



**Statement of Mila Kofman, J.D.  
Executive Director of the Health Benefit Exchange Authority  
Before the  
COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE ON HEALTH**

**Budget Oversight Hearing  
of the  
District of Columbia Health Benefit Exchange Authority**

**Thursday, April 10, 2014 – 10:00 AM  
John A. Wilson Building  
Room 412  
1350 Pennsylvania Avenue, NW  
Washington, D.C. 20004**

Chairperson Alexander and members of the Committee, my name is Mila Kofman. I am the Executive Director of the DC Health Benefit Exchange Authority (HBX) and it is an honor to be here to testify on the HBX proposed FY 2015 budget.

The Health Benefit Exchange Authority is a private-public partnership (a quasi-government agency) created to help implement the federal health coverage reform law, the Affordable Care Act (ACA). HBX is governed by a private Executive Board with seven voting members who are District residents and recognized experts in the area of health insurance coverage. Four government agency heads also serve on the Board as non-voting members. Due to the strong leadership of the Council and Mayor Gray, the District was among the first jurisdictions in the nation to move forward with its effort to establish a state-based health insurance marketplace. In the District, that marketplace is called DC Health Link.

Prior to the creation of the HBX, four agencies lead the ACA implementation effort – the Department of Health Care Finance, the Department of Health, the Department of Insurance Securities and Banking, and the Department of Human Services. They deserve a lot of the credit for the District's success and they remain critical partners as we move forward.

The District is a national leader in protecting and improving the health of our residents. Even before DC Health Link opened for business on October 1, 2013, the District had *the second highest insured rate in the nation* – with 93% of our residents having coverage. This success is

directly due to the significant investments in our City's health care delivery and coverage initiatives and strategic policy decisions lead by you and other policymakers in the District.

The Affordable Care Act (ACA) created an unprecedented opportunity here in the District to achieve near universal coverage. When the District began implementation, there were 42,000 residents without any health coverage – either public or private health insurance. And, thousands of people were underinsured. The ACA created a significant opportunity for nearly all District residents to have affordable, quality health insurance coverage. The most recent uninsured data shows that the District has approximately 35,000 to 36,000 uninsured residents. The gain in coverage is related to ACA and the District's early expansion of Medicaid under the ACA.

I am proud to report that with just one open enrollment season, we have enrolled thousands of people who did not have coverage before. Our assisters report that more than 65% of the consumers they have helped were previously uninsured.

As of April 9, 2014, there are 41,745 people covered via DC Health Link. Of those, 10,187 people have enrolled in private health plans through the DC Health Link individual and family marketplace; 18,535 were determined eligible for Medicaid coverage through DC Health Link; and 13,023 enrolled through the DC Health Link small business marketplace.

### **Background: Proposed Budget for HBX**

To-date, federal grants have funded HBX operations and building of the IT infrastructure for the on-line marketplace. The Affordable Care Act requires a state-based marketplace to be financially self-sustaining no later than January 2015. Our grant funding provided by the Centers for Medicare and Medicaid Services (CMS) for the establishment of state-based marketplaces expires at the end of FY 2014. FY 2015 will represent the first year that HBX will operate under a revenue funding model.

The DC Health Benefit Exchange Authority's proposed FY 2015 budget is \$28,751,244. This includes \$7,633,922 for personnel (representing 54 full-time-equivalents with fringe) and non-personnel services of \$21,117,321. The proposed FY 2015 budget represents a decrease of \$37,389,255 from the FY 2014 approved budget of \$66,140,499. This is a net reduction of nearly \$38 million dollars and is a result of the expiration of federal grants awarded in previous fiscal years. Federal grants were used in large part to build the on-line marketplace that allows Medicaid eligibility and APTC eligibility and amount determinations, eligibility for enrollment in private health coverage, plan comparison and shopping, and enrollment. This also includes connectivity to federal HUB services and insurers. The federal grants also paid for building the on-line marketplace for small businesses.

The personnel services proposed budget represents additional staff. After an assessment of on-going staffing needs and a review of expenses for consultants, we determined that it is more

cost-effective to have employees rather than contractors perform certain services. The enhanced proposed personnel budget reflects this more cost-effective approach.

Of the \$21.1 million proposed for non-personnel services, the following are examples of included expenses:

- Over \$9 million for DCHealthlink.com (portal) (operations and maintenance for vendor and related IT expenses);
- Over \$5 million for the DC Health Link Contact Center (cost allocated with Medicaid); and
- \$2 million for ESA to support eligibility and enrollment.

### **Proposed Funding Approach**

The proposed funding source for the HBX budget is a broad-based assessment on all health insurance premiums in the District from non-group, small group, large group and Medicaid managed care carriers. The assessment is tied to the HBX annual budget. The HBX budget goes through review and approval by the Council. If the Council approves the proposed FY2015 budget, the estimated assessment using the proposed formula would be slightly less than 1% on the health carriers.

Consistent with the process used for other policy decisions, HBX established a stakeholder Working Group on Financial Sustainability in April 2013. HBX Executive Board Member Leighton Ku chaired this group. Standing Advisory Board Member (and also a small business owner) Jill Thorpe served as vice-chair. Working group membership consisted of people representing consumers, insurance carriers, brokers and other stakeholders. A full list of working group members and their report to the Board is available on the HBX website.

The stakeholder working group reviewed and discussed potential revenue sources and made a consensus recommendation to HBX Executive Board. The stakeholder working group discussed a variety of funding mechanisms including: a user fee or surcharge on premiums administered through the Marketplace; a broad assessment on all health insurance premiums; an assessment on self-insured plans and benefits; provider and hospital fees; and public funding sources such as general revenue taxes, tobacco tax, and soda tax.

Key concerns for the stakeholder working group were the potential impact on people's health insurance premiums through the Marketplace and feasibility. They considered existing revenue sources, including the 2% premium tax and the existing .3% DISB operating assessment, which would require taking these funding sources away from programs they currently support. General taxes and provider taxes were considered not feasible. The stakeholder working group concluded that a broad-based assessment on health carriers is preferable. Broadly spreading costs would mean the lowest assessment, and a small impact on premiums.

The Working Group developed a consensus recommendation for a broad-based assessment on all health insurance premiums. The recommendation was unanimously adopted by the HBX Executive Board on June 6, 2013.

The enabling legislation for the HBX requires that the Executive Board of the Authority “prepare a plan that identifies how the Authority will be financially self-sustaining by January 1, 2015,” and further requires that the plan “be certified by an independent actuary as actuarially sound and shall be submitted to the Mayor and Council not later than December 15, 2013.” HBX submitted the sustainability report on December 13, 2013. Prior to finalizing the report, HBX accepted public comments for a thirty day period. The report reflects the sustainability approach recommended by the stakeholder working group (adopted by the Executive Board six months earlier).

HBX followed a similar transparent and inclusive process for the proposed rule to administer the assessment. HBX staff drafted a proposed rule and sought public comments. The Executive Board reviewed the comments and incorporated a date change that was requested by carriers. The Board also accepted public testimony on the draft rule. After consideration of written and oral comments, the HBX Executive Board adopted the proposed rule. The proposed rule was submitted to the DC Register on February 28, 2014. The formal comment period closed on March 31, 2014.

The process used to develop the policy and the rule was transparent and based on extensive discussions and consensus recommendations by people who live or work here in the District.

The HBX Executive Board and I firmly believe that this assessment is the best option for funding the District’s Affordable Care Act Marketplace. Larger states that have hundreds of thousands of people or even millions purchasing through their marketplaces can fund their operations through fees only on the insurers selling through their marketplaces. Due to our small size, the District cannot fund the marketplace solely through fees on participating carriers. The stakeholder working group’s modeling showed that an assessment on only health insurers products sold through DC Health Link would result in a premium assessment of 15.91% while a broad-based assessment would be less than 1%. A broad-based assessment across all health carriers minimizes the effect on health insurance premiums. Our size means we have to think differently than larger population states.

The approach adopted in the proposed rule is based on how the District funds another initiative. The District has a broad-based assessment to fund the Ombudsman Program. All of these same insurers, with the exception of the Medicaid managed care plans which are statutorily excluded, pay that assessment. When considering this option, HBX looked at the Ombudsman program as a model. However, HBX included Medicaid managed care plans, working closely with DCHF Director Wayne Turnage on this approach.

Finally, we know that some insurers that sell products other than major medical policies are making the case they should be excluded from the assessment. We oppose excluding such

products from the assessment. First, they already contribute to the Ombudsman Program through a similar assessment -- so this approach is not new. Second, the federal Affordable Care Act does not prohibit a state, including the District of Columbia, from assessing such products. And third, these carriers are directly or indirectly benefitting from DC Health Link. Most types of supplemental products are sold as an add-on product for people who already have a major medical policy. By expanding the number of insured residents in the District, we are broadening their potential customer base. In addition, by requiring coverage of defined essential health benefits, major medical plans are now covering some services that in the past would have been covered only by supplemental policies.

We strongly encourage the Council to support the proposed assessment approach.

Importantly, to receive final certification as a state-based marketplace, the District needs to demonstrate to the federal government that the District's Marketplace will be self-sustaining by January 2015. Our federal grants end in October 2014 and absent the assessment there is no revenue to support our operations. It is critical that we put in place a stable, guaranteed funding source for HBX so that we can continue on the path to near universal coverage and continue to ensure that District residents and businesses have access to affordable quality health coverage through DC Health Link – one of the most successful Marketplaces in the nation.

## **Conclusion**

In conclusion, as you can see, we are actively pursuing our mission to reduce the number of uninsured residents in the District and to provide more affordable choices for those in the individual and small group marketplace. With your continued support, we will continue to have a successful District-based marketplace -- DC Health Link -- the District's new health insurance marketplace offering quality affordable health coverage to our residents and businesses.