Competing Demands:

Operational Imperatives for the California Health Benefit Exchange

California HealthCare Foundation

ISSUE BRIEF

Introduction

California is home to nearly 15% of Americans expected to gain health insurance coverage under the Affordable Care Act (ACA).[1] Thus California's progress toward establishing its ACA-mandated health benefit exchange will be closely watched both within the state and nationwide. In order to be seen as credible and effective, the California Health Benefit Exchange (CHBE) must demonstrate early on that it can provide the health insurance options and level of service needed to attract consumers into the Exchange, operate as a reliable business partner in order to attract insurance carrier participation, and serve as an effective steward of both state and federal resources.

In order to meet this complex set of demands, CHBE must develop a core set of operational competencies regardless of the particular strategy it adopts. Moreover, the Exchange's operations will be conducted in a unique posture, with CHBE operating simultaneously as a public entity implementing ACA's provisions and as a marketer of health plans, fully subject to the market pressures that influence insurance carriers and consumers alike.

This paper focuses on the foundational requirements needed in order for the Exchange to operate efficiently and accountably, and in order to be perceived as such by its varied public and private stakeholders. These requirements include:

- **Staffing.** The Exchange will need to find executives and senior level staff with the right mix of public- and private-sector experience, and a solid understanding of the varied market constituents.
- **Internal systems and processes.** The Exchange will need to secure the basic systems and process for operations, including the physical space to house the entity, computers and office equipment, an accounting and financial management system, and the organization's policies and procedures.
- **External-facing infrastructure.** The Exchange will need to establish an infrastructure for external-facing functions, such as a system for determining eligibility, a web-based selection platform, a customer service call center, consumer decision support tools, an enrollment process, and a public relations function. Since many ACA-mandated functions have not yet been defined through regulation or guidance, designing this infrastructure will require both content expertise and great flexibility.
- **Health insurance products.** The strategic selection of the right carriers and qualified health plans is foundational for the Exchange's success.
- **Financial management, legal and regulatory compliance, and public reporting.** Ensuring compliance with myriad federal and state obligations, as well as structuring thorough and timely financial and management reporting, will go far to establish CHBE's credibility in the eyes of the legislature, the public, and market participants.

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- **Sales, marketing, and communications.** CHBE will need sales and marketing capabilities that simultaneously attract and retain participants from both individual and small group consumers and health insurance carriers. Assertive outreach will be critical to achieving sufficient volume for the Exchange's credibility.
- **Metrics.** CHBE will need to develop and track a number of operational metrics designed to monitor performance of the Exchange.

With the complex issues CHBE's board faces, maintaining focus on operational aspects of the Exchange will be one of its greatest challenges.

Staffing

Unlike most organizations, CHBE will operate at an intersection of public entities and private enterprise. This will create dual demands on staff as the Exchange attempts to relatively quickly implement a complex law with many moving parts and a substantial partnership with private insurance carriers. As a result, CHBE will require a balanced mix of senior leaders and director-level staff who have state government or private sector health insurance experience and skill sets, and ideally a substantial number with direct work experience of both.

Experience in the Public Realm

In some ways, the CHBE organization will look and operate like a governmental body. It will, for example, act like a public entity in the process by which it procures goods and services, in its legal obligations under the Bagley-Keene Open Meeting Act as it pertains to board meetings, in its need to respond to information requests from the media and public interest groups, and in its overall need for transparency and stakeholder input in decision-making.[2] The Exchange will also have complex interactions that require extensive coordination and cooperation with other government entities. CHBE will thus need staff who understand how state government works and how best to communicate across agencies and departments, including Medi-Cal, the state's Department of Insurance, the Department of Managed Health Care, and the Department of Finance.

In particular, CHBE staff will have to formulate positions and coordinate responses that reconcile potentially disparate government agency views, so that key partners such as health insurance carriers receive a consistent message. These interactions will need to be conducted with an understanding that government agencies differ from private enterprise in how they approach communications, information disclosure, and in their process for contracting for materials and services.

CHBE will also have considerable ongoing interactions with a number of federal government entities such as the Department of Health and Human Services (HHS), the Internal Revenue Service (IRS), and the Social Security Administration (SSA). It may be important to recruit staff with experience working with these federal agencies.

Experience in the Private Sector

In other important ways, CHBE will look and behave like a private enterprise. It must be financially self-sufficient. It will need simplified structures for decision-making that allow it to be agile in developing and marketing products and services that can compete in a constantly changing market. In this respect, therefore, having senior leaders with experience in the commercial health insurance market will be of great value to the Exchange.

In particular, it will be critical for the Exchange to hire key staff with experience in health insurance benefit design, risk allocation, broker relations, web-based enrollment, risk-based contracting, financial management, and carrier internal decision-making. Ideally, key staff would have specific experience with both individual and small group market segments.

Internal Systems and Processes

As a new independent state agency, CHBE will need to develop a number of internal systems and processes, while simultaneously developing and building its large, external-facing information technology (IT) functions. CHBE will need to ensure that basic operational elements have been properly assessed and planned, and that the core systems are running efficiently, well before the Exchange begins public operations for policies to be effective January 1, 2014. Early, basic operational requirements include physical space to house the entity, computers and office equipment, an accounting and financial management system, a banking function, and the organization's internal policies and procedures.

The Exchange will also have to establish or arrange for an eligibility determination process that can easily collect and readily confirm data on potential enrollees. This will require a means for accessing federal data from HHS, IRS, and the SSA, perhaps through a federal data services "hub" planned by the Center for Medicare and Medicaid Services.

If CHBE achieves enrollment at projected levels, it will have very large operational requirements. However, there is some uncertainty as to how large and how quickly enrollment will grow. Operational demands will depend in part on CHBE decisions regarding which functions it outsources to third-party vendors, and the degree to which it is able to automate functions such as customer service. Because of this uncertainty, CHBE will need to develop operational plans that provide for appropriate management, oversight, and resources at various enrollment levels.

This planning becomes further complicated by the ACA requirement that the Exchange be self-sustaining by January 1, 2015, and by the state of California's requirement that no general funds be used for Exchange operations without a specific legislative appropriation. Thus, the cost structure established during the start-up phase for internal systems (staffing and technology)—when CHBE will be using federal funds and enrollment—is unknown, and will need to be sustainable as enrollment grows and the Exchange shifts to reliance upon assessments on qualified health plans (QHP) as its primary revenue source.

Unlike a purely private-sector start-up operation, CHBE may have the opportunity to meet initial operational requirements by tapping into existing state administrative systems for core internal functions such as accounting, payroll, banking, and human resource systems. From CHBE's perspective, this shared-service approach could be efficient and cost-effective compared to alternatives. Moreover, from a state finance perspective, costs would be fully covered by the Exchange through its federal establishment grant. Such an approach would allow a more deliberate and unhurried assessment by CHBE of its internal operational needs, which would provide a particularly useful grace period until the ultimate size of enrollment can be confidently calculated.

External-Facing Infrastructure

Developing IT and other consumer contact functions to handle CHBE's projected volume will be a significant endeavor. In its earliest stages, the Exchange will need to determine its IT and other external-facing communications needs, assess existing systems and capabilities, identify gaps between needs and existing systems, and work out how best to fill those gaps.

In order to meet stakeholder and public needs and expectations, the Exchange must be highly automated and interoperable with government partners such as the federal HHS and the state Department of Health Care Services (DHCS), the IRS, and the SSA, as well as with private-sector partners such as health insurance carriers and small businesses.

Accessible, efficient service will be particularly important because the Exchange will be vying for business from

consumers who may have had little experience (or in some cases negative experiences) with the process of obtaining health insurance. Although significant enrollment will be driven through CHBE because tax credits and cost-sharing subsidies will be available only through the Exchange, there will still be the potential for carriers, agents, and brokers to redirect consumers to non-CHBE options. Consumers will be more favorably inclined to use these options if CHBE fails to provide easy access and good customer service.

Customer Service

Two critical structures by which the external, customer-facing functions will be performed are the Exchange's website and its customer service call center.

- **Website.** Its website will be the most public face of the Exchange, where consumers and stakeholders will make initial substantive contact with the Exchange and form their first impressions of it. Even the current web presence of the Exchange, before it is operational, has an impact, as it allows the Exchange to begin to generate goodwill and to provide transparency into its development and decision-making.

  The Exchange site, once ready for public use, must be structured in such a way as to allow for easy consumer navigation across four key dimensions: eligibility determinations, tax credit and cost-sharing subsidy information, health care plan information and decision support, and enrollment functions. The Exchange will need to work closely with its partner government entities and health insurance carriers to develop a design that fulfills these dimensions in a way that is culturally and linguistically appropriate, and is responsive to diverse consumer needs and preferences.

- **Customer service call center.** A highly scalable, accessible, and responsive customer service call center will be the human face of the Exchange for its customers. This customer service function must be able to assist with questions regarding eligibility, subsidies and their tax implications, enrollment, billing and payment, and dispute resolution with QHPs. Service representatives must also be skilled enough—working with a highly developed protocol—to offer help beyond such transactional assistance. Many consumers, particularly those who are accessing health coverage for the first time, may require basic education on health insurance, such as the application of copayments, use of networks, and other aspects of benefit design. They may have questions about features peculiar to the ACA, such as mandatory participation, penalties, and guaranteed issue. Additionally, the Exchange will field consumer questions regarding services or data provided by others, such as the IRS, HHS, Medi-Cal, and health plans. The call center will need to provide smooth paths toward problem resolution across issues and organizations so that consumers can have a one-stop experience without being shunted from one information site to another.

  Eligibility, enrollment, and other service issues will be different for individual versus small group populations, and for first-time versus returning customers. The website and the call center must have the capacity to provide customized support under all these circumstances.

Individual Eligibility and Enrollment

CHBE will also be responsible for determining eligibility and enrollment criteria, and for coordinating that process with Medi-Cal and other publically-sponsored coverage programs. The ACA specifies that the federal Secretary of Health and Human Services shall develop "a single, streamlined form" that may be used to apply for all state health subsidy programs and may be filed "online, in person, by mail, or by telephone."[3] Subsequent federal guidance envisions a system that will:

> "support a first-class customer experience, as well as seamless coordination between the Medicaid and

CHIP programs and the exchanges. Customers should experience this process as representing the highest level of service, support, and ease of use, similar to that experienced by customers of leading service and retail companies and organizations doing business in the United States."[4]

Verification interfaces are expected to be automated and capable of real-time eligibility determination.[5]

Eligibility determination will be the first CHBE process individual consumers will actively experience. Therefore providing easy, transparent, and rapid access to the appropriate health insurance program will be crucial to winning or losing customer confidence. The eligibility determination and verification process will be an internal administrative operation that uses technologies to accept and gather prospective enrollee demographic data, verify such data, and direct eligible consumers to the most appropriate option for plan selection. As part of this process, the Exchange must also determine eligibility for tax credit and cost sharing subsidies. Also within this function, CHBE must be capable of connecting Medi-Cal-eligible consumers directly to program enrollment. The modified adjusted gross income eligibility criterion will require a sophisticated user interface and external data verification in order to make rapid and accurate eligibility determinations, and to minimize the number of applications that require exception processing.

Once eligibility is determined, the enrollment process must be bolstered by web-based decision-support tools. Once a plan choice is made, the individual consumer must be able to seamlessly transition from the part of the process controlled by the Exchange to the domain of the chosen health insurance carrier. This transitional element of the enrollment process must be closely coordinated with the participating carriers and supported by the Exchange via consumer contact through the call center. Ideally, seamless hand-offs would also be supported when consumers previously enrolled in Medi-Cal sought coverage through the Exchange, and when consumers move among Exchange QHPs.

Small Group Access

Developing systems and processes for easy participation by employer groups in the earliest days of the Exchange would not only boost early overall enrollment, but could also be a powerful marketing tool for CHBE to increase its influence in this market. Online enrollment capabilities that allow an employer to electronically submit relevant employee data; self-service employer account set-up via a web-based portal; employee choice supported by an easily identifiable separate web pathway, call center staff, and email or online chat service; and fully automated generation of plan renewals via email are just a few of the features that would add significant value for small employers by simplifying the administrative burdens of managing health insurance selection and enrollment.

Stakeholder Engagement

Before the Exchange is open for public use in 2013, its work will include policy development, contract negotiation and management, and building positive public perception. During these next two years, CHBE will need to develop a transparent process for policy and contract development, including a formalized mechanism for stakeholder input and public engagement on a range of issues. Two examples of the many topics on which stakeholder input will be valuable include identifying metrics for QHP selection, and identifying tools and processes to assist enrollees in selecting a plan.

Health Insurance Products

CHBE will need to contract with carriers to offer QHPs on the Exchange. Effective carrier management and a sound procurement strategy will require an operational and analytic capacity to house and understand large amounts of data received from health insurance carriers. CHBE will need to ensure that it has the capability to accept and update data on enrollment, claims paid,

benefit designs, and provider networks. It will also need to ensure data integrity, develop quality control feedback with the carriers, and employ extraction and reporting tools for analysts.

In addition to having these core operational competencies in carrier contracting, CHBE will need to understand California health insurance regulation and to know when and how to coordinate with the Department of Managed Health Care and the California Department of Insurance, such as in assessing provider networks and plan financial solvency. Finally, Exchange staff will need to understand and execute (perhaps in partnership with another state agency or agencies) the three distinct risk adjustment programs specified under the ACA (Sections 1341, 1342 and 1343).

Financial Management, Legal and Regulatory Compliance, and Public Reporting

Mandated legal and regulatory compliance activities—such as the Exchange's role in administering the individual mandate provisions of ACA, as well as the federal reporting of grant funding and of individual, employer, and employee data—will require robust data collection processes and reporting systems. For example, granting exemptions from the ACA's individual mandate will likely require substantial Exchange resources, including a system and staff to review applications, secure data collection capabilities, and an electronic interface with the United States Treasury Department for individuals granted a certificate of exemption.

To manage its finances, CHBE will need to develop a basic set of financial statements typically produced by state government agencies, including a statement of net assets, statements of revenue, expenses, and changes in net assets, and a statement of cash flows. Other reports would likely include an actual-to-budget variance report and various programmatic reports regarding enrollee demographics, cost and utilization metrics, and periodic surveys of enrollee satisfaction.

In order to be self-sustaining by January 1, 2015, CHBE will need to make a number of key operational and financial decisions early in the planning and development process. To navigate its mix of public and private funding, and to support a complex infrastructure prior to selling its first insurance policy, CHBE must establish basic financial control systems and ensure that its staff is trained and provided with the protocols necessary for focusing on negotiating and managing vendor contracts, and controlling spending and cash flow.

A critical analysis that must be developed as part of the Exchange's finance system is the calculation of ongoing assessments to be charged upon QHPs, upon which the financial sustainability of the Exchange will depend. In order to meet the interrelated but potentially conflicting needs of robust carrier participation and sufficient funding, the Exchange must ensure that it is neither overly conservative nor too aggressive in setting the assessment levels. In this regard, CHBE will need a strong reporting system—highly dependent on quality data recorded through the Exchange—coupled with expertise in forecasting and estimating.

The Exchange will also need to develop a cost allocation system that meets federal requirements for integrating with public programs such as Medi-Cal and Healthy Families. Coordinating this effort will require partnering with and ensuring buy-in from the Managed Risk Medical Insurance board and DHCS.

A number of fraud and abuse provisions, including audits, are also contemplated under the ACA. For example, Section 1313 requires an Exchange to account for and annually report to HHS all activities, receipts, and expenditures. Other provisions include an annual audit by HHS and the development of a system of internal controls to ensure the safeguarding of assets and

to protect against fraud, waste, and abuse. California stakeholders also will demand a high level of disclosure and public reporting on Exchange financial transactions. Public reporting demands will likely include aggregated data describing the characteristics of individual and small group Exchange enrollees, including previous health insurance status, use of medical services, and the sites of service delivery.

Sales, Marketing, and Communications

As a new entity selling health insurance in the state, the Exchange will need sales and marketing resources to create awareness and demand for its offerings. Although subsidies provided under the ACA will be accessible only through the Exchange, the Exchange cannot rely on subsidies alone to create consumer traffic. Instead, it will need to develop marketing and advertising capabilities—both internally and through external firms—to create both a message and a brand.

The ACA also mandates that the Exchange develop "navigators" whose primary role will be to help reach and educate potential participants, particularly people who are currently uninsured. However, the ACA does not precisely define the navigators' activities and responsibilities. The Exchange will need to coordinate the activities of the navigators with those of existing community outreach workers whose tasks are to explain Medi-Cal and other public health coverage programs. CHBE will also need to partner with brokers, agents, and carrier marketing functions, although its precise approach will vary depending on the strategic model it pursues.

Communications should also be an explicit area of focus and resources, especially during the start-up phase of the Exchange. CHBE will have a broad base of constituents with differing expectations as to what CHBE is and should be. It should begin to educate its constituents early in the start-up phase not only about the aspects of the health insurance market it hopes to affect, but also about areas of the market it will not or cannot reach.

For example, there is a general expectation that CHBE will be able to lower premiums offered by carriers on the Exchange, and CHBE may want to make early efforts to clarify the likely magnitude of such changes, so that consumer and stakeholder hopes do not greatly outpace realities. Similarly, it will be important that the overall mission, vision, and reasonable expectations for the Exchange be communicated to all constituents—including legislators, carriers, small group employers, and vendors—as early as possible.

Metrics

Each model of the Exchange articulated in the accompanying papers would focus on a unique set of metrics to determine whether it is successful. Regardless of the model, however, the broad performance of the Exchange will be judged by a range of operational metrics. These are outlined below.

CATEGORY	SAMPLE METRICS
Price	• Premium • Premium trends
Cost	• Administrative cost per enrollee • Administrative cost as a % of premium
Enrollment	• Initial volume and persistency/ retention—both for the subsidized and non-subsidized populations • Demographics
Customer service and quality of care	• Service quality targets • Care quality metrics as monitored and reported health plans

There is risk of becoming overly ambitious in defining what to measure, especially as the digitization of health information makes it possible to monitor more types of information. It is important to ensure that reporting requirements do not become so burdensome as to discourage Exchange participation by regional QHPs or emerging organizations.

Conclusion

The core operational capabilities outlined in this paper must be adequately addressed by CHBE regardless of how the Exchange ultimately approaches broader strategic questions. Without these foundational components in place, CHBE will be unable to deliver on its most basic promises, much less on any of the policy goals it ultimately develops. Effective execution of these foundational operational requirements will also help CHBE to establish itself early in its existence as a force within the California health insurance market and policy landscape, affording it the credibility and visibility it will need to achieve its mission and goals.

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About the Foundation

The California HealthCare Foundation works as a catalyst to fulfill the promise of better health care for all Californians. We support ideas and innovations that improve quality, increase efficiency, and lower the costs of care. For more information, visit us online at www.chcf.org.

Endnotes

1. Based on the CBO report, 32 of the 46 million currently uninsured would be eligible for coverage through reform. Congressional Budget Office. Letter to the Speaker of the House of Representatives, March 18 2010, www.cbo.gov. UCLA research estimates that 4.7 of the 7 million currently uninsured in California would get coverage as a result of ACA. Lavarreda, Shana Alex, and Livier Cabezas, "Two-Thirds of California's Seven Million Uninsured May Obtain Coverage Under Health Care Reform," UCLA Center for Health Policy Research, Februrary 2011, www.healthpolicy.ucla.edu.
2. For details of these requirements, see "A Handy Guide to the Bagley-Keene Open Meeting Act of 2004" by the California Attorney General's Office, www.ag.ca.gov.
3. ACA, 1413(b)(1)(A).
4. OCIIO-CMS Joint Guidance, November 3, 2010.
5. Section 1561 Recommendations.