third-party administrators. In August 2014, the MHBE board selected Kelly Services, Group Benefit Services, and Benefit Mall to implement the SHOP Exchange over the next two years. These third-party administrators launched phase two of the three-phase implementation in January 2015. This phase involves extending existing platforms to allow employers and employees to access their enrollment application, census, and account information through a website. Shopping has begun for enrollments that will be effective as of March 2015.

## **2. Use of the Maryland Health Insurance Plan Fund Balance for Reinsurance in MHBE**

One of the changes made by Chapter 159 of 2013, the Maryland Health Progress Act, was to establish a State Reinsurance Program with funding for the program to be derived from the Maryland Health Insurance Plan (MHIP) fund balance (and the hospital assessment that currently supports the plan). However, the future of the reinsurance program is unclear.

Revenues in the MHIP fund are derived from a hospital assessment (until recently 1.0% and reduced to 0.3% in Chapter 464 of 2014). The assessment is paid by all-payers (under the State's unique all-payer hospital rate-paying system) including the federal government (through Medicaid and Medicare). When the assessment was first proposed to support the State's high-risk pool, the federal government agreed to it because it was designed to reduce the extent of uninsured individuals. Over the years, the revenues generated by the assessment has tended to exceed the need for those revenues, allowing a significant fund balance to accrue. The State has previously used the MHIP fund balance as seed funding for the State's expansion of Medicaid to parents of Medicaid children in fiscal 2009, again with the rationale that this funding supported a reduction in the extent of uninsured individuals. Legislation in recent years has expanded the use of the MHIP fund to include supporting reinsurance and premium subsidies through MHBE. To date, no State funding has been used for that purpose, and MHBE has yet to provide any details on a possible reinsurance program beyond the 2015 and 2016 plan years, for which federal funds are available.

A proposed \$45 million fund balance transfer offers one-time support to Medicaid in fiscal 2015 to cover anticipated deficiencies. Given that it is unclear if the federal government would support the use of the MHIP fund balance for this purpose, the intent is that the MHIP funding involved is limited to that which would have been paid through the assessment by nonfederal (*i.e.*, commercial and other

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private) payers although the MHIP account does not specifically delineate these contributions in this way.

Based on the latest year-end fund balance estimate, the proposed transfer still leaves the MHIP fund with a fund balance estimated at \$133 million at the end of fiscal 2015. As noted above, MHBE has yet to develop a State reinsurance program to replace the federal reinsurance program, which is available for benefit years 2014 through 2016, but estimated costs are \$30 million to \$40 million per year. No payment is anticipated until perhaps fiscal 2017.

Even assuming a \$40 million reinsurance payment, the State share of the MHIP fund balance is sufficient to allow an additional fund balance transfer beyond the \$45 million by up to \$10 million. Accordingly, the operating budget analysis for the Medical Care Programs Administration contains a recommendation that the fund balance transfer be increased by \$8 million as part of a broader recommendation to strike the BRFA provision requiring the Health Services Cost Review Commission to adjust rates related to uncompensated care in fiscal 2015.

Another BRFA provision deletes the assessment on hospital rates dedicated to the MHIP and other authorized activities effective July 1, 2016.

## ***Recommended Actions***

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1. Strike the following language from the special fund appropriation:

~~; provided that this appropriation shall be reduced by \$1,498,276 contingent upon the enactment of legislation reducing the required appropriation of \$35,000,000~~

**Explanation:** The fiscal 2016 budget bill as introduced includes a \$1,498,276 special fund reduction to the Maryland Health Benefit Exchange, contingent upon enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2015. This action strikes that contingent reduction as the legislature can make that reduction without the BRFA.

	<b><u>Amount Reduction</u></b>	
2. Reduce the appropriation for connector entities by \$4 million. This reduction still leaves \$8 million for that purpose.	\$ 2,000,000	SF
	\$ 2,000,000	FF
3. Reduce the appropriation of the Maryland Health Benefit Exchange by \$1,498,276 in special funds. This action implements the Governor’s proposal as introduced.	1,498,276	SF
4. Reduce the appropriation for marketing by \$1 million. This reduction still leaves \$1.6 million for that purpose.	430,000	SF
	570,000	FF
<b>Total Reductions</b>	<b>\$ 6,498,276</b>	
<b>Total Special Fund Reductions</b>	<b>\$ 3,928,276</b>	
<b>Total Federal Fund Reductions</b>	<b>\$ 2,570,000</b>	

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Maryland Health Benefit Exchange (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$14,141	\$0	\$70,774	\$0	\$84,915
Deficiency Appropriation	5,200	0	43,546	0	48,745
Budget Amendments	0	0	19,616	0	19,616
Reversions and Cancellations	0	0	-824	0	-824
<b>Actual Expenditures</b>	<b>\$19,340</b>	<b>\$0</b>	<b>\$133,112</b>	<b>\$0</b>	<b>\$152,452</b>
<b>Fiscal 2015</b>					
Legislative Appropriation	\$15,514	\$12,942	\$43,455	\$0	\$71,911
Cost Containment	0	0	0	0	0
Budget Amendments	0	26	85,259	0	85,285
<b>Working Appropriation</b>	<b>\$15,514</b>	<b>\$12,968</b>	<b>\$128,714</b>	<b>\$0</b>	<b>\$157,196</b>

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

## **Fiscal 2014**

The fiscal 2014 legislative appropriation for MHBE was increased by \$67.5 million. Of this amount, \$48.9 million (including \$43.7 million in federal funds and \$5.2 million in general funds) was added through deficiency appropriations to supplement existing funding for the call center, project oversight, and remediation/replacement of MHBE's IT system. Statewide negative deficiencies offset this increase slightly, reducing MHBE spending on employee and retiree health insurance and retirement reinvestment by \$112,000 in federal funds.

Budget amendments increased the fiscal 2014 legislative appropriation for MHBE by \$19.6 million, all federal funds. Of this amount, \$111,000 relates to the fiscal 2014 cost-of-living adjustment (COLA), increments, and annual salary review increases approved during the 2013 session but not included in the fiscal 2014 allowance. The remainder, just over \$19.5 million, is funding available from additional federal Level 2 Health Exchange Establishment grant awards made to MHBE in August 2013 (\$13.6 million) and September 2013 (\$11.1 million).

Of the additional \$19.5 million increased appropriation:

- \$2.7 million is for additional outreach and marketing;
- \$13.8 million is for assister services (services that help individuals enroll in insurance coverage through MHBE); and
- \$3.0 million is for training in the use of MHBE IT applications.

Cancellations totaled \$824,000 in federal funds, which represent federal funds that could not be encumbered due to the unavailability of State matching funds. A small amount (\$132) of general funds were reverted.

## **Fiscal 2015**

To date, the fiscal 2015 legislative appropriation for MHBE has been increased by \$85.3 million. One budget amendment increases the federal fund appropriation for MHBE by \$85.2 million to supplement funding for IT contractual services and various operating costs.

IT contractual services (\$52.1 million) make up the bulk of new spending and represent costs associated with:

- the design, development, and implementation (by Deloitte Consulting) of MHBE's new IT system, which will replace MHBE's original, faulty system; and

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- oversight through a PMO contract, which continues to be necessary due to the transition between systems.

Operating costs (\$33.1 million) make up the remainder of new spending, and include:

- call center contractual services (\$20.9 million), which includes additional staff and costs associated with moving the call center to a new location;
- connector entities (\$4.2 million), which includes additional staff;
- IT contractor operational support (\$3.3 million), which includes costs related to the transition between systems (including workarounds);
- advertising (\$1.3 million); and
- other operational support (\$3.4 million).

In addition, the legislation appropriation for MHBE has been increased by \$52,000 (including \$26,000 in special funds and \$26,000 in federal funds) to reflect the fiscal 2015 COLA and increments approved during the 2014 session but not included in the fiscal 2015 allowance.

**Object/Fund Difference Report  
Maryland Health Benefit Exchange**

<u>Object/Fund</u>	<u>FY 14 Actual</u>	<u>FY 15 Working Appropriation</u>	<u>FY 16 Allowance</u>	<u>FY 15 - FY 16 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	72.00	69.00	69.00	0.00	0%
02 Contractual	0.00	1.00	0.00	-1.00	-100.0%
<b>Total Positions</b>	<b>72.00</b>	<b>70.00</b>	<b>69.00</b>	<b>-1.00</b>	<b>-1.4%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 5,630,311	\$ 6,902,375	\$ 7,510,170	\$ 607,795	8.8%
02 Technical and Spec. Fees	0	50,000	0	-50,000	-100.0%
03 Communication	916,795	1,486,700	1,535,326	48,626	3.3%
04 Travel	26,983	6,000	6,000	0	0%
08 Contractual Services	121,502,814	129,667,221	55,995,309	-73,671,912	-56.8%
09 Supplies and Materials	56,223	19,300	19,300	0	0%
10 Equipment – Replacement	19	0	0	0	0.0%
11 Equipment – Additional	114,217	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	23,537,428	18,417,425	12,000,000	-6,417,425	-34.8%
13 Fixed Charges	667,298	646,510	695,311	48,801	7.5%
<b>Total Objects</b>	<b>\$ 152,452,088</b>	<b>\$ 157,195,531</b>	<b>\$ 77,761,416</b>	<b>-\$ 79,434,115</b>	<b>-50.5%</b>
<b>Funds</b>					
01 General Fund	\$ 19,340,343	\$ 15,513,882	\$ 0	-\$ 15,513,882	-100.0%
03 Special Fund	0	12,967,846	35,000,000	22,032,154	169.9%
05 Federal Fund	133,111,745	128,713,803	42,761,416	-85,952,387	-66.8%
<b>Total Funds</b>	<b>\$ 152,452,088</b>	<b>\$ 157,195,531</b>	<b>\$ 77,761,416</b>	<b>-\$ 79,434,115</b>	<b>-50.5%</b>

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

**Fiscal Summary**  
**Maryland Health Benefit Exchange**

<u>Program/Unit</u>	<u>FY 14 Actual</u>	<u>FY 15 Wrk Approp</u>	<u>FY 16 Allowance</u>	<u>Change</u>	<u>FY 15 - FY 16 % Change</u>
01 Maryland Health Benefit Exchange	\$ 61,456,290	\$ 62,367,473	\$ 41,134,946	-\$ 21,232,527	-34.0%
02 Major Information Technology Development Projects	90,995,798	94,828,058	36,626,470	-58,201,588	-61.4%
<b>Total Expenditures</b>	<b>\$ 152,452,088</b>	<b>\$ 157,195,531</b>	<b>\$ 77,761,416</b>	<b>-\$ 79,434,115</b>	<b>-50.5%</b>
General Fund	\$ 19,340,343	\$ 15,513,882	\$ 0	-\$ 15,513,882	-100.0%
Special Fund	0	12,967,846	35,000,000	22,032,154	169.9%
Federal Fund	133,111,745	128,713,803	42,761,416	-85,952,387	-66.8%
<b>Total Appropriations</b>	<b>\$ 152,452,088</b>	<b>\$ 157,195,531</b>	<b>\$ 77,761,416</b>	<b>-\$ 79,434,115</b>	<b>-50.5%</b>

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.