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**TESTIMONY REGARDING ARIZONA'S HEALTH INSURANCE
EXCHANGE EXPERIENCE**

BEFORE THE U.S. SENATE FINANCE COMMITTEE

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Chairman Baucus, Ranking Member Hatch and Members of the Senate Finance Committee, thank you for the invitation to discuss Arizona's experience in planning and designing a State-based Exchange and Governor Brewer's decision to defer to the Federally-facilitated Exchange. My name is Don Hughes. I serve as Governor Brewer's Health Care Policy Advisor and am responsible for Arizona's Health Insurance Exchange activities.

Background

In September 2010, Arizona applied for and received a million dollar, one year Exchange Planning Grant. With the use of the planning grant funds, Arizona made considerable progress in planning for the required core Exchange functions with an emphasis on background research, IT infrastructure and the certification of qualified health plans. The result of the planning grant was a recommendation to Governor Brewer that Arizona apply for a Level One Establishment Grant and proceed with the planning, design and development of a State-based Exchange.

On November 28, 2011, Arizona received a Level One Establishment grant to further plan, design and develop the Arizona Health Insurance Exchange. All Exchange planning and design work was performed with the caveat that Governor Brewer had not made a final decision to move forward with a State-based Exchange. These planning

and design activities were focused on meeting the requirements for certification by Center for Consumer Information and Insurance Oversight (CCIIO) and ensuring that an Arizona Health Insurance Exchange would be operational by October 1, 2013, should Governor Brewer decide to move forward with a State-based Exchange.

The Arizona Health Insurance Exchange was being designed to be a fully integrated system that would allow consumers and small employers to find information, determine eligibility for and enroll in Medicaid, CHIP, SNAP, TANF, individual insurance and small group insurance. The IT system design would have allowed consumers to easily and intuitively find the public or private health insurance options that best suited both their health needs and budget.

Arizona's Guiding Principles

Arizona intended to utilize as much flexibility afforded states under the Affordable Care Act and the Exchange rules. The goal was to design the most free-market oriented Health Insurance Exchange in the country.

Exchange planning and design work operated under the following principles:

- Build on Arizona's Strong Health Insurance Market.
- Support the Market Facilitator Approach.
- Maximize Consumer Choice and Competition.
- Impose Minimal Regulations and Reporting Requirements.

With more than 35 health insurance companies actively writing in the small group market and more than 15 insurers actively doing business in the individual market, Arizona has a very healthy and competitive insurance market. No insurer has more than 24 percent market share. The Exchange design was intended to transfer the same level of competition and consumer choices that exists in the current insurance market to the Exchange.

Stakeholder Engagement

Because no state has established a Health Insurance Exchange that is fully compliant with the requirements contained in the ACA, stakeholder involvement was a critical component of the Exchange planning and design process. To facilitate input on the Exchange core functions, Arizona formed the following stakeholder work groups:

- Health Plans and Health Insurance Associations
- Health Insurance Brokers and Agents
- Tribes and Tribal Organizations
- Consumer Advocacy Organizations

Each work group met frequently on the key design and operational issues in their respective areas and provided input to the Exchange Steering Committee for final decisions. The health plan work group developed recommendations on the qualified health plan certification, recertification and decertification process, essential health benefits, risk adjustment and transitional reinsurance and quality rating requirements. The broker and agent work group focused on broker certification, Navigator program and other marketing issues.

The consumer work group focused on the Navigator program, public education and outreach and ensuring the website design would be user friendly. Arizona has 22 federally recognized tribes, with more than 300,000 tribal members living on and off reservations. To ensure tribal issues were raised and addressed in the Exchange planning and design, a tribal work group lead by the Inter-Tribal Council of Arizona, with representatives from tribes was formed. The work group developed a tribal consultation policy, public education and outreach campaigns to educate tribal governments, health facilities, employers and tribal members on the Exchange.

By involving stakeholders in the planning and design process from the beginning ensured that operational and technical issues were raised and resolved prior to implementation. It also made it more likely that insurers, brokers and agents would participate in the Arizona Health Insurance Exchange. No Exchange model can be successful without the active participation from insurance companies, insurance agents and brokers.

The Exchange as a Tool to Address the Uninsured Rate

More than 1.2 million Arizona residents were uninsured in 2011. That represents 19% of Arizona's population. Uncompensated care costs at Arizona's hospitals have more than doubled over the past two years. Those costs are shifted to private health insurers and self-insured employers in the form of a hidden health care tax.

Our research indicated that a well designed, user friendly Health Insurance Exchange could cause a significant reduction in the number of uninsured Arizona residents. The Arizona Health Insurance Exchange could reduce the uninsured in Arizona almost in half. Once fully implemented, 587,000 uninsured people would find coverage in either private health insurance or Medicaid. The potential impact on the uninsured and uncompensated care made pursuit of a State-based Exchange attractive.

Focus on Infrastructure Development and Core Functions

To accomplish the goal of reducing the uninsured, Arizona focused its Exchange planning and design work on developing an IT infrastructure, call center and plan management system that would provide a first class consumer experience. These were

the most critical Exchange functions and most essential to get right for the Arizona Health Insurance Exchange to be successful.

IT Gap Analysis

Arizona initiated an IT gap analysis project early in the planning process to help Arizona hone its vision for implementing the Health Insurance Exchange in the most prudent and efficient manner. A national non-profit organization, Social Interest Solutions (SIS) was retained to do the following:

- Provide a detailed assessment of Federal reform requirements and incorporate updated Federal guidance;
- Inventory and assess relevant Arizona systems' readiness and gaps for meeting ACA requirements and complying with Federal guidance to determine functionality and potential for use in the Exchange and Medicaid expansion (mapping systems against current Federal IT systems guidance);
- Create a technology gap analysis to inform considerations of alternative options;
- Evaluate the potential for the Arizona Technical Eligibility Computer System (AZTECS) database to meet ACA requirements and assess the feasibility of using Health-e-Arizona as a front-end to AZTECS for users; and
- Provide options for consideration to implement an Exchange and Medicaid expansion, with cost projections and associated benefits and risks for each option.

Identifying Options

The IT gap analysis identified five options with an analysis of associated resources, estimated costs and risks. The options included:

1. Defer to the Federally-facilitated Exchange
2. Join a Multi-State Solution
3. Leverage Existing State Systems and Fill Gaps with New Development
4. Leverage Existing State Systems and Fill Gaps by Borrowing
5. Build a Solution from Scratch

The option analysis found the least risky options were defer to the Federally-facilitated Exchange and leverage existing state systems and fill gaps with new development. Both options provided the most likely chance of meeting the ACA timelines and were the least costly.

Design and Planning

In terms of a state-based approach, leveraging existing state systems and filling the gaps with products developed by private sector vendors was determined to be the option that had the lowest costs, most likelihood of being ready on time and would provide Arizona with the most control over the design and operation of the Exchange. For the past ten years, the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid agency has operated a web-based application system called Health-e-Arizona to receive and process applications and renewals. AHCCCS receives more than 40% of applications and 50% of renewals online through Health-e-Arizona. Leveraging Health-e-Arizona with cutting-edge technology from the private sector to fill in the IT gaps presented the best option to meet the goal of providing a first class consumer experience and reducing the uninsured rate in Arizona.

Exchange planning and Establishment grant funds were utilized to design an Arizona Health Insurance Exchange that would integrate the Health-e-Arizona technology with the Individual and SHOP Exchange components into one IT system. On October 1, 2012, Xerox was awarded a contract to develop the Individual Exchange, SHOP and Consumer Assistance Center and integrate those components into the existing Health-e-Arizona system.

This would provide Arizona with a fully integrated Exchange that would meet the ACA requirements and enable consumers and small business owners to easily find the public or private health insurance most appropriate for their needs. The system was designed to allow an individual to quickly and easily determine their eligibility for and enroll in Medicaid and other public benefits programs.

For those individuals ineligible for Medicaid, the Individual Exchange plan selection tool would allow the individual to determine eligibility for Advanced Premium Tax Credits (APTC) and cost sharing subsidies. Consumers would be able to search for health insurance by geography, price, metallic tier, type of insurance product and doctor. Electronic payment could be made either through the Exchange or directly to the health insurance company.

The SHOP Exchange was designed to provide maximum choice and flexibility for both the employer and the employee. The employer would have been able to control their costs by moving to a defined contribution approach and provide employees with more choices of health plans than is typically offered in the small group market today. The goal was to reduce the administrative burden small employers face in providing health insurance for their employees and allow the employer to control their costs by allowing the employer to contribute a fixed dollar amount towards the total health insurance premium.

As essential as getting the IT infrastructure right, ensuring that there would be sufficient qualified health plans (QHP) participating on the Arizona Health Insurance Exchange was equally vital. Arizona began working with the health insurers almost two years ago on the certification, decertification and recertification requirements, process and timeline. The certification requirements and timeline were finalized in December, 2011 to give the insurance companies as much as possible to develop their QHP applications.

In line with the “impose minimal regulatory and reporting requirements” principle, the qualifications to be a QHP were based on the minimum requirements laid out in the ACA and state law. To the greatest extent possible, health insurers would provide information already submitted for other filings and attest that the QHP met the remaining requirements. The goal was to make the QHP process simple and not so burdensome that it would discourage health insurers from participating.

If Arizona had moved forward with a State-based Exchange, QHP applications would have been accepted beginning January 2, 2013 and for the initial open enrollment concluded on March 31, 2013. The Arizona Department of Insurance would evaluate the applications and work with the QHP issuer to resolve any questions or deficiencies in the application. Certifications would be issued in June, 2013, which would allow sufficient time to upload the QHP information to the Exchange website. August and September were reserved for the necessary testing to ensure the system was fully functional for open enrollment on October 1, 2013.

To further simplify the certification process, the Arizona Department of Insurance worked closely with the National Association of Insurance Commissioners (NAIC) to expand the System for Electronic Rate and Form Filing (SERFF) to handle QHP applications. The expansion of SERFF to perform the plan management function would have been the most cost effective approach for Arizona and other states.

By working closely with the commercial health insurers, AHCCCS managed care organizations and the Arizona CO-OP, preliminary estimates indicated that there would have been more than 100 QHPs participating in the Individual Exchange and the SHOP. This level of competition would have helped keep premiums affordable and maximize the choices and options for individuals and small employers. The web site and the consumer assistance center would have provided the decision support tools necessary for consumers to make an informed decision on their health insurance options.

To ensure that the Arizona Health Insurance Exchange would be fully compliant with the requirements of ACA and would be operational by open enrollment, Arizona Exchange staff and consultants participated in every conference, webinar, conference call and work group put on by CCIIO. Not only did this active participation allow Arizona to plan

and design a State-based Exchange that would have met all of the Exchange requirements, but it also allowed Arizona to keep stakeholders informed on the latest developments.

Arizona completed both the planning and the design reviews that were required by the Establishment Grant. Evidence of the significant progress Arizona had made in its planning and design configuration was demonstrated by the Exchange Progress letter, dated October 16, 2012.

Too Many Uncertainties to Move Ahead

Arizona Exchange staff and consultants worked diligently on a State-based Exchange model that would conform with Arizona's free market principles, meet the ACA requirements and be fully functional by October 1, 2013, the start of the initial open enrollment period. Based on the progress made, Arizona was well positioned to be ready with a State-based Exchange on time. This work allowed Governor Brewer to make a decision based on what was best for Arizona consumers and small employers, rather than have the calendar dictate that decision.

On November 28, 2012, Governor Brewer notified the Administration that Arizona would not pursue creation of a State-based Exchange and instead would participate in a Federally-facilitated Exchange. While Governor Brewer is a strong advocate of local control, there were too many unknowns about how a State-based Exchange would operate for Arizona to proceed.

The delay in releasing all necessary Exchange and Medicaid rules were a significant factor in the Governor's decision to not move forward with a State-based Exchange. The Notice of Proposed Rule Making for the Health Insurance Market Rules; Rate Review and the Standards Related to Essential Health Benefits, Actuarial Value and Accreditation were issued on November 26, 2012. The HHS Notice of Benefit and Payment Parameters for 2014 was issued on November 30, 2012. The Office of Personnel Management issued Notice of Proposed Rulemaking for the Establishment of the Multi-State Plan Program for the Affordable Insurance Exchanges on November 30, 2012. All three draft rules are essential to Exchange operations, but are likely to change when the final rules are issued.

Not only are these Draft Rules important to Exchange operations, but are necessary for insurance companies to develop products for the individual and small group insurance markets on and off the Exchange. One large, national insurance company has commented that they will need twelve weeks from the time the Rules are finalized to bring a product to market. The delay in issuing these Rules will make it difficult for insurers to meet the filing deadlines for QHP certification for the initial open enrollment

period. The delay in finalizing the HHS Notice of Benefit and Payment Parameters for 2014 impacts the risk adjustment, risk corridors and transitional reinsurance programs and may cause insurance actuaries to be more cautious in setting premiums for the upcoming year.

It was also unclear the status of development of a number of federal services that a State-based Exchange would be required to use. These required federal services include:

- Federal Data Services Hub
- Advanced Premium Tax Credit and Cost Sharing Subsidy Service
- Actuarial Value Calculator
- Minimum Value Calculator
- Modified Adjusted Gross Income Business Rules

All of these services are required as part of any Exchange model. While Arizona has been working with HHS on some initial testing for the Federal Data Services Hub, it was not certain what the overall status and timeline for completion was. The actuarial value calculator was projected to be ready on March 28, 2013. Health insurers cannot price their QHP products without using the actuarial value calculator. A completion date of the end of March would not give insurers sufficient time to submit their QHP applications by Arizona's QHP certification timeline.

In November, 2012, the NAIC informed Arizona and other states that the expanded SERFF plan management tool would not be available in December, 2012 as planned. The plan management templates would not become available from CCIO until March 28, 2013. This would either have shortened Arizona's QHP certification timeline by three months or force us to develop a work around process.

Governor Brewer's decision to not move forward with a State-based Exchange and instead participate in the Federally-facilitated Exchange was made primarily for operational reasons. While Arizona had made significant progress and would have been ready with a fully compliant State-based Exchange, the delay in issuing the necessary Exchange Rules, uncertainty on the status of required federal services and other delays made proceeding with a State-based Exchange too risky at the present time.

Arizona is working collaboratively with HHS on the development of the Federally-facilitated Exchange. As more information becomes available on the Federally-facilitated Exchange including its costs, operations and ease of use, Arizona may revisit the decision to participate in the Federally-facilitated Exchange.