Oregon Health Insurance Exchange Corporation

Business Plan

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Executive Summary

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Overview of the Oregon Health Insurance Exchange

> *Our Mission: Improving the health of all Oregonians by providing health coverage options, increasing access to information, and fostering quality and value in the health care system.*

Access to quality, affordable health insurance coverage is increasingly challenging for many Oregonians and businesses. An estimated 560,000 Oregonians are uninsured, and, for those who have insurance, premium costs are rising.

The Oregon Health Insurance Exchange will help improve access to coverage by providing a central marketplace where individuals and small businesses can shop for health coverage options and may receive help paying for coverage. Oregonians will be able to easily compare plans, find out if they are eligible for tax credits and other financial assistance, and enroll for health coverage through the Exchange website. They also will be able to shop and enroll by calling a toll-free number and working with community-based navigators and agents.

Oregon created a public corporation to operate the exchange in the public interest for the benefit of the people and businesses that obtain health insurance coverage for themselves, their families, and their employees through the Exchange.

The Exchange is a key part of Oregon's current health reform efforts aimed at improving health, increasing the quality and availability of medical care, and controlling costs.

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Value of the Exchange

The mission of the Oregon Health Insurance Exchange Corporation is improving the health of all Oregonians by providing health coverage options, increasing access to information, and fostering quality and value in the health care system. To fulfill its mission, the corporation will provide the following services to Oregonians and businesses.

- **Central place to shop for insurance plans.** The Exchange will provide easy-to-compare information on health plan quality and price.
- **Reliable information and assistance.** The Exchange will provide information on how to best use health benefits to improve health as well as referrals to other resources if appropriate.
- **Focus on cost and value.** The Exchange can help control the underlying cost drivers in health care through the standards it sets for plans sold in the Exchange. This work will be done in concert with Oregon's other efforts to improve health care and reduce costs.

- **Seamless eligibility and enrollment process.** With a single application, Oregonians can find and enroll in the health plan that best meets their needs.

- **Providing more Oregonians access to insurance through tax credits.** Federal tax credits and other assistance available through the Exchange will make health care coverage more affordable.

- **Innovative plan options and simplified plan administration for small businesses.** Small business can allow their employees to choose an insurance company and plan through a defined contribution model.

- **Community-based assistance.** The Exchange will include a network of specially trained customer service staff, navigators, insurance agents, and other community-based organizations that will help guide Oregonians in all parts of the state through applying to the Exchange and enrolling in coverage.

Road to Oregon's Exchange

Oregon has been exploring the concept of a health insurance exchange for the past decade. A series of legislative acts, starting in 2007, culminated in the passage of Senate Bill 99, signed into law on June 22, 2011.

The Patient Protection and Affordable Care Act, signed into law in March 2010, requires all states to operate a health insurance exchange by January 1, 2014. States developing exchanges must receive readiness certification from the federal government in January 2013.

If states do not operate their own exchanges, the federal government will implement an exchange for them. By developing its own exchange, Oregon can ensure it meets the unique needs of the state's individuals, businesses, and health insurance market. It also gives Oregon the ability to be innovative in the design of plans offered through the Exchange, so it can better contribute to broader state health reforms under way.

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Senate Bill 99 established the Oregon Health Insurance Exchange as a public corporation, governed by a nine-member board of directors appointed by the Governor and confirmed by the Senate. The bill also created a bipartisan Legislative Oversight and Advisory Committee, composed of two representatives and two senators, to advise the corporation on matters concerning the implementation of the Health Insurance Exchange.

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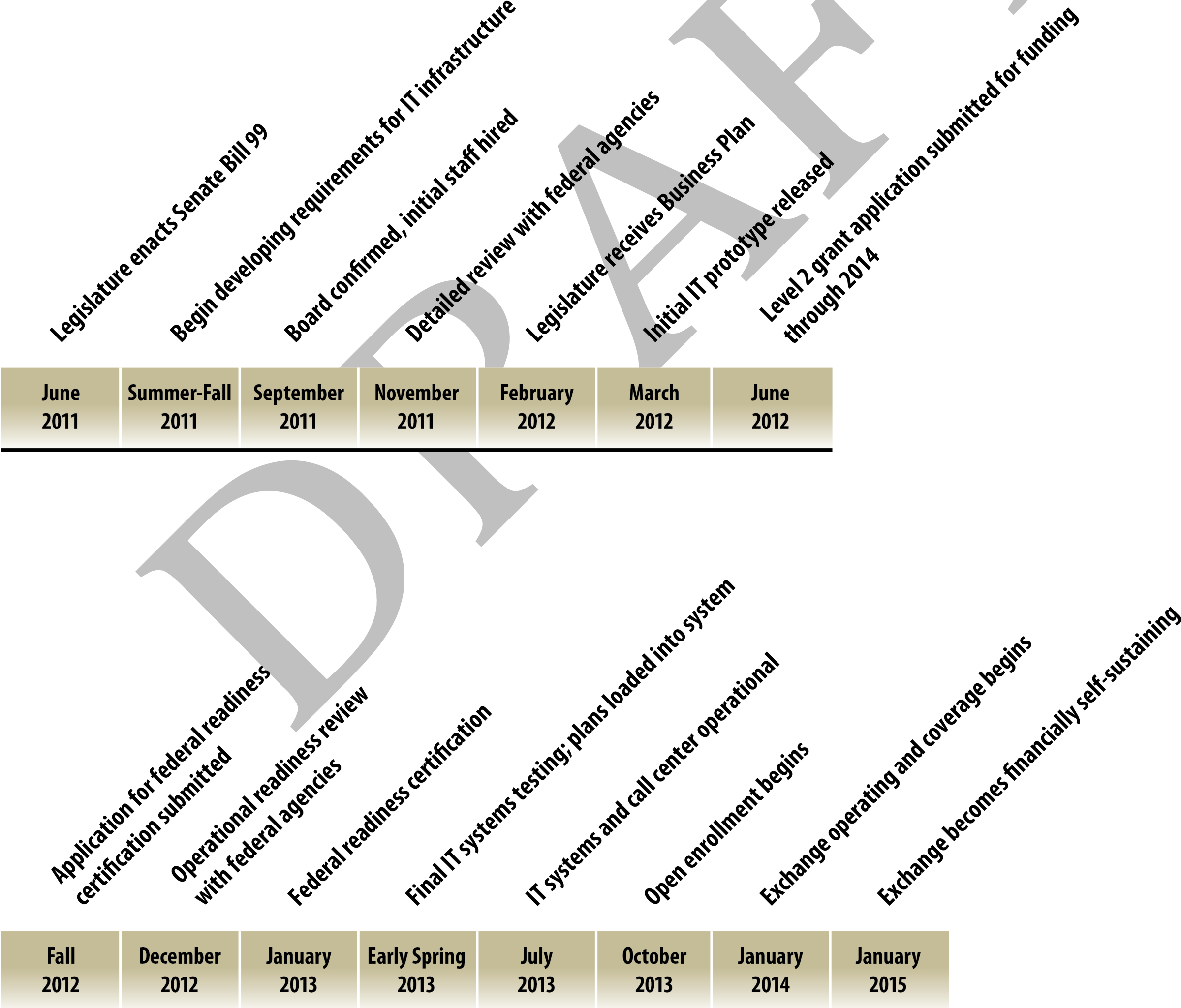
Exchange board meetings are open to the public and allow for public participation through a public comment period. The public also can participate by submitting comments through the Exchange website. The legislation established an Individual and Small Employer Consumer Advisory Committee to provide additional perspectives and input to the board.

The Exchange is funded by federal grants through 2014. To pay for operations beyond 2014, Senate Bill 99 establishes an administrative fee, which is a percentage of premiums for lives enrolled in the Exchange, charged to insurance companies. There is no state funding for start-up or ongoing operations of the Exchange.

Given the various federal and state reforms under way, Oregon's insurance market will be significantly different when the Exchange launches in 2014. That requires the corporation to be innovative and nimble as it develops the Exchange web portal and programs.

*Timeline of Exchange Activities**



**Please see Appendix for more detailed operations timeline.*

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What is the Exchange?

The Oregon Health Insurance Exchange is a central marketplace where individuals and small businesses can shop for health coverage options and may receive help paying for coverage. Oregonians will be able to easily compare plans, find out if they are eligible for tax credits and other financial assistance, and enroll for health coverage through the Exchange's website. They also will be able to shop and enroll by calling a toll-free number and working with community-based navigators and agents.

The Exchange will serve two major customer groups: individuals and small businesses. While there will be similarities between the individual and small business products and services available in the Exchange, each portion of the Exchange will have unique characteristics and functions.

For Individuals

Plan comparison and selection

The Exchange's interactive web portal will allow individuals to make "apples-to-apples" comparisons of health insurance plans and costs. For example, a person could search for plans that include their doctor or hospital system, plans that have wellness programs or chronic disease management programs, plans that score highest on quality measures, or plans with the lowest costs.

Plans offered through the Exchange offer two distinct advantages to individuals. One, each plan will meet specific requirements set by the Exchange. The Exchange will use the federal minimum standard requirements as a baseline, potentially adding other requirements that ensure quality health plans are available across the state and that the types of plans available support other health system reforms in Oregon.

Second, the Exchange will grade each plan in areas like quality, care coordination, and network adequacy. Individuals will know that plans in the Exchange have been independently and objectively judged based on quality and value.

Health plans on the Exchange will be categorized into the following levels of coverage. The levels are based on how much of total benefit costs the plans pay.

- *Bronze plan* – represents minimum creditable coverage. Bronze plans will pay, on average, 60 percent of an individual's health care expenses. Enrollees would then pay 40 percent through cost-sharing.
- *Silver plan* – covers an average of 70 percent of health care expenses.
- *Gold plan* – covers an average of 80 percent of health care expenses.
- *Platinum plan* – covers an average of 90 percent of health care expenses.

Individuals under the age of 30 also can buy a "catastrophic" plan through the Exchange. These plans offer a minimum level of coverage and some preventive care.

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Seamless enrollment

Individuals who do not have access to affordable coverage through an employer can come to the Exchange to shop for and enroll in health coverage. Oregon's seamless, integrated systems will mean individuals can fill out one application to apply for and enroll in any type of health coverage offered through the Exchange.

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Accessing the Exchange online, by phone, and in-person, Oregonians will be able to easily compare and enroll in commercial plans. They also will be able to find out if they are eligible for federal tax credits to help pay premiums or if they are eligible for the Oregon Health Plan (Medicaid) or Healthy Kids (CHIP) program. The Exchange web portal will be able to pull from other state and federal data sources, cutting down the amount of paperwork that has to be sent in and processed.

Once the individual has chosen a health insurance plan or determined eligibility for a federal program, they can use the Exchange's web portal to enroll in the plan. Behind the scenes, the Exchange will forward information and the first month's premium payment securely to the insurance company. At that point, the insurance company will issue insurance cards and begin billing the customer directly and coverage will begin. For individuals eligible for the Oregon Health Plan or the Healthy Kids program, the Exchange will transfer the enrollment choices to the Oregon Health Authority, who will complete the enrollment process. This process will be seamless to the customer.

The Exchange will seamlessly determine eligibility for tax credits and state programs such as Healthy Kids and the Oregon Health Plan. Eligibility requirements are below:

- *Individual commercial plans* – Children and adults who do not have access to affordable coverage through an employer
- *Federal tax credits* – Children and adults up to 400 percent of federal poverty level ($89,000 for a family of four in 2011)
- *Oregon Health Plan or Healthy Kids* – Children up to 300 percent of federal poverty level
- *Oregon Health Plan* – Adults up to 138 percent of federal poverty level

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Tax credits

Starting in 2014, many Oregonians will receive assistance paying their monthly premium using a federal tax credit for health plans offered through the Exchange. Based on income, some will also get additional help with cost-sharing expenses, such as co-pays and deductibles. To be eligible for the tax credits, Oregonians must be U.S. citizens or legal immigrants and must not have affordable coverage available through their employer. The federal government will determine the definition of "affordable coverage."

The tax credit is determined during the application process and is on a sliding scale based on income and the insurance plan chosen. Once a person is determined eligible for the tax credit, they can choose to have it as an advance payment or receive the credit when they file their taxes. The advance payment lowers the premium a person pays each month and is paid by the federal Department of the Treasury directly to the insurance company.

The Exchange will have a simple-to-use premium calculator to help Oregonians estimate their monthly premium bill.

Individual tax credit scenarios:

EXAMPLE #1: Family of four with income of $50,000
Income as a percentage of federal poverty level: 224 percent
Premium for plan: $750 per month
Premium tax credit: $452.50 per month
Actual family contribution: $297.50 per month

EXAMPLE #2: 40-year-old individual with income of $30,000
Income as a percentage of federal poverty level: 261 percent
Premium for plan: $375 per month
Premium tax credit: $166 per month
Actual contribution $209 per month

Sources: U.S. Treasury, Kaiser Family Foundation

Note: The premiums for plans in the examples are hypothetical; premiums have not yet been set for Exchange plans.

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For Small Businesses

Offering health insurance to their employees is becoming increasingly challenging for Oregon's small businesses, which account for more than 50 percent of the private sector jobs in the state, according to the Small Business Administration (SBA). Only about 35 percent of businesses with fewer than 10 employees offer health insurance to workers, according to the Medical Expenditure Panel Survey (MEPS). The Oregon Health Insurance Exchange Corporation is exploring a defined contribution model, which will make it easier for employers to offer insurance to their employees. The model will provide expanded choices for employees and administrative efficiencies for employers.

More options for employers and employees: defined contribution model

The federal government is developing requirements for the Small Business Health Options Program, known as SHOP, which will serve employers with fewer than 50 employees in 2014 and, beginning in 2016, fewer than 100 employees. In Oregon, the Exchange Corporation has explored four major directions for plans offered by small employers, including:

1. *Traditional.* The employer chooses one insurance company and plan that their employees must enroll in.
2. *Plan bundling.* The employer chooses one insurance company, but lets their employees select from all plans offered by that company.
3. *Multiple companies/one plan.* The employer selects a benefit plan level – such as bronze, silver, gold, and platinum, explained on page 7 – and the employees can select a plan from all companies.
4. *Full choice.* Employees can select from all companies and all plans.

The Oregon Health Insurance Exchange is exploring a defined contribution model, which will make it easier for employers to offer insurance to their employees. The model will provide expanded choices for employees and administrative efficiencies for employers.

The fourth option, full choice, has resonated with the small business community and meets the Exchange's goal of providing innovative health insurance options to Oregonians. Known as a defined contribution model, option No. 4 would allow employers to pay a certain percentage of premiums or a set dollar amount and give their employees as much choice as they want. The Exchange will continue to work with the insurance community and small businesses on designing the defined contribution model.

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Administrative efficiencies for employers

Instead of having to research multiple insurance companies, small employers will be able to visit the Exchange website to provide insurance choices to their employees. After employers elect a plan choice or how much they will contribute to premiums, their employees will go to the Exchange to enroll. Although employees may select a range of plans from a range of carriers, the employers will only have to pay one bill to the Exchange, and the Exchange will remit the premiums to the participating insurance companies.

Tax credits

The Exchange also will provide information to help small businesses determine whether they are eligible for a federal tax credit to help cover the cost of coverage. The credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have. While the Exchange will perform a preliminary calculation to determine whether employers may be eligible for the tax credit, the credit will be administered by the IRS. The Exchange will encourage employers to contact their tax adviser to take advantage of the credit.

To qualify for the tax credit, small businesses must:

- Provide health insurance to employees and cover at least 50 percent of the cost of coverage.
- Employ less than the equivalent of 25 full-time workers (for example, an employer with fewer than 50 half-time workers may be eligible.).
- Pay average annual wages below $50,000.

Employers can be for-profit or tax-exempt. In 2014, the tax credit is worth up to 50 percent of a small business' premium costs (35 percent for tax-exempt employers). The tax credit phases out gradually for firms with average wages between $25,000 and $50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

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Small business tax credit scenarios:

EXAMPLE #1: Auto repair shop with 10 full-time employees
Wages: $250,000 total, or $25,000 per worker
Employee health care costs: $70,000
2014 tax credit: $35,000 (50 percent credit)

EXAMPLE #2: Restaurant with 40 part-time employees
Wages: $500,000 total, or $25,000 per full-time equivalent worker
Employee health care costs: $240,000
2014 tax credit: $40,000 (50 percent credit with phase-out)

EXAMPLE #3: Foster care nonprofit with 9 full-time employees
Wages: $198,000, or $22,000 per worker
Employee health care costs: $72,000
2014 tax credit: $25,200 (35 percent credit)

Source: IRS

Links to Better Health

Having insurance is a first step toward better health, but it is important to use health care services wisely – both to improve health and to keep unnecessary costs down. Working with insurance companies and other organizations, the Exchange will provide Oregonians with links to information and tools they need to best use their insurance benefits to improve health.

The Exchange will connect people with the best resources available for all things health, such as exercise and nutrition, managing chronic health conditions, immunizations, and talking to your doctor. The Exchange also will link Oregonians with helpful services offered by their health plans, such as nurse advice lines and preventive wellness programs. The Exchange will help consumers learn the difference between co-pays and co-insurance, know what a deductible is, and understand what their benefits actually cover in ways that are easy to understand and use.

> *The Exchange will provide Oregonians with links to information and tools they need to best use their insurance benefits to improve*

As part of its educational efforts, the Exchange Corporation will develop culturally appropriate materials in multiple languages using a variety of mediums, such as brochures, web pages, short informational videos, and social media (like Facebook or Twitter). The Exchange will partner with community-based organizations to ensure the information is accessible to all Oregonians, including those in rural areas and hard-to-reach populations.

The Exchange also will provide referrals to health care and health insurance resources in local communities through the web portal and the customer call center.

Exchange Plan Requirements and Grading

The Oregon Health Insurance Exchange Corporation will establish quality standards for plans sold in the Exchange. In addition to certifying plans, the corporation will grade plans on a variety of criteria and publish those grades so that people can make meaningful comparisons.

Certification of plans

The Affordable Care Act lays out general standards for “Qualified Health Plans (QHPs)” that will be certified by the state Exchanges. To be certified as a QHP, plans will have to provide essential health benefits, follow established limits on cost-sharing (like deductibles, co-payments, and out-of-pocket maximum amounts), and meet other requirements.

> *In addition to certifying plans, the Exchange will grade plans on a variety of criteria and publish those grades so that people can make meaningful comparisons.*

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The federal government is developing specific requirements for essential benefits and for QHPs sold in the Exchanges, but states have the ability to have additional requirements. In Oregon, the Exchange Corporation is working with its Individual and Small Employer Consumer Advisory Committee and technical workgroups to determine how to measure quality in health plans.

Besides the bronze, silver, gold, and platinum qualified health plans (described on page 7), individuals under the age of 30 can buy a "catastrophic" plan. These plans will only be available in the Exchange and will provide a minimum level of coverage including some upfront preventive care.

Beginning in 2014, all insurance companies in the individual and small group markets in Oregon must provide a bronze plan. To be certified to sell in the Exchange, insurance companies also must agree to offer at least one silver plan and one gold plan. In addition, insurers must be licensed and in good standing with the state, agree to charge the same premium for the same plan inside and outside of the Exchange, and meet other requirements as determined by federal rule or the corporation, to participate in the Exchange.

Grading of plans

The Exchange will publish grades for qualified health plans, to help people choose the plan that best meets their needs. The Exchange will grade plans on a variety of measures, including quality, care coordination, provider network adequacy, customer service, and price. The Exchange Corporation is working with Quality Corporation, the Oregon Health Authority, the Insurance Division, and stakeholder groups to establish consistent quality indicators while awaiting federal government regulations regarding grading.

The corporation will work with the Insurance Division and the Oregon Health Authority to collect necessary information from insurance companies for certification and grading, so that companies submit information only once.

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Customer Service and Outreach

In developing the Oregon Health Insurance Exchange, the corporation is centering its efforts around its two major customer groups: individuals and small businesses. To ensure it can best serve those groups, the corporation is developing a robust customer service program as well as a broad communications and outreach plan to reach all Oregonians.

> *The corporation is developing an extensive customer service program, including a call center with highly trained customer service staff, community-based "navigators," and insurance agents.*

Customer Service

The Exchange will be a central place where Oregonians can turn for health coverage information and assistance. The corporation is developing an extensive customer service program, including a call center with highly trained customer service staff, community-based "navigators," and insurance agents.

Customers will be able to turn to the Exchange not only for help enrolling, but for referrals to other entities if necessary. Through its customer service program, the Exchange will provide the following:

- Expertise in eligibility, enrollment, and program specifications.
- Public education activities to raise awareness about the Exchange.
- Fair, accurate, and impartial information.
- Help enrolling in Exchange plans.
- Help for consumers with complaints about their plans.
- Information in appropriate languages for those with limited English proficiency.
- Accessible information for those with disabilities.

The corporation will develop its customer service plan in spring 2012, based in part on guidance from the federal government on the roles of navigators and agents.

Oregon's navigator program will provide resources to community-based organizations to assist Oregonians throughout the state. In creating its navigator program, Oregon is looking to build off the success of similar local, grassroots assistance programs, such as the Senior Health Insurance Benefits Assistance (SHIBA) program and the Healthy Kids program. The SHIBA program uses community-based organizations and a network of volunteers throughout the state to help Medicare beneficiaries and their families. The Healthy Kids program partnered with community organizations to help enroll more than 100,000 children.

The corporation also views insurance agents as key to the Exchange's success. The corporation will develop a certification program for licensed agents who sell plans in the Exchange and a referral service for consumers who request to work with an agent. In addition, the corporation is exploring ways to give agents the ability to sell all plans in

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the Exchange – from a variety of insurance companies – and work on behalf of consumers.

Some people in particularly challenging or unique situations may need a higher level of assistance. The Exchange will have specially trained staff and partners throughout the state to help those Oregonians.

Communications and Outreach Plan

The Exchange Corporation is approaching communications and outreach in five phases, beginning with engaging stakeholders and developing partnerships, leading to a broader effort to educate individuals and small businesses about the Exchange so they are prepared to begin enrolling by 2014. The Exchange will reach all Oregonians, particularly those in rural areas and hard-to-reach populations.

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Information Technology Infrastructure

Oregon is one of five states to receive a federal Early Innovator Grant to develop the information technology infrastructure to support its health insurance exchange. At the time Oregon received the Early Innovator Grant, the Department of Human Services (DHS) and the Oregon Health Authority (OHA) were modernizing and automating their outdated eligibility systems and processes. Oregon chose to develop a single web portal for the Exchange and federal assistance programs such as Medicaid using an enterprise software platform of integrated commercial, off-the-shelf (or COTS) products.

An off-the-shelf technology product allows Oregon to configure existing proven products to meet its needs, rather than use the time-consuming and expensive process of building new systems from scratch.

This approach allows Oregon to configure existing proven products to meet its needs, rather than use the time-consuming and expensive process of building new systems from scratch. It also gives the state the flexibility to integrate other systems into the enterprise platform over time.

As an Early Innovator state, Oregon is sharing its work with other states and its federal funding partner.

Product selection

Oracle was chosen to provide the enterprise software platform after an extensive vendor selection process. One of the key elements of this platform is the “rules engine” that is the heart of the system’s configurability. Using special word processing templates, business and policy analysts are able to convert program rules into Oracle formats to implement functions such as eligibility determination and financial management (billing and payments) into the web portal.

Development process

The team designing and developing the web portal is using a process that provides flexibility and the ability to adapt to evolving requirements and regulations for the Exchange. Every three weeks, the team releases an updated version of the system to be tested and reviewed. During each iteration, the team makes improvements and changes program requirements if needed. This approach allows the project to move forward in a rapidly changing environment.

Focus on the user

Oregon is among 11 states participating in the “Enroll UX 2014” project, which is developing design standards for health insurance exchanges in order to make them easy for people to shop for and enroll in plans. The public-private partnership involves national and state health care foundations, the federal government, and the 11 states. Global design firm IDEO is the design partner. In addition to developing design standards all states can use, IDEO will be designing an Oregon-specific prototype, to

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illustrate how Exchanges can best use the design standards. The prototype will be released in spring 2012.

Governance structure

The two-year project is managed by OHA. An Executive Steering Committee consisting of the directors of the Exchange, OHA, DHS, and the administrator of the Insurance Division provides governance for the project. There is also a Tactical Steering Committee, made up of staff from all the impacted agencies above, including Early Innovator project management staff, which is responsible for operational decisions. Oregon consults frequently with the federal Center for Consumer Information and Insurance Oversight (CCIIO), and undergoes rigorous, periodic “gate reviews” with the center to affirm the project is on target. OHA is also required to provide regular updates to the Oregon Legislature.

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Enrollment and Financial Projections

Given the uncertainties of the economy and the unknown impacts of health insurance market reforms, it is difficult to project how many Oregonians will enroll in the Exchange. Likewise, in a start-up organization like the Exchange, projecting operating expenses over the next several years is challenging. That said, the Exchange Corporation has worked with state and national experts to develop enrollment projections and an Exchange budget for both the start-up phase and the first two years of operations.

Enrollment Projections

The corporation's enrollment projections are based on national economic models developed by MIT economist Jonathan Gruber and adjusted by Wakely Consulting Group. The projections reflect Oregon's insurance market in 2009, shown below, and the impact of federal health reforms taking effect in 2014, including the Exchange, the individual mandate, and tax credits and cost-sharing subsidies. The scope and intensity of outreach and communications efforts also will impact enrollment.

Oregon Health Insurance Enrollment, 2009

Oregon Population**	**3,738,000**	
Commercial/State-Regulated Insurance*		
Individual	193,000	5.2%
Portability	21,000	0.6%
Small Group 2-50	228,000	6.1%
Oregon Medical Insurance Pool	15,000	0.4%
Large Group	804,000	21.5%
Associations and Trusts	213,000	5.7%
Total Covered Under State Regulation	**1,474,000**	**39.4%**
Large Group Self-Insured⊙	**324,000**	**8.7%**
Federal Health Care Programs		
Medicare	602,000	16.1%
Medicaid	475,000	12.7%
Total Covered Under Federal Regulation	**1,077,000**	**28.8%**
Uninsured★	**647,000**	**17.3%**

These enrollment estimates do not total 100 percent of Oregon's population because the numbers are rounded to the nearest thousand and come from several sources.

** *Office for Oregon Health Policy & Research. Figures for civilian non-institutionalized population are used.*

* *Oregon Insurance Division quarterly enrollment data and data from the Oregon Medical Insurance Pool*

⊙ *Oregon Insurance Division quarterly enrollment data.*

★ *Centers for Medicare and Medicaid Services.*

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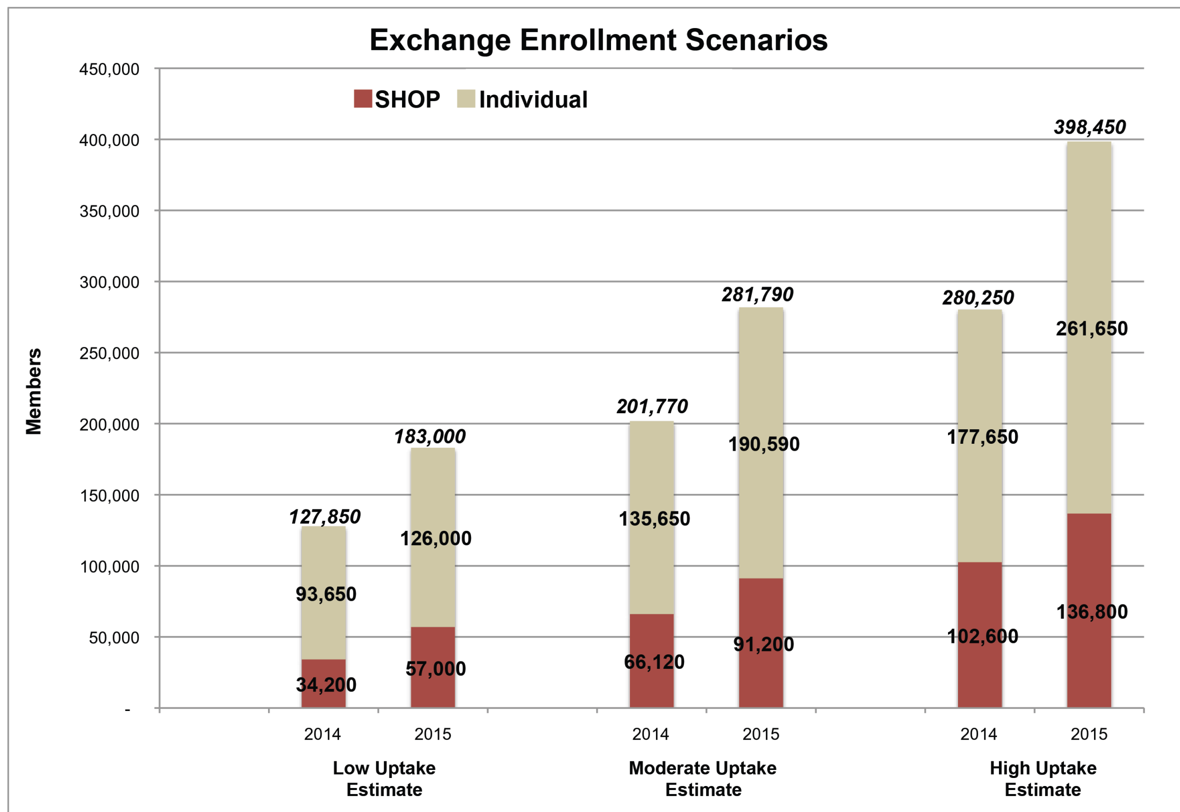
Wakely Consulting developed three enrollment scenarios – low, moderate, and high – shown below.



These enrollment projections are estimates only and will be revised as new information becomes available, such as final decisions on the essential benefits required in Exchange plans and the premiums to be charged for plans sold on the Exchange.

Financial Projections

The corporation has developed financial projections for two phases: the start-up phase from 2011-2013 and the initial operations phase from 2014-2015 (details attached in the Appendix). Federal grant funding finances the start-up phase and the operating costs for 2014. In 2015, the Exchange must be financially self-sustaining via insurance company administrative fees on plans sold through the Exchange. Senate Bill 99 sets a maximum fee of between 3 percent and 5 percent of earned premium depending on enrollment.

As more fully explained in the assumptions section in the Appendix, these projections are preliminary and may change in material respects as the corporation receives new information and resolves operational issues.

First phase – start-up, 2011-2013

The corporation estimates annual start-up costs at $910,511 in 2011, $10.5 million in 2012, and $15.6 million for 2013. Year-end, full-time equivalent (FTE) staffing figures are estimated at 21, 39.5, and 133, respectively. These costs are funded entirely by federal implementation grants. Because the Exchange will begin open enrollment in 2013, staffing costs increase significantly in that year. No costs associated with the development of the IT infrastructure and website are included in these years because they are being funded by the IT Innovator Grant managed by the Oregon Health Authority.

Second phase – initial operations, 2014-2015

For this phase, the corporation principally used the Wakely Consulting Group's "moderate" enrollment forecast and expense model. This model was derived and benchmarked based on Wakely's experience with the Massachusetts Connector and the work done by Jonathan Gruber at the Massachusetts Institute of Technology.

Funding from the Level 2 grant will cover all estimated operating expenses for 2014, the first full year of operations. The corporation then set the carrier administrative fee necessary to accumulate a reserve of 50 percent of estimated operating costs for 2015, or $17.3 million. This fee is 2.5 percent of premium, significantly below the statutory maximum allowable assessment of 4.5 percent based on projected enrollment.

For 2015, the carrier administrative fee was set at the rate necessary to cover that year's operating expenses, thereby preserving the reserve accumulated in 2014. With a substantial increase in earned premium and anticipated economies of scale in operations, the administrative fee would be 2.7 percent, again well below the 4 percent maximum provided by statute.

Lastly, as part of its financial analysis, the corporation estimated how much enrollment would be necessary to break even, using the maximum carrier administrative fee of 5 percent. This preliminary analysis concludes this enrollment figure to be between 100,000 and 120,000, depending on the mix of small group and individual policies. The break-even point is below the "low" enrollment estimate in Wakely's modeling.

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Enrollment and Financial Projections Summary:

- Three enrollment projections were developed: low, moderate and high.
- The corporation used the moderate enrollment projection to develop the financial projections for 2014 through 2015.
- The moderate enrollment estimate projects 281,790 enrollees at the end of 2015.
- Using the moderate enrollment projection, the corporation calculated, for illustrative purposes, an administrative fee that would be below the maximum amounts established in statute at 2.5 percent in 2014 and 2.7 percent in 2015.
- The corporation conducted a preliminary break-even analysis, which shows that between 100,000 and 120,000 enrollees would be required for the Exchange to be self-sustaining using the maximum administrative fee allowed in statute.

Please see the Appendix for more detailed financial information.

Appendix

Uncertainties and Risks – Frequently Asked Questions

What happens if the Supreme Court overturns the Affordable Care Act's requirement that all Americans have health insurance?

Oregon has been on a path toward a health exchange for many years, long before the Affordable Care Act. The Exchange will offer valuable services to Oregonians, such as a central place for consumers to compare health insurance plans and a way for small businesses to offer more choice for their employees with less administrative burden. These services still will be needed, and the corporation's goal is to build an Exchange where consumers will want to purchase insurance, with or without a mandate. That said, if the mandate is overturned, the Exchange will consult with legislators and the Governor to determine whether the corporation needs to make any changes to its Business Plan.

What happens if federal funding for subsidies and tax credits are reduced?

The subsidies and tax credits made available as part of the Affordable Care Act will help drive enrollment to the Exchange. If this federal assistance is lowered or eliminated, the Exchange may have to adjust its enrollment projections.

If the Exchange loses its federal funding, is the state of Oregon at any financial risk?

No. The Exchange is a public corporation independent of state government and has not received any state funding. If the federal start-up funding is reduced or eliminated, the state is under no obligation to move forward with the Exchange. If this occurs, the Exchange Corporation will consult with legislators and the Governor on next steps.

What are the consequences of Oregon not receiving federal readiness certification in January 2013?

The Oregon Health Insurance Exchange undergoes periodic reviews by its federal partners to ensure it is on track to receive readiness certification in January 2013.

If the federal government determines in January 2013 that any states are not ready to operate an Exchange, it may grant provisional certification. In that case, the state could address the federal government's concerns and receive certification later. If the federal government finds that a state will not be ready to operate an Exchange, it will move forward on implementing a federal Exchange for that state.

How is Oregon moving forward with its Exchange without federal requirements?

There are a number of critical areas where the federal government has not yet released regulations, such as standards for qualified health plans, the functions of navigators and agents, and eligibility determinations, appeals, and exemptions. The Exchange is watching the federal rules process closely and coordinating statewide responses to requests for comments. As explained on page 16, the Exchange is developing its web portal using a three-week, iterative process so it can adapt quickly to evolving requirements.

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Market-wide Selection Issues

Reforms that are part of the federal Affordable Care Act will have a significant impact on the health insurance market. For example, beginning in 2014, insurance companies will no longer be able to deny coverage to anyone regardless of their medical history. Because 20 percent of the population accounts for 80 percent of total medical spending, some imbalances are likely to occur once those higher-cost people are covered by commercial health insurance plans. Some insurance companies may attract a disproportionate number of higher-cost members while others may end up with a larger portion of lower-cost members. In addition, the defined contribution model the Exchange Corporation is developing may cause some imbalances in the small group market.

> *20 percent of the population accounts for 80 percent of total medical spending, while 50 percent of the population accounts for just 3 percent of spending.*

Federal health insurance reform creates three mechanisms that address such selection issues, help stabilize premiums, and level the playing field for insurance companies. Two of these programs end after 2016 and are intended to protect against losses during the start-up years, while one is a permanent program.

Oregon may want to pursue its own risk adjustment programs, inside the Exchange and market-wide. The Oregon Health Insurance Exchange Corporation will collaborate with the Oregon Department of Consumer and Business Services, Insurance Division to design and administer any such programs.

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Federal programs

Reinsurance (Transitional, for 2014-2016)

- Applies to the individual market, both inside and outside of the Exchange.
- Spreads the risk of certain high-cost individuals by providing reinsurance that covers the claims of those people after a certain threshold is reached.
- Funded by a federal assessment on insured premiums and self-funded claims payments.
- Administered by non-profit reinsurance entity.

Risk corridor (Transitional, for 2014-2016)

- Applies to individual and small group inside the Exchange only.
- Limits the losses (or gains) resulting from medical costs.
- If a plan has losses greater than 103 percent of total premiums (minus administrative costs), the federal government will help defray the costs; if a plan's costs are less than 97 percent of total premium, the plan will make payments to the federal government.
- Administered by the federal government directly to insurance companies.

Risk adjustment (Permanent)

- Individual and small group, both inside and outside the Exchange.
- Reallocates premiums based on the relative risk of enrollees so plans with enrollees having less-than-average risk will pay an assessment, while plans with higher-than-average risk enrollees will receive payments.
- Administered by either the state or federal government.

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DeLeesa Meashintubby, Volunteers in Medicine Clinic

Sean Moriarty, CESSCO, Inc.

Patrick Okeefe, Cascade Insurance Center

Dori Statton, H & R Block, PSU research project dealing with Mental Health

Kelsey Wood, Gordon Wood Insurance and Financial

Legislative Oversight and Advisory Committee

Sen. Frank Morse, R-Albany

Sen. Laurie Monnes-Anderson, D-Gresham

Rep. Mitch Greenlick, D-Portland

Rep. Jim Thompson, R-Dallas

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Exchange Financial Projections

Oregon Health Insurance Exchange
Start-up Phase

Years Ended December 31, 2011-2013

	2011(*)	2012	2013
Grant revenues:			
Level 1 Grant	$ 910,511	$ 7,989,489	$ -
Level 2 Grant	-	2,506,511	15,671,000
Total operating revenues	910,511	10,496,000	15,671,000
Operating expenses:			
Salaries, taxes, and benefits	737,210	5,012,000	10,615,000
Consulting and other professional fees	45,423	3,996,000	1,710,000
Communications, outreach, and marketing	3,441	71,000	1,500,000
IT infrastructure and communications systems	78,922	142,000	290,000
Facilities and equipment	20,000	657,000	772,000
Other general and administrative	25,515	618,000	784,000
Total operating expenses	910,511	10,496,000	15,671,000
Net increase (decrease) in net assets	$0	$0	$0
Net assets beginning of year	$0	$0	$0
Net assets end of year	$0	$0	$0

**September 1, 2011 – December 31, 2011*

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Oregon Health Insurance Exchange
Initial Stage of Operations
Years Ended December 31, 2014 and 2015

	2014	*2015*
Enrollees at year end	201,770	281,790
Member months	1,729,752	2,905,552
Total carrier earned premium	$677,704,940	$1,250,354,162
Premium per member month	$391.79	$430.33
Administrative fee percentage	2.52%	2.73%
Administrative fee per member month	$10.03	$11.94
Administrative cost per member month	$16.72	$11.94

	2014	2015
Operating revenues:		
Exchange administrative fee	$ 17,350,871	$ 34,701,742
Level 2 Grant	28,918,118	-
Total operating revenues	**46,268,989**	**34,701,742**
Operating expenses:		
Salaries	17,373,118	20,847,742
Consulting and other professional fees	1,637,000	1,964,400
Outsourced IT and other	5,000,000	6,000,000
Communications, outreach, and marketing	2,000,000	2,400,000
IT infrastructure and communications systems	608,000	729,600
Facilities and equipment	1,100,000	1,320,000
Other general and administrative	1,200,000	1,440,000
Total operating expenses	**28,918,118**	**34,701,742**
Change in net assets	**17,350,871**	**-**
Net assets beginning of year	**-**	**17,350,871**
Net assets end of year	***$ 17,350,871***	***$ 17,350,871***

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Enrollment and Financial Assumptions

Following are the preliminary key assumptions and estimates underlying the enrollment and financial projections. The Exchange Corporation expects to revise its projections as new information becomes available and operational issues are resolved.

- These projections have been prepared on a modified accrual basis. Expenses are recorded in the period they are anticipated to be incurred and revenue is recorded when it is anticipated to be earned. No expenditures have been capitalized and depreciated. No assessment has been made to determine the differences between this basis of presentation and generally accepted accounting principles or generally accepted governmental accounting principles.
- All years are calendar year. 2011 represents the period from inception, September 1, 2011 through December 31, 2011.
- Federal grant funding includes the Level 1 and anticipated Level 2 grants. These have been set to exactly cover the expenses for the start-up phases, 2011-2013, and the first year of operations, 2014.
- For illustration, the corporation set the insurance carrier administrative fee for 2014 at the rate necessary to cover 50 percent of the estimated operating costs for 2015, so that it could establish a reserve. The administrative fee for 2015 was set at a rate to exactly offset operating costs in 2015.
- Enrollment estimates were provided by the Wakely Consulting Group in its report to the Oregon Health Authority (OHA) on April 15, 2011. For the financial projections, the Corporation used Wakely's "moderate" enrollment estimates. Wakely's estimates included estimates of penetration and take-up rates by market segment, spread between precious metal tiers and anticipated per member per month premiums by tier. Subsequent adjustments to these factors may have a material impact on results.
- Operating expenses for 2011-2014 were built on management's best estimate of a ground-up approach to each expense category. The corporation used an estimate of full-time equivalent (FTE) staffing by functional unit, salaries, and benefit load. 2015 expenses were projected to be 20 percent higher than 2014.

Other material limitations and uncertainties

- The costs associated with ongoing IT support and enhancements for the web-based eligibility and enrollment systems and other systems created by the Early Innovator IT Grant are unknown at this time. The best estimate for the IT costs at this time is $5 million in 2014. There have been no decisions or estimates on how these costs will be shared with the Department of Human Services and the Oregon Health Authority with respect to system supports and enhancements.
- The functionality of the system developed by the IT Innovator Grant will have a material impact on staffing levels. The breadth and scope of this functionality cannot be determined at this time.

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- The number and types of functions outsourced, if any (i.e., call center, billing and collection, etc.), may affect the ultimate cost of operations.
- The size of the available market in the individual and small group segments is likely to change significantly.

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Operational Timeline

PLACEHOLDER

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