IDAHO HEALTH INSURANCE EXCHANGE
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FINANCE COMMITTEE MINUTES
THURSDAY, FEBRUARY 28, 2019

1. COMMITTEE MEMBERS PRESENT

- Mr. Kevin Settles, Chair
- Dr. John Livingston
- Dr. John Rusche (via teleconference)

2. OTHERS PRESENT

- Mr. Layne Bell, Your Health Idaho
- Mr. Pat Kelly, Your Health Idaho
- Mr. Kevin Reddish, Your Health Idaho
- Ms. Alanee DeRouen, Your Health Idaho
- Ms. Cheryl Fulton, Your Health Idaho
- Ms. Mandi Shawcroft, Your Health Idaho
- Mr. Mike Stoddard, Hawley Troxell
- Mr. Robert Schmidt, Milliman

3. CALL TO ORDER

Following proper notice in accordance with Idaho Code §74-204, the Finance Committee meeting of the Idaho Health Insurance Exchange (Exchange) was called to order by Mr. Kevin Settles, Chair of the Committee (the Chair), at 8:03 a.m., Thursday, February 28, 2019, at the offices of Hawley Troxell Ennis & Hawley, 877 W Main Street, Suite 1000, Boise, Idaho. In accordance with Idaho Code §41-6104 (8), the meeting was held in an open public forum and was streamed in audio format. Members of the public could access the audio stream by dialing into a telephone number that was included in the notice of meeting posted on the Exchange Board's Web site and at the meeting location.

4. ROLL CALL

The Chair called roll and determined that Dr. Livingston and Dr. Rusche (via teleconference) were present, resulting in a quorum. Director Jeppesen, Greg Donaca, and Senator Rice were absent.

5. PRIOR MEETING MINUTES

Motion: Dr. Livingston moved to approve the meeting minutes from the November 30, 2018, Finance Committee meeting as presented today. **Second**: Dr. Rusche. **The motion carried.**

6. REVIEW AGENDA

The Chair reviewed the Agenda and there were no changes.

7. REVIEW ROADMAP

The Chair reviewed the Roadmap and there were no changes.

8. FY '19 Q2 FINANCIAL RESULTS

Mr. Bell said in looking at the financial and enrollment highlights, in December YHI saw 87,637 effectuations. He reminded the Committee that there was an adjustment in September of 2018 that was caused by a carrier reconciliation, and the subsequent results are now more consistent with expected average premiums.

The profit and loss statement for second quarter shows favorability in net ordinary income, including favorability in both assessment fee revenue and interest income. There is also favorability in the spending space with about $600k favorability year to date and YHI anticipates that favorability will continue through the end of the fiscal year. The first HIX asset was fully depreciated as of December 31, 2018, so when looking at the January financials you will see monthly depreciation expense essentially resets.

Chair Settles noted that he and Mr. Bell reviewed these prior to the meeting today and said everything looks consistent with prior quarters with nothing out of the ordinary.

Mr. Bell said in looking at the forecast versus budget, the forecast represents actual spend through December 31 and best estimates for the final six months. Overall, favorability in revenue is expected to continue, as is the favorability in expected expenses.

Mr. Kelly added that this Committee usually approves the quarterly financials, but it was not noted as an action item on the agenda, so he asked the Chair and the Committee how they would like to proceed. Mr. Stoddard said if the Committee feels it appropriate to move the financials to the Board for approval, they may do that without a vote. Chair Settles asked the Committee members if they were okay with pushing it to the Board for vote. Dr. Rusche and Dr. Livingston both agreed it was acceptable.

9. PROCUREMENT POLICY UPDATES

Mr. Kelly said, as discussed at the December Board meeting and as a result of the annual review of employee benefits in the Fall of 2018, we reviewed the Procurement Policy and created an exception to account for the procurement of employee benefits. As part of the review, we identified other items in the Procurement Policy in need of updating. Specifically, Federal Contracts clauses and clauses related to federal funding were removed. We also added clarity around YHI's ability to continue to extend contracts originally procured via an RFP. For example, Drake Cooper responded to an RFP several years ago, were subsequently awarded a contract and YHI has renewed those services each year because the services provided by Drake Cooper were still within the scope of the original RFP. The question that was raised as to whether YHI continues to renew such contracts perpetually, or do we put some limit on the number of renewals. Also, such a limit would then drive the question as to whether we renew a given contract or issue a new RFP. The redlines in the Procurement Policy itself provide for the ability to renew the contract for up to seven years and then we would ask at that time if the issuance of a new RFP is warranted. The current practice of renewals is within our authority, but this puts timelines around the process.

Chair Settles asked why seven years. Mr. Kelly said we looked at five and ten years. Five years would put some current contracts having moved past the point of renewal vs re-issuance of an RFP and ten years seemed too long.

Mr. Stoddard added what is important to note is the Board, every year, reviews contracts as part of the approval process where the dollar amount and the scope are reviewed. The point here is to make certain there was a formal process in place so that each year, the dollar amounts are reviewed and approved. As a reminder, YHI is not subject to the State's procurement policy. We prefer to balance YHI's policy with the ease of procuring services, while making sure there is healthy discussion and proper approvals.

Dr. Livingston asked where this process is memorialized. The Chair said it is part of the budgeting process. Ms. Fulton added that it is in the Committee Charter at a high level. Mr. Kelly added, as an example, that the original RFP for the creative services was responded to, evaluated through normal processes, and awarded the initial contract. Each year after that, we review the SOW and those funds are then recommended by the germane Committee. We continue to make sure contract amounts are in the budget and approved by this Committee.

Mr. Stoddard noted section three in the procurement policy. That section requires that each twelve-month cycle when new dollar amounts come up for review, and when they are in excess of $15k per year, the Board must approve said planned expenditure. What is not required is that we issue a new RFP each year.

Mr. Kelly continued and noted other items that were addressed in the procurement policy including the Delegation of Authority (DOA), the form for Request for Proposal, and the Independent Contractor Agreement (ICA). All of those together make up the Procurement Policy. All the changes in those additional documents were related to the removal of the Federal Contract clauses, the RFP process we just described, as well as other redlines to allow an ongoing exception for employee benefits. Those do require both Executive Director and Board Chair approval so there are some checks and balances.

Mr. Stoddard reminded the Committee that the Board has authority or ability to make exceptions to the procurement policy, which they do not have at the state level.

Motion: Dr. Livingston moved that the Finance Committee, recommend to the Board, approval of the revised Request for Proposal and Independent Contractor forms as presented today.
Second: Dr. Rusche. **The motion carried.**

10. FY 19 OPERATIONAL GOAL UPDATE

Mr. Kelly updated the Committee on the Low Cost Promise goal which is tracking at about $600K favorable, which puts us at the 100 percent payout for this goal. He noted that the other operational goals are located in the appendix and most are trending near 80 percent to 100 percent thresholds. There are a couple metrics lagging, including the NPS (Net Promoter Score) which we knew would be challenging. Risk Management is trending towards 100 percent, but the final phishing campaign is forthcoming and will determine the outcome of this goal. Employee Engagement is being kept top of mind but cannot be determined until the survey in May of 2019. He added that each germane Committee has their goals reviewed and then the Governance Committee looks at all of them. He added that the Retention and Enrollment goal, which does not have compensation tied to it, is also trending at 100 percent.

11. CONTINUING EDUCATION

Mr. Bell reviewed continuing education requirements for both internal Finance staff as well as the Finance Committee Members. He said this Committee had a healthy conversation recently about Committee training and the question to the Committee now is when you look at the requirements of the Committee from its Charter, is there a need for any changes or material improvements to Committee training. Chair Settles said when the full Committee is present, we cover everything from legal expertise to financial expertise. And since we just performed the Committee training, is there a need to do further training. The Committee members said they were comfortable without additional training.

Mr. Bell said with regard to training and skill building within the Finance team itself, the team constantly looks at its duties and responsibilities relative to both generally accepted accounting practices and the control environment as promulgated by COSO, which is industry guidance with regard to internal controls. He said he tries to make sure that YHI stays within those standards and adjusts as business conditions require and that best practices are communicated from those environments.

We also monitor regulatory changes, even though YHI does not have to comply with things like Sarbanes-Oxley or any SEC promulgations, we still consider those to be best practices. For Governance matters, we ensure that we are consistent with any reporting and accountability to the Committee and Board as we view that relationship as a key to YHI's success.

Mr. Bell said relative to that, he participates in continuing professional education in order to maintain licensure and one member of the team is working on CPA licensure and another is working on her Associates degree in accounting. We also pursue role specific certification including classes and certifications relative to YHI's general ledger system and other tools or concepts as needed.

The Chair added that YHI does help defray the expenses of continuing education and rewards the employees for successful completion. Dr. Livingston asked about the difference between licensure and certification and Mr. Bell said they are really one and the same. He continued by providing an example of continuing education credits and his role as sponsor for the team member working on her CPA certification.

12. ACCOUNTING AND FINANCUAL POLICY REVIEW

Mr. Bell said in preparation for YHI's annual financial and programmatic audits, YHI management and the finance team review all current documentation of accounting and financial policies and procedures to ensure they are consistent with generally accepted accounting practices, internal control best practices, and that they accurately reflect current business practices. We update procedures and recommend, as needed, updates of policies to this Committee for approval by the Board.

Mr. Bell said specific issues outside of policies and procedures that we look at and are considered risk areas include related party transactions, making sure we are appropriately governed by the Committee and the Board, cash management, and overall risk assessment and mitigation procedures. As things arise, we try to respond appropriately and quickly and make sure the Finance Committee is kept apprised.

13. FY '20 BUDGET REVIEW

Mr. Bell introduced Mr. Robert Schmidt from Milliman. He appreciates all the work Milliman does for YHI to help us to minimize risk as well as validate what we think the market is as we build our revenue estimates.

a) Revenue Budget

Mr. Schmidt began with the methodology that Milliman used so that when you look at the estimated average premiums and estimated enrollment numbers, you see the comparison to what YHI is using.

This is Milliman's fourth or fifth year now and was brought in to have a reliable industry-based projection of assessment fees which are a percentage of the premium. This includes projecting enrollments and the average premium per member. This year we (YHI) have Medicaid Expansion on the horizon, with an estimated implementation date of January 2020, which will affect enrollment on the exchange. Milliman also looked at how many individuals will be available for premium assistance, what the likelihood is of people purchasing insurance through the exchange, the premium trends, and the benefit levels. Three years (Plan years 2016, 2017 and 2018) of YHI experience was used and this information was combined with publicly available data. Milliman also updated the model from last year and it includes the estimated impact of Medicaid Expansion. They set the model up, due to the uncertainty, so the impact of Medicaid Expansion can be turned on or off. The model also includes the impact of preliminary January 2019 enrollment data. There are other potential legislative changes that could impact YHI, but those have not been included.

Mr. Schmidt said there are several inputs that the user can vary. The first one is premium trends, or the overall premium trend on a per member per month basis for the exchange. The adjustment for Medicaid expansion is built in, but then after 2020, the user can trend the premium based on the assumption of a constant benefit level and age mix. The maximum premium for those with benefit assistance is a separate assumption that can be trended. There are assumptions for how fast the market might grow in Idaho, and the rate of uninsured which is expected to go down with Medicaid Expansion, and overall population growth for adults age 19 to 64. And finally, as new months of enrollments and premiums come in, the new model is set to update accordingly.

Mr. Schmidt said the outputs are structured to give information needed to feed into YHI's official projections and include exchange enrollment by month, total exchange premium by month, tax credits, details on the enrollment (income, age group, metallic tier, etc.), and overall Idaho market review. This allows the user to project the assessment fee revenues because it is a percentage of total premiums on the exchange.

Mr. Schmidt said Milliman will update the model annually and no changes in eligibility are assumed for Medicare, but there is a toggle included for Medicaid expansion here in Idaho. It is also important to note that other than age, changes in population morbidity are reflected. Changes in income distribution and age mix are not included, but the model does include medical and drug benefits. The model also does not include any impact due to future legislative changes to the ACA, which could have a large effect on enrollment and premium estimates. This is primarily why the model is updated each year.

Dr. Livingston asked what percentage of Idahoans are currently insured either through their employer, in the individual marketplace, and through the exchange. Mr. Schmidt said it is about 80 to 85 percent. Then he said about 250-300k are currently on Medicaid so adding 60,000 people is not going to make that big of a difference in the total number of people that are insured in Idaho. Mr. Schmidt said it was around a 5 percent reduction in the number of people overall that will be insured, which is representative of the commercial population. If you were to add in those on Medicaid, it would drop to about 3 percent.

Mr. Bell asked Dr. Livingston if he was asking what the impact on the exchange will be and he said yes. Mr. Bell said we modeled or anticipate a 20 percent reduction in effectuation from plan year 2019 to plan year 2020 assuming the Expansion occurs effective January 1, 2020.

Chair Settles asked what would happen if one of the sideboards came to reality, like a work requirement, what would be the impact on YHI. Mr. Kelly said the impact of a work requirement would have more impact on the Medicaid enrollment number than on the exchange because in the eligibility determination stage, consumers are deemed eligible for the exchange or eligible for Medicaid. And if they are deemed eligible for Medicaid, and the work requirement is added on and they didn't sign up for Medicaid, they would still be deemed Medicaid eligible, and not exchange eligible. The loss for the exchange at about 20 percent of total effectuations, we still feel is the right number. If the legislature did partial expansion and changed the FPL ranges, it would affect YHI directly.

Dr. Livingston asked a question about the total number of people coming off the exchange. Mr. Kelly said there will be about 18,000 coming off the exchange and about 59,000 in the gap, and another 14,000 that are not enrolled on the exchange and those are the three populations will make the total estimate of 91,000 that will now be covered by Medicaid. Dr. Livingston said it is really important to know what we might not know and asked if those projections are accurate. Mr. Kelly said they were double checked in YHI's system and compared one to one in DHW's system.

Mr. Schmidt said the projections are just that, projections. We did check for consistency against other work that has been done for the State. One thing that cannot be predicted is individual decisions.

Mr. Bell talked about the fundamental components to YHI's Assessment fee revenues. Essentially there are two parts: volume and price. We broke those two components out and Milliman provided YHI with that broken out detail and not just the revenue numbers. First, the estimated effectuations in comparison to Milliman and there are a couple of things to highlight in how this model is generated and the economic assumptions we are using that create the projection moving forward. First, we look at past behaviors and use those assumptions moving forward. The prior three years that Mr. Schmidt talked about are built in to our assumptions. We use that for a couple of things including our beginning point and seasonality (how consumers behave over the course of a plan year). The actual effectuations through January of 2019, as depicted on the graph he shared, notice that each January there is a jump in enrollments. This represents preliminary effectuations and on January 1, 2019 those equaled roughly 101,000. In January 2020, the model shows a 20 percent decrease because those 18,000 will move to Medicaid. We feel confident as our effectuation estimates were validated by Milliman's estimate. We did not use Milliman's numbers to create ours, and we agree with their assessment that there will not be any material growth moving forward in the marketplace total.

Mr. Bell looked at the price component of YHI's revenue. He said for the actuals for PY '18, we were very conservative in our assessment of the average premium. We believe that continuing to be conservative in that space is validated by PY '19 where the average premium per person did not increase anywhere near that of PY '18. Moving forward, a conservative view of any price increase serves YHI well. Beginning in PY '20, we added in an assumption of an additional decrease in average premium caused by the shift of who is moving from the marketplace to Medicaid. We expect many of those moving onto Medicaid will be higher cost individuals with more health issues resulting in a lower average premium for those remaining on the exchange.

Dr. Rusche asked if these assumptions have been checked with the carriers because the decision to move to Medicaid is made by income and not age or health status. Mr. Kelly said he has had conversations with some, but not all, carriers and they have validated that they believe the expansion population that is currently enrolled on the exchange are higher-cost individuals than the rest of the population that would remain on the exchange. Therefore, the assumption that premiums would decrease in the year 2020 by 4 percent was validated. Dr. Livingston added that the people that are currently on Medicaid are sicker than the people that will move off the exchange and onto Medicaid due to expansion. That is one thing we do know. Mr. Kelly said that is correct and what our assumptions represent.

Mr. Bell noted how revenues are impacted from both average premium as well as member months, and how these change over time. Specifically looking at the model of Plan Year 2018 actual performance, Plan Year 2019 Forecasted performance and Plan Years 2020 through 2022 where we project a 20 percent decrease in total member-months beginning in 2020. We see effectuations drop from over a million member months in 2019 to just over 875,000 in 2020. We also modeled that 4 percent decrease in monthly premiums. Moving forward, and once you take those decreases into account, we project relatively flat effectuation growth moving forward from 2020 and estimating a 5 percent increase in average premiums for Plan Years 2021 and 2022. Mr. Bell said if you go back and look at the financials, the calculated dollar/volume variance is where you see the actuals of these two curves play out over time. We overestimated the average premium and underestimated effectuations. We had more people participating at a lower average premium than we forecasted. We will continue to use dollar/volume modeling to monitor our ongoing performance against our estimates of these two components of Revenues.

Chair Settles said between Milliman and their national experience and the cash in the bank, comfortability is strong. Mr. Schmidt thanked the Committee for the opportunity to work with us again.

b) *OPEX Budget*

Mr. Bell highlighted that YHI utilizes a bottoms-up budgeting approach where each functional area owner develops their own expenses and we have cross-functional conversations as well.

Employee and Employee-related costs, which is our largest spend component, is very important in making sure our team is compensated properly based on the market. The merit pool assumes a 3 percent increase prorated based on tenure with a market adjustment of $70k. We did not do a market assessment, based on advice from our HR representative, but we did look at our org structure to see where people are relative to the marketplace and made the appropriate adjustments to keep them in the mid-range of the salary range and competitive.

Mr. Kelly added that the discussion with Ms. Ball came out of knowing that we have had a lot of population growth and we have low unemployment. We asked if we should do another market study and the answer was no. However, with market growth and low unemployment, the positions that tend to need adjusting are the lower level positions and that was part of our market adjustment. And then people with specialized skills tend to drive higher compensation.

Mr. Bell said the variable pay plan is consistent with the FY19 variable pay plan. Leadership participates at 5 percent, managers at 4 percent and 3 percent for the remaining team members. The Executive Director's variable pay is determined by the Board. For participation in employee benefits, specifically medical, we assumed an 80 percent participation rate which is consistent with the most current participation for the last six months. The increase in the dollars is driven by YHI's planned increase in headcount. Overall, and year over year, the fringe rate is comparable to last year at 29.6 percent.

Mr. Bell went through the other budget assumptions including a media refresh we did this year, but because of the changes in the marketplace resulting from Medicaid Expansion, we believe there is an opportunity to educate the marketplace regarding the potential impact of Medicaid expansion. There will be a smaller refresh this coming year for outreach and education opportunities due to Medicaid expansion. In addition, we recognize there are some people who chose not to participate in the Exchange and those will be the target for specific marketing activities. The new contract with GI kicked of the first of this year and we do not anticipate any changes in the coming year. We do expect to follow this year's model of bringing in the seasonal team earlier for Open Enrollment which will allow for improved training. We also believe we don't need quite as many people as we thought in past years.

Chair Settles asked about the GI contract and how long the contract term is. Mr. Bell said five years. Mr. Bell continued and said we anticipate DHW will maintain their receipt authority at current levels and remaining key vendor contracts are consistent year over year.

Mr. Bell reviewed the FY19 forecast versus the FY20 Budget and said the important columns are the forecast for FY19, which includes six months of actual spend and then six months of our best estimate of what will be spent, and the FY20 Budget column. One thing to note is that overall, we anticipate a 440k increase from the FY'19 Forecast to the FY'20 Budget year over year, but we are budgeting less than we did last year.

Dr. Livingston asked about the status of the building space and what affect it might have on the budget. Mr. Kelly said the Governance Committee reviewed the staffing and compensation plan and did recommend it for approval. With respect to investments, we reviewed the new product options. Or a non-QHP offering, as it related to the discussion at the December Board meeting and we will carry that discussion forward to the Board meeting on the 15th. According to our enabling legislation, YHI is authorized to sell health benefit plans, both QHP and non-QHP, but a second instance of the technology may be needed to ensure compliance with federal regulations. For the building, there were some challenges with engaging with a broker relative to the procurement policy and the $15,000 threshold as it relates to issuing an RFP. That is, you don't know what you are buying until you find a building and you don't know if you are buying or leasing until you know what the options are. Therefore, you don't know what you are paying, so you can't structure a competitive bid process. We discussed the potential of a Request for Qualifications (RFQ), which would allow us to go through the process and identify brokerages that have worked with both lease and purchase, those that have worked with quasi-government entities, and identify potential conflict of interest. The Governance Committee will recommend to the Board that we issue an RFQ such that we can identify a broker to work with moving forward. We do not know the economic impact yet but will begin working with a broker assuming the Board approves the RFQ.

The Chair asked why the RFQ discussion didn't occur in this Committee. Mr. Kelly responded that it was coupled with the new product discussion. The RFQ process will include the Finance chair and review of different purchase or lease options would be run through this committee.

Moving back to the operational expense budget and reviewing the monthly proposed budget, Mr. Bell highlighted the components that have a seasonality effect on the total spend. We will see variability month over month in the actual results.

Mr. Bell said when looking at the two components, revenues and operating expenses, together in the overall budget, you do see a year over year decrease as a result of the impact of Medicaid expansion. This is only six months of impact due to YHI's fiscal year ending June 30, but we still end up with a positive NOI and the decrease because of the depletion of the depreciation of the HIX, the actual net income is also in the black.

c) CAPEX Budget

Mr. Bell reviewed the CAPEX budget and said the question is what $1M will buy. Mr. Reddish has been working with GetInsured to solidify the technology roadmap for the coming year. Therefore, it is too early to say exactly what $1M will buy. The things currently being discussed with GI are largely consumer experience focused and user interface experience items – specifically look/feel. Enhancements that came out of lessons learned from this last OE will be prioritized. One thing to consider is improved noticing and as well as looking at things that are impacted by Medicaid Expansion, specifically any software changes around our renewal process this coming fall. Year over year plan comparisons are planned and enhancement to anonymous shopping and compliance are as well. This budget is consistent with the new GI contract.

d) Sustainability

Mr. Bell said the last thing we want to look at is the impact of the budget on cash flow as well as a sensitivity analysis. For example, if you increase or decrease average monthly premiums, what is the overall effect. In looking at the sustainability curve, we have our actuals through January 2019 and the key inflection point is January 2020 and really doesn't level out until 2021. The average cash balance will be in the $11.6 to $11.8M range and it stabilizes moving forward. The variability is mostly related to seasonality. Mr. Bell added that we looked at all scenarios and the smoothing effect plays out in 6-8 months regardless.

One of the challenges around sensitivity analysis is what happens if one thing plus another thing happens and we did not see any multiplier effect, so these were kept disparate.

Dr. Rusche asked about the 2.29 percent and how it compares to other state-based exchanges and the federal percentage. Mr. Bell said it is still less than the federal government. Mr. Kelly added that the proposed payment rules for 2020, which are not final yet, indicated that the federal fee would move from 3.5 to 3 percent. And for those state federally supported from a technology standpoint would also drop by one half percent. So even then we are still lower by about 25 percent. In comparison to other states, we are lower than some and higher than others. But from a total dollar cost of running a fully functional state-based marketplace, meaning we control all of the activities within the state, we are far lower from a total dollar standpoint and we are also far above when it comes to enrollment on a per capita basis. When you look at all of those combined, it speaks to a fairly successful enrollment based and financially managed exchange.

Dr. Livingston said so we are at the top of the heap on a per capita basis? Mr. Kelly said we are currently the highest enrollment per capita of all state based marketplaces. We haven't seen the final numbers for this year, but every year since inception, Idaho has been in the top three of all states on a per capita enrollment basis.

14. FY '20 BUDGET RECOMMENDATIONS

Motion: Dr. Rusche moved that the Finance Committee recommend to the Board, approval to maintain an Assessment Fee of 2.29% for Plan Year 2020. **Second**: Dr. Livingston. **The motion carried.**

Motion: Dr. Rusche moved that the Finance Committee recommend to the Board, approval of the Fiscal Year 2020 Operating Expense Budget at a not to exceed amount of $9,876,055 as presented today. **Second**: Dr. Livingston. **The motion carried.**

Motion: Dr. Livingston moved that the Finance Committee recommend to the Board, approval of the Fiscal Year 2020 Development & CAPEX Budget at a not to exceed amount of $1,000,000 as presented today. **Second**: Dr. Rusche. **The motion carried.**

15. NEXT MEETING

The Chair noted that the next meeting will be held in late May or early June.

16. ADJOURN

There being no further business before the Committee, the Chair adjourned the meeting at 9:43 a.m.

Signed and respectfully submitted,

Kevin Settles, Committee Chair