



December 29, 2015

The Honorable Randi Becker, Chair, Health Care Committee	The Honorable Eileen Cody, Chair, Health Care & Wellness Committee
The Honorable David Frockt, Ranking Minority Member, Health Care Committee	The Honorable Joe Schmick, Ranking Minority Member, Health Care & Wellness Committee
The Honorable Andy Hill, Chair, Ways & Means Committee	The Honorable Hans Dunshee, Chair, Appropriations Committee
The Honorable Jim Hargrove, Ranking Minority Member, Ways & Means Committee	The Honorable Bruce Chandler, Ranking Minority Member, Appropriations Committee

Dear Senators and Representatives:

Under Second Engrossed Senate Bill 6089 (2ESB 6089) which passed last session, the Washington State Health Benefit Exchange (Exchange) is required to submit a five-year spending plan to the Legislature. The plan is due by January 1, 2016, and updates on the reductions identified in the plan are due annually.

Enclosed is the required five-year spending plan. The Exchange Board and staff have worked together to align the five-year spending plan with the strategic plan (submitted September 2015) which identified that a financially stable and sustainable organization was a key goal. Input for the spending plan was broadly solicited from state agencies, stakeholders and community partners.

This report identifies strategies to achieve reductions per member per month (PMPM) spending from the base 2015-17 biennial appropriation. Specifically, targeted reductions include spending in the call center, information technology costs, and staffing as directed by 2ESB 6089(7). The plan also includes metrics and five-year benchmarks for spending reductions required by 2ESB 6089(8). Updates on progress toward achieving the benchmarks are due quarterly and will begin June 1, 2016.

Sincerely,

  
Pam MacEwan  
Chief Executive Officer

Enclosure



Washington State Health Benefit Exchange

Report to the Legislature

January 1, 2016

## **WASHINGTON HEALTH BENEFIT EXCHANGE – REPORT TO THE LEGISLATURE**

### **STATUTORY REQUIREMENT**

Second Engrossed Senate Bill 6089, Chapter 33, Laws of 2015 directed the Washington Health Benefit Exchange (WAHBE) to report to the Legislature, Governor, and Board with a five-year spending plan that identifies potential reductions in per member per month (PMPM) spending from the 2015-17 biennial appropriation. This report is also required to identify specific reductions in spending in the call center, information technology costs, and staffing. The Exchange is then directed to provide annual updates on the reductions identified in the spending plan.

Starting January 1, 2016, the Exchange is required to develop metrics, with actuarial support and input from the Health Care Authority, Office of Insurance Commissioner, Office of Financial Management, and other relevant agencies. These metrics must capture current spending levels that include a PMPM metric and establish five-year benchmarks for spending reductions. The Exchange will report quarterly on the progress toward achieving those metrics to the relevant legislative committees and WAHBE Board and will post the quarterly updates on the Exchange web site.

### **BACKGROUND**

The strategic plan adopted by the WAHBE Board in September 2015 identified that a financially stable and sustainable organization was a key goal. While the WAHBE Board will continue to refine its definition of “sustainability,” this report uses two definitions. First, sustainability means that the Exchange will live within its means, or that revenues are equal to or greater than expenditures. Second, sustainability means that the Exchange will be well-positioned to meet the goals of the Affordable Care Act and the state legislature; meet the goals of Healthier Washington, reduce the number of uninsured, improve member experience and enhance outreach for continued enrollment growth.

This report reflects a proposed expenditure plan using a “current level approach.” The reduction plan is built on the assumption that basic functions would be covered by revenues generated by the Exchange, and that enhanced activities would require new revenues. For example, the spending plan does not project investments in strategies to expand enrollment, improve customer experience, achieve the goals identified in the WAHBE Board’s Five-Year Strategic Plan, or make investments in information technology improvements. This plan does, however, confirm the Exchange’s desire to continue to deliver current services with increasing efficiency.

### **CALCULATION OF PER MEMBER PER MONTH VALUES**

This report uses the enacted 2015-17 biennial budget as the baseline to establish a PMPM calculation and as the starting point for identifying the five-year spending reduction benchmarks. Enrollment numbers for qualified health plan enrollees are from the November Wakely enrollment forecast and Medicaid enrollment uses the November 2015 Caseload Forecast Council forecast for Medicaid projections. The PMPM is calculated by dividing the budgeted expenditures by the total number of enrollees.

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**TABLE 1: CALCULATION OF PER MEMBER PER MONTH**

	State Fiscal Year 2016	State Fiscal Year 2017*
Total Budget	\$56,882,000	\$53,132,000
Average Monthly QHP Enrollment	145,207	153,616
Average Monthly Medicaid Enrollment	1,560,842	1,705,100
Per member per month	\$2.78	\$2.52

\*Uses June 2015 Caseload Forecast Council Forecast

As the caseload continues to grow, the PMPM costs will decrease, assuming continued conservative spending. For example, the combined increase in caseload and reduction in spending between 2016 and 2017 in the legislatively enacted budget is expected to reduce the PMPM cost from \$2.78 to \$2.52.

**TABLE 2: PER MEMBER PER MONTH PROJECTION WITH NO REDUCTION OF COSTS**

	Projected Wakely and CFC Forecast			Estimated 1% growth per year; combined caseload			
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
	1,706,049	1,754,100	1,778,064	1,795,844	1,813,803	1,831,941	1,850,260

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Total Cost</b>	\$ 56,882,000	\$ 53,132,000	\$ 53,132,000	\$ 53,132,000	\$ 53,132,000	\$ 53,132,000	\$ 53,132,000
Annual	\$ 33.34	\$ 30.29	\$ 29.88	\$ 29.59	\$ 29.29	\$ 29.00	\$ 28.72
Monthly	\$ 2.78	\$ 2.52	\$ 2.49	\$ 2.47	\$ 2.44	\$ 2.42	\$ 2.39
<b>Salaries</b>	\$ 12,698,279	\$ 12,665,253	\$ 12,665,253	\$ 12,665,253	\$ 12,665,253	\$ 12,665,253	\$ 12,665,253
Annual	\$ 7.44	\$ 7.22	\$ 7.12	\$ 7.05	\$ 6.98	\$ 6.91	\$ 6.85
Monthly	\$ 0.62	\$ 0.60	\$ 0.59	\$ 0.59	\$ 0.58	\$ 0.58	\$ 0.57
<b>IT</b>							
It M&O	\$ 11,303,203	\$ 11,303,203	\$ 11,303,203	\$ 11,303,203	\$ 11,303,203	\$ 11,303,203	\$ 11,303,203
Annual	\$ 6.17	\$ 6.44	\$ 6.36	\$ 6.29	\$ 6.23	\$ 6.17	\$ 6.11
Monthly	\$ 0.51	\$ 0.54	\$ 0.53	\$ 0.52	\$ 0.52	\$ 0.51	\$ 0.51
<b>Call Center</b>	\$ 11,411,873	\$ 11,393,843	\$ 11,393,843	\$ 11,393,843	\$ 11,393,843	\$ 11,393,843	\$ 11,393,843
Annual	\$ 6.69	\$ 6.50	\$ 6.41	\$ 6.34	\$ 6.28	\$ 6.22	\$ 6.16
Monthly	\$ 0.56	\$ 0.54	\$ 0.53	\$ 0.53	\$ 0.52	\$ 0.52	\$ 0.51

### IMPACT OF INFLATION ON PROJECTING REDUCTIONS

A primary factor to consider when setting reduction targets is the effect of inflationary increases. Table 3 provides the Washington State Economic and Revenue Forecast Council's September 2015 estimate of three inflation indicators for the period of 2015 through 2019.

While some inflation factors are within the Exchange's control, there are several which are not. For example, the cost of health care and retirement benefits are set by the Washington State Health Care Authority. These rates increased significantly in the 2016-17 budget and are likely

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to increase in future periods, as well. Higher inflation may affect the Exchange’s ability to reduce its costs each year.

**TABLE 3: SELECTED INFLATION INDICATORS\*\***

Indicator	2015	2016	2017	2018	2019
Price Deflator	0.4	1.4	1.7	1.8	1.7
US CPI	0.2	1.7	2.1	2.1	2.0
Seattle CPI+	1.3	2.0	2.1	2.2	2.1

\*\*Washington State Economic and Revenue Forecast, September 2014 (p.119)

### POTENTIAL STRATEGIES FOR REDUCING COSTS

The Exchange has identified potential areas to examine to meet the directive for annual reductions in salaries, call center costs and information technology. With any new strategies for reducing costs, the Exchange will fully analyze the effects of these options on customers and potential customers to ensure we are meeting their needs. While many ideas were generated and will continue to be explored, those identified with the largest potential impact include:

1. Renegotiate contracts to lower call center costs and maintenance and operations information technology costs.
2. Enhance automation to reduce dependencies on call center staff for routine transactions.
3. Reconfigure customer tools to allow consumers greater ability to process applications without assistance from the call center.
4. Explore how partnerships with Department of Social and Health Services and Department of Enterprise Services could enhance the ability to leverage contracts and reduce costs.
5. Examine software licenses, including purchasing through State contracts, to reduce costs.
6. As the Exchange continues to stabilize, examine staffing levels in all areas.
7. Expand inter-agency work teams and staff cross-training to improve efficiency and effectiveness.
8. Continue to examine business processes to prevent duplication and increase efficiency.
9. Leverage outreach efforts by state agencies and partner organizations.
10. Better utilize navigators/brokers for outreach.
11. Enhance member communication channels with carriers to leverage customer touch points for key messages to maintain enrollment.

### EXCHANGE PROPOSAL FOR FIVE YEAR REDUCTION IN COSTS

The Exchange proposes to make a modest reduction in estimated costs to identify the five-year savings. In making these assumptions, the Exchange developed the reduction targets based on current policy and excluded the information technology development costs. This analysis includes the projected enrollment and a 1% per year cost reduction in state fiscal year (SFY)

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2018 and SFY 2019. The proposed reduction in SFY 2020, 2021 and 2022 is 0.5%.

### ESTIMATED IMPACT OF PER YEAR EXPENDITURE REDUCTION

	Projected Wakely and CFC Forecast			Estimated 1% growth per year; combined caseload			
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
	1,706,049	1,754,100	1,778,064	1,795,844	1,813,803	1,831,941	1,850,260
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
<b>Total Cost</b>	\$ 56,882,000	\$ 53,132,000	\$53,132,000	\$53,132,000	\$53,132,000	\$ 53,132,000	\$ 53,132,000
<b>Salaries</b>	\$ 12,698,279	\$ 12,665,253	\$12,538,600	\$12,411,948	\$12,287,828	\$ 12,226,389	\$ 12,165,257
Annual			\$ (126,653)	\$ (124,119)	\$ (61,439)	\$ (61,132)	\$ (60,826)
Cumulative				\$ (250,772)	\$ (312,211)	\$ (373,343)	\$ (434,169)
<b>IT</b>							
It M&O	\$ 11,303,203	\$ 11,303,203	\$11,190,171	\$11,078,270	\$10,967,487	\$ 10,857,812	\$ 10,749,234
Annual			\$ (113,032)	\$ (111,902)	\$ (110,783)	\$ (109,675)	\$ (108,578)
Cumulative				\$ (224,934)	\$ (222,684)	\$ (220,458)	\$ (218,253)
<b>Call Center</b>	\$ 11,411,873	\$ 11,393,843	\$11,393,843	\$11,393,843	\$11,393,843	\$ 11,393,843	\$ 11,393,843
Annual			\$ (113,938)	\$ (113,938)	\$ (113,938)	\$ (113,938)	\$ (113,938)
Cumulative				\$ (227,877)	\$ (227,877)	\$ (227,877)	\$ (227,877)
<b>Subtotal</b>			\$ (353,623)	\$ (349,960)	\$ (286,160)	\$ (284,745)	\$ (283,343)
<b>Total Cumulative</b>			\$ (353,623)	\$ (703,583)	\$ (989,743)	\$ (1,274,488)	\$ (1,557,831)

<b>Projected Enrollment</b>	1,706,049	1,754,100	1,778,064	1,795,844	1,813,803	1,831,941	1,850,260
<b>Estimated PMPM</b>	\$ 2.78	\$ 2.52	\$ 2.49	\$ 2.47	\$ 2.44	\$ 2.42	\$ 2.39

Beginning June 1, 2016, the Exchange will submit its first quarterly report towards achieving the metrics identified in this report.