

State Health Reform Assistance Network

Charting the Road to Coverage

ISSUE BRIEF
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Premium Collection in State Based Exchanges

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Introduction

Health Insurance Exchanges (Exchanges) organized pursuant to the Affordable Care Act (ACA) have certain requirements and several options with respect to providing premium collection services for small businesses and individual consumers purchasing qualified health plans (QHPs) in 2014. While collection functionality is required in Small Business Health Options Program (SHOP) Exchanges, it is an optional service in the individual Exchanges. State-based Exchanges (SBEs) are currently at the crossroads of decision-making related to their three options for premium collections functionality:

- The Exchange performs all premium billing and collections functions for SHOP and individual market consumers, with the option for people to pay their issuer directly, as required under the ACA.
- The Exchange bills and collects the initial premium payment to effectuate real-time QHP enrollment; QHP issuers bill for all other months of enrollment.
- The Exchange performs premium collection in the SHOP Exchange only, as required by law; QHP issuers perform the function for individual QHP enrollees.

This issue brief summarizes federal policy guidance and outlines requirements, options and key considerations for SBEs to evaluate with respect to Exchange premium collection functionality.

Federal Premium Collections Guidance

In March 2012, the U.S. Department of Health and Human Services issued final and interim final rules governing the Establishment of Exchanges and QHPs and Exchange Standards for Employers under the ACA, respectively.¹ These rules provide guidance on Exchange requirements and options related to premium collection functionality.²

¹ 77 Fed. Reg. 18310, "Patient Protection and Affordable Care Act; Establishment of Exchanges and Qualified Health Plans; Exchange Standards for Employers".

² The Federally Facilitated Exchange (FFE) will presumably face the same collection requirements for SHOP as the states. At this time the FFE does not intend to perform individual collection. Source: "General Guidance on Federally-facilitated Exchanges," Center for Consumer Information and Insurance Oversight, Centers for Medicare & Medicaid Services, May 16, 2012, http://cciio.cms.gov/resources/files/FFE_Guidance_FINAL_VERSION_051612.pdf

ABOUT STATE NETWORK

State Health Reform Assistance Network, a program of the Robert Wood Johnson Foundation, provides in-depth technical support to states to maximize coverage gains as they implement key provisions of the Affordable Care Act. The program is managed by the Woodrow Wilson School of Public and International Affairs at Princeton University. For more information, visit www.statenetwork.org.

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Premium Collection in SHOP – SHOP Exchanges are required to provide premium collection services – including issuing monthly bills to employers that break down employer and employee contributions, collecting total premiums due and transmitting them to the QHPs, and maintaining enrollee records.³ In addition, SHOP Exchanges are encouraged to create standard operating procedures for premium payment and remittance.⁴

Premium Collection in the Individual Exchange – Exchanges have the option but are not required to provide premium collection functionality for consumers who enroll in QHPs through individual Exchanges.⁵ If an Exchange chooses to provide individual premium collection services, federal guidance encourages multiple payment options.⁶ The final rule also requires that Exchanges allow consumers to pay premiums directly to their QHPs if they choose.⁷ Exchanges may create a default payment mechanism, such that individuals are automatically provided with collection services unless they opt out, and may also require selection of the collection option at initial enrollment.⁸

The final rule confirms that Exchanges are not obligated to pursue unpaid premiums for issuers.⁹ Grace periods for non-payment of QHP premiums will largely be managed by the issuer when the Exchange does not adopt collection responsibilities. However, Exchanges do have information sharing responsibilities, particularly at the point of enrollment termination due to non-payment of premiums.

Enrollment Category	Requirements
Individual Exchange – Advance Premium Tax Credit (APTC)	<ul style="list-style-type: none"> • QHPs must: <ul style="list-style-type: none"> - Provide a 3 month grace period (period can be triggered by a partial payment), provided that the consumer has paid at least one full month premium during the benefit year; - Continue to collect APTCs from Treasury during the grace period but may only retain the first month of payments for consumers who exhaust the grace period; - Issue notices to the consumer of premium delinquency; - Notify HHS and providers of non-payments, and issue a notice of coverage termination; and, - Maintain records of coverage termination as specified by the Exchange. • Exchange can initiate termination and must permit QHP to terminate¹⁰
Individual Exchange – No APTC	<ul style="list-style-type: none"> • State law governs grace period and last day of coverage determination • Exchange can initiate termination and must permit QHP to terminate¹¹
SHOP	<ul style="list-style-type: none"> • Although there is no federal regulation for a SHOP grace period, SHOPS are encouraged to standardize grace periods across QHPs¹²

³ 45 CFR 155.705 as amended by March 2012 Exchange interim final and final rules.

⁴ 77 Fed. Reg. 18398

⁵ 45 CFR 155.240

⁶ 77 Fed. Reg. 18338

⁷ 45 CFR 155.240

⁸ 77 Fed. Reg. 18338

⁹ 77 Fed. Reg. 18337

¹⁰ 45 CFR 155.430

¹¹ 45 CFR 155.430

¹² 77 Fed. Reg. 18398

Policy and Operational Considerations

SBEs must weigh several factors when considering whether to establish premium collection functionality, including the costs of doing so, implications for the Exchange revenue model, the customer experience, and issuers' capacity to support collection functions.

Costs – Premium collection can be a resource intensive function as it requires a range of monthly activities, including developing and sending bills to customers, and collecting and distributing funds across QHPs. The costs to perform collection have implications for an Exchange's effort to develop an efficient, self-sustaining operation, a core component of an Exchange's value proposition. In assessing whether to provide these premium collection services to individuals, SBEs are evaluating whether they can achieve sufficient scale in their Exchanges for the functionality to be cost-effective as compared to issuers' costs of performing this function.

The scale of issuers' operations may enable them to perform collection operations more cost-effectively than Exchanges. Because issuers must maintain a collection function to serve non-Exchange members regardless of whether the Exchange chooses to perform optional collection functions, the actual cost of issuers' collection services for Exchange members may be limited to the incremental invoicing and postage expenditure.

Exchanges may achieve greater scale as a means to drive down the costs of performing collection through a number of strategies. Collection functionality may be relatively easy to scale up for individual members once it is established for the SHOP population. Exchanges may also increase scale by integrating collection functions across QHP and state health insurance programs such as Medicaid and the Children's Health Insurance Program (CHIP). Further scale may be achieved by combining and centralizing collection services across a number of SBEs.

Revenue Model – An Exchange's revenue model may influence its approach to premium collection. SBEs that establish a per member per month (PMPM) issuer "user fee" based on QHP membership may find that individual premium collection provides a stable and predictable revenue stream by enabling the Exchange to collect user fees from consumer premiums before allocating such premiums to issuers.

Issuer Capacity – Premium collection capabilities of the QHP issuers in an SBE market also have implications for whether an Exchange is likely to offer this service. National issuers show a preference for operational consistency and standardization across premium collection in SBEs and FFEs in which they participate, and thus prefer to have responsibility for premium collections across their QHP offerings nationally.¹³ However, even these large issuers will be required to invest in their collection functions to ensure compliance with ACA-related bill presentation and collection processes. Some issuers already outsource their collection function, and would likely be supportive of an Exchange doing collection if it is more cost-effective than their current arrangement. Smaller issuers may be more amenable to relying on Exchanges for premium aggregation support than their larger issuer counterparts. Still others may seek to retain collection in-house to develop member loyalty.

Customer Experience – Establishing a premium collection function for individual members may enable Exchanges to develop greater customer loyalty and promote continuity of coverage. Conversely, subpar collection experiences have the potential to drive customers away from Exchanges. Therefore, SBEs are considering whether and how they can reinforce positive experiences through premium collection and how their collection capabilities and related customer service experiences may compare to those of issuers in their markets. Among the customer experience considerations for SBEs will be whether the Exchange should collect a consumer's first QHP premium payment, thus effectuating his or her QHP enrollment, transitioning responsibility for premium collection to the consumers' QHP thereafter. The Maryland Exchange has opted for this model in order to provide its customers with a seamless, end-to-end consumer QHP enrollment experience through the Exchange.¹⁴

¹³ Interviews conducted with national and regional plans during Summer/Fall 2011.

¹⁴ Presentation to Maryland Health Connection Board of Directors "Individual Market Billing and Collections Recommendation," December 11, 2012.

Evaluation Factor	Exchange Performs	Carriers Perform	Initial Billing Only
Customer Plan Shopping Experience	Best	Fragmented	Best
Customer Ease of Billing Administration	Best (due to consolidated billing)	Neutral	Neutral
Customer Ease of Processing Life Changes	Best	Neutral	Neutral
MHBE Information Technology Impact	Neutral	Neutral	Neutral
MHBE Operational Impact	Resource Intensive and High Risk	Best (however, more MHBE external oversight required)	Neutral
MHBE Incremental Operational Cost (annual)	\$3.1M	\$705K	\$977K
MHBE Compliance with Federal Reporting Rules	Best (all eligibility and financial data in-house)	Neutral (requires data exchanges with multiple carriers)	Neutral (requires data exchanges with multiple carriers)
MHBE Customer Relationship Management	Best (monthly contract with customers)	Neutral	Neutral

*MHBE: Maryland Health Benefit Exchange
 Source: Presentation to Maryland Health Connection Board of Directors “Individual Market Billing and Collections Recommendation,” December 11, 2012.

The Massachusetts Connector notes that by sending monthly bills to customers, the Exchange has the opportunity to connect with (or “touch”) members more regularly than if they only distribute annual renewal notifications. Member loyalty and retention may increase if individuals have a positive experience understanding and paying their bills, or if they can learn about additional Exchange benefits through these monthly “touches.” Conversely, if an Exchange-run collection process is complex or fragmented, members’ loyalty may shift elsewhere.

Finally, integrating and centralizing premium collection in an SBE for individual market QHPs (including dental and vision products), SHOP Exchange products, and possibly Medicaid and CHIP funded programs, can provide a better consumer experience for “mixed program families,” or those families who have members covered by different programs (e.g. a child in CHIP and a parent in a QHP with a tax credit) and/or different health plans. SBEs can promote standard collection processes for mixed families and other consumers, even as families experience changes in their eligibility and health plan enrollment.

Conclusion

SBEs face operational decisions regarding whether to provide individual premium collection services, including fundamental questions related to whether the benefits of performing this optional function outweighs its costs. Specifically, states must assess whether:

- Premium collection would enable the Exchange to establish a stable and predictable mechanism for collecting issuer user fees;
- The Exchange will be equipped to efficiently and cost-effectively provide premium collection services; and,
- The Exchange assuming a role in premium collection for individual members might be considered a value-added service to its customers, facilitating real-time enrollment and streamlined and transparent premium collection policy and process regardless of a consumer’s source of coverage.

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