

**Office of Consumer Information and Insurance Oversight**

**State Planning and Establishment Grants for the  
Affordable Care Act's Exchanges**

**State of Illinois – Quarter 3 Report**

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**State:** Illinois

**Project Title:** State Planning and Establishment Grants for the Affordable Care Act's Exchanges

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## **Project Summary**

In the Third Quarter, the State made substantial progress toward evaluating the establishment of an “American Health Benefits Exchange” (“Exchange”) in Illinois, as envisioned in the Affordable Care Act (ACA). The primary focus of this quarter’s work was on three elements: 1) The passage of initial Exchange enabling legislation; 2) Significant progress on grant-funded consulting projects; and 3) The development of a Level 1 Exchange Establishment Grant application.

The Illinois Departments of Insurance (“DOI”) and Healthcare and Family Services (“HFS”), along with the Office of Governor Quinn, continued to actively engage stakeholders throughout the process of drafting, considering, and passing initial Exchange enabling legislation. The Departments used different outreach methods, including internal and public meetings with consumer groups, providers, employers, carriers, and producers, as well as participation in legislative hearings and meetings throughout the spring 2011 Legislative Session.

The State executed a contract for and made significant progress on the Background Research report, to define the current health insurance coverage marketplace. This contract was executed with Deloitte Consulting LLP (“Deloitte”). The State also executed the contract for and made significant progress on the Needs Assessment project, to determine the costs, staffing implications, and infrastructure needs associated with an Exchange and assess options for the State to transition its existing public health program eligibility, verification, and enrollment systems to the level of functionality required under the ACA. This contract was executed with Health Management Associates (“HMA”), with subcontractors Wakely Consulting Group (“Wakely”) and CSG Government Solutions (“CSG”).

Finally, the State successfully submitted an application for Level 1 Exchange Establishment Grant funding and, in planning for that report, developed a comprehensive new work plan and budget for the next year of planning and design for the Exchange. In the coming months, the State will be working to execute many of the staffing, procurement, legislative goals, consumer education, and stakeholder engagement activities put forth as part of that work plan, including the development of a draft business plan/six year operational plan for the Exchange. The State also submitted a Preliminary Advanced Planning Document (PAPD) to CMS concerning the further planning for an integrated eligibility system that will be used by the Exchange and Medicaid.

## **Core Areas**

- *Background Research*

Over the last quarter, Illinois has made significant progress in the core area of Exchange Background Research. The State will complete the Background Research Project—an analysis of its existing public and private health insurance coverage marketplace—by mid to late August. The State executed a contract with Deloitte to complete this project on May 6, 2011. On May 9, 2011, Deloitte staff and State staff met to officially launch the project and review the timeline for work phases and deliverables. Since that time, the State has worked collaboratively with Deloitte to provide significant background information from existing data sources. In addition to DOI and HFS, Deloitte has engaged with the Illinois Departments of Human Services (DHS), Public Health (IDPH), Office of Health Information Technology (OHIT), and Central Management Services (CMS). Given the limited reporting

requirements for insurers in the Illinois, DOI initiated a targeted market exam of the top health carriers in the State. That exam includes both a data requests and interviews with different business segments within the carriers. Deloitte participated in both the refining of that data call as well as a subsequent data call and conversations with carriers throughout the end of May and June.

The State also worked with Deloitte in the development of a targeted population survey to inform the findings of the report as it relates to consumer barriers in the marketplace to accessing affordable coverage. Since the end of the quarter, Deloitte has provided the State with a mid-term report on their progress, which is on schedule, and the State expects a near-final *draft* report the first week in August. A final Background Research report will be made available to the public through the Governor's health reform website, and the State is considering a public presentation or webinar of the report findings.

Over the course of the last three months, the State has also made significant progress on its Needs Assessment report. This report will include the costs, staffing implications, and infrastructure needs associated with an Exchange, the impact of an Exchange on the current consumer marketplace, long-term financing options for the Exchange, and options for the State to transition its existing public health program eligibility systems to the level of functionality required under the ACA. In April 2011, representatives from DOI and HFS met with managers from the three vendors – HMA, Wakely, and CSG -- in Chicago to launch the project. Work for the project was separated into two sections, with HMA and Wakely leading efforts related to Exchange operations and marketplace impacts, and HMA and CSG working on those related to existing eligibility processes. The State Exchange Project Directors participate in three calls per week with the Needs Assessment project team to receive updates and give direction on the development of project deliverables specific to the Exchange operations, eligibility processes, and a general administrative update on progress and challenges. In June 2011, HMA, Wakely, and CSG presented midterm findings- this included a presentation to executive staff as well as legislators and legislative branch staff. This presentation included not only an update on the project's status, but a robust conversation about establishing potential goals for the Illinois Exchange.

As of July, State staff has launched a review of the draft report for both content as well as a legal review for compliance with the confidentiality rules associated with the DOI exam authority used for the carrier data call. A final report will be completed in August, and a final version of that report will also be posted for public consumption once a final review is complete.

- *Stakeholder Involvement*

The State continues to conduct a diverse array of activities to engage all stakeholders throughout Illinois on the issue of health reform, the impact of the ACA, and the development of a state-level Exchange.

Throughout the final months of the spring 2011 legislative session in Illinois, State staff from DOI and HFS traveled to Springfield and engaged legislators and interested parties weekly to provide technical assistance and promote the passage of Exchange enabling legislation. This effort included meetings with individual groups, briefings for multiple groups of stakeholders to walk them through the legislative options and provide updates, and technical assistance calls to assist stakeholders in navigating the decision points related to the Exchange enabling legislation. Additionally, State Exchange Project Directors attended multiple legislative hearings and meetings at relevant committees to provide technical assistance on the issue of the Exchange, as necessary.

Following a presentation provided at the March 2011 Exchange Grantees Conference in Denver, the State agreed to participate in the Enrollment User Experience (UX) 2014 project sponsored by the California HealthCare foundation in partnership with a tech company called IDEO and CMS (discussed in further detail under “*Business Operations*”). The Illinois project team is led by the DOI Exchange Project Director, Kate Gross, and includes two representatives from the patient and consumer advocate/non-profit community, and four additional public program experts within State government. The State plans to engage its broader stakeholder community on the project’s process and findings once the project’s findings are posted to a public website. Findings from this project will inform work under way, or about to be under way, in several aspects of the Exchange. This is particularly important for the State’s work on the enrollment process, as a key part of our strategy is to materially increase the magnitude of enrollment through web-based applications.

Finally, pursuant to federal regulation (42 CFR, §431.12), Illinois has established and consults a Medicaid Advisory Council (MAC). The MAC advises HFS with respect to policy and planning related to the health and medical services provided under the department's Medical Programs including Medical Assistance, All Kids, FamilyCare and Illinois Cares Rx. The MAC is a venue through which to obtain stakeholder feedback on streamlining eligibility for public health care programs. During the May 6, 2011 MAC meeting, HFS asked the one of the State’s Needs Assessment consultants—CSG—to poll advocacy organizations for suggestions on how to improve enrollment and program integration. The result of that effort was the presentation of a white paper on June 2, 2011 from a group of six advocacy organizations entitled “*Comments from Interested Parties on Illinois’ Design of EVE.*” (See Attachment A) This paper included feedback from stakeholders with specific enrollment experience on elements that they would consider crucial for a successfully integrated eligibility system.

As the Exchange planning process accelerated in advance of the June Level 1 Exchange Establishment grant submission, many other activities have been anticipated and planned to elicit input from stakeholders on the design of the Exchange, but these activities will not be executed until August 2011.

- *Program Integration*

Since the beginning of the Third Quarter, officials from across State government have continued to work in close cooperation to successfully integrate the different public health care programs, as mandated by the ACA. The intergovernmental working group to address Eligibility, Verification and Enrollment (EVE) determinations and processes—the ACA EVE group—met six times throughout the Third Quarter. As a result, substantial progress was made on defining the current eligibility and enrollment environment, and developing consensus on the State’s approach going forward for addressing this issue, all of which culminated in the development of the IT plan incorporated into the State’s Level 1 Establishment funding grant application submitted in June.

On April 4, 2011, representatives from the DOI and HFS met with project directors from the three vendors to launch the Needs Assessment project in Chicago. CSG and HMA took the lead on the majority of technical planning details related to program integration and that facilitated and supported the work of the ACA EVE group. Over the course of this quarter, staff from CSG have reviewed documentation, interviewed key actors in all Departments, cross-compared current state requirements to ACA-requirements and met regularly with the ACA EVE work group to review findings. CSG has outlined several broad options for developing an integrated eligibility system and is currently reviewing

the strengths and weakness of these options with the workgroup, including evaluating risks, with a particular emphasis on implementing an approach in the time frames prescribed by the ACA.

- *Resources & Capabilities*

As mentioned in previous reports, the State will receive a comprehensive analysis of the resources and capabilities necessary to stand up an Exchange in Illinois as part of its final Needs Assessment report in August. The initial outline of that report, and subsequent drafts provided to the State in July indicate that minimally, the following categories of needs will be evaluated and commented upon:

- Exchange costs through 2015 in different ranges, including premium costs based on estimated participation in the Exchange.
- Exchange staff, including executive staff, legal staff, technical staff, and administrative staff. This will include salaries and job descriptions.
- Exchange operational responsibilities, including considerations for the State in establishing these responsibilities.
- Contracting opportunities and options to achieve mandatory Exchange operations, such as those for a call center and IT development.
- Preliminary strategy for eligibility determination system and processes that will bridge Exchange enrollment with legacy systems, until those systems can be completely replaced
- Impacts on existing State programs and staffing capacity.

- *Governance*

As noted under the “*Stakeholder Engagement*” section, the State has solicited and received extensive feedback from diverse groups of stakeholders on an appropriate governance structure for an Exchange in Illinois, and it will continue to do so throughout the process. The Health Reform Implementation Council report was the first public document to include key recommendations for the governance structure of the Exchange, and was used by DOI during the open stakeholder working group meetings to draft feedback on targeted aspects of Exchange governance as well as conflict of interest rules associated with Exchange staff and board members. Based on this targeted stakeholder feedback to the Council report, DOI drafted legislation to authorize the establishment of an Exchange (SB 1729), including a governance structure, but that legislation is still awaiting consideration.

As mentioned in the “*Legislative and Regulatory Action*” section, the General Assembly passed an alternative Exchange bill that indicated Illinois’ intent to establish its own Exchange. While it did not establish a formal governance structure, it appointed a Legislative Study Committee that will recommend a governance structure by September 30, 2011.

- *Finance*

Financial sustainability is one element of the Exchange planning which relevant stakeholders requested additional detailed information, including multi-year financial modeling of the Exchange’s operating costs and revenues from various sources. This information is key to making an informed decision about identifying a long-term sustainability mechanism. The Needs Assessment project made significant progress in defining the costs of establishing and maintaining an Exchange and provided an analysis of

financing options as part of the initial report. The State consulted with Wakely to set expectations for and incorporate into its Needs Assessment a description of the requirements of the federal law as it relates to finance, such as identifying appropriate accounting and auditing standards and mechanisms for transparency. Preliminary recommendations shared with the State during Quarter 3 included descriptions for management positions within the Exchange, including Executive Director, Chief Financial Officer, Chief Operating Officer/Deputy Director, Chief Information Officer, Chief Marketing Officer, Chief Communications Officer, Director of Individual/Non-Group Programs, and Appeals Unit Manager. In advance of the final Needs Assessment report, the State identified major milestones related to financial management of the Exchange required to be addressed, and incorporated them into its detailed Work Plan (attached).

As the State is currently awaiting recommendations from the Needs Assessment report and Legislative Study Committee, no specific funding mechanism is included in any of the State's preliminary enabling legislation. However, the State is confident that the General Assembly will provide authority this fall for the Exchange to be financially self-sustaining beginning January 1, 2015, as required by the ACA.

- *Technical Infrastructure*

The State has made significant progress in understanding the technical aspects of incorporating the eligibility systems for public health care programs necessary to meet the minimum requirements of the ACA. (It is important to note, however, that the developed strategy sees incorporation of the existing 30+ year old eligibility system as a stop gap measure to meet the demands of the ACA start-up; by the end of 2015 the entire system will be replaced with a system that meets the evolving technology standards and conditions.) Assistance from the consultants working on the Needs Assessment project has directly informed the IT Gap Analysis, including a visual and written description of existing eligibility systems. Once completed, the final Needs Assessment report will provide a significant amount of information to the State about the costs associated with the technical requirements of an Exchange, options for transitioning the existing infrastructure to a system that meets the requirements, and will assist the State in choosing a final option for an eligibility system and moving forward with the technical planning and development. While awaiting the recommendations included in the Needs Assessment report, the State has identified major IT milestones to be achieved and incorporated them into its detailed Work Plan attached.

Outside of the State's existing eligibility systems for public programs, there are few programs or IT infrastructure the State expects to leverage for the Exchange. Nonetheless, the final Needs Assessment report will suggest some technology that could be leveraged, such as the premium calculator available on the website for the Illinois Comprehensive Health Insurance Program (ICHIP – the State's high-risk pool) or the All Kids online application program. However, it seems clear that aside from small pieces such as this, the bulk of the IT technology for the Illinois Exchange will be borrowed from Early Innovator states, purchased as a commercial off-the-shelf technology, or otherwise obtained and modified to meet Illinois' unique needs.

Although much work has yet to be completed, the State has incorporated into its planning the design and development phases critical to the Exchange and minimum mandatory operations that must be accomplished by the Exchange (the premium calculator, the plan comparison tool). Interfaces must be

designed to facilitate communications with outside entities, including consumers, employers, carriers, federal databases, and other stakeholders interested in leveraging the Exchange.

As a subset of the development of those interfaces, the State has taken a particular interest in the development of a consumer interface and shopping experience that maximizes electronic enrollment. As a significant piece of that, the State intends to take into consideration the final outcomes of the Enrollment UX 2014 project sponsored by the California HealthCare Foundation in partnership with IDEO and CMS. Through its participation in the project, the State expects to obtain a detailed design for the consumer side of the Exchange, which will be incorporated into the broader Exchange design.

- *Business Operations*

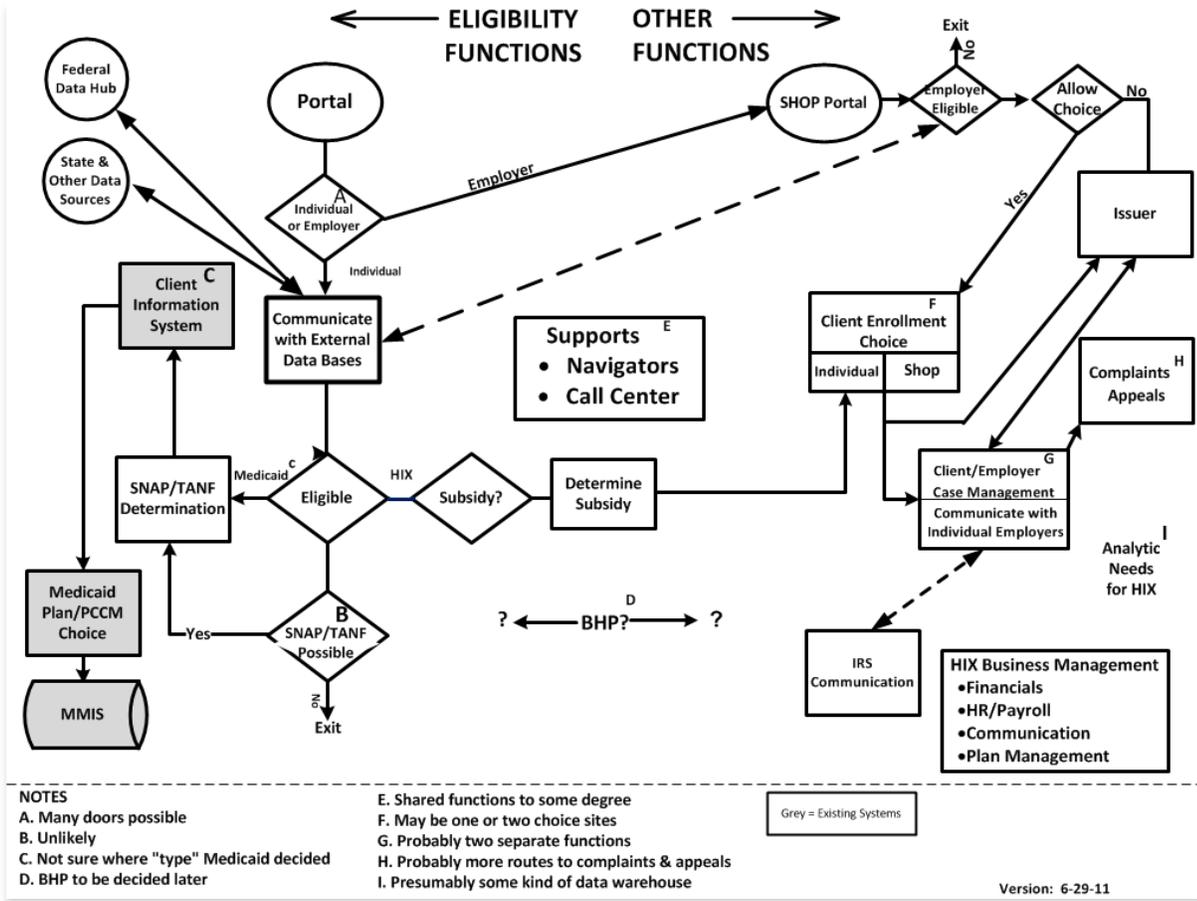
The Needs Assessment report will provide an in-depth analysis of the business operations and mandatory Exchange functions required by the ACA. Based on this information, the State will make certain that all requirements are incorporated into the technical planning process. Each ACA requirement that necessitates State action—such as charging an entity with certification, recertification, and decertification of health plans—is included as a milestone in its evolving planning document. As evidenced in the State's revised Work Plan, the State has already spent considerable time identifying such milestones. Working with the Needs Assessment consulting team, the State has divided business operations into two distinct categories: those purely related to Exchange operations and those related to integration with other State programs. In most cases, DOI has assumed responsibility for Exchange operations tasks while HFS has assumed responsibility for those related to program integration.

With regard to integrated eligibility, the State has made notable progress by capitalizing on existing State staff and resources. However, the State does not have the same level of existing resources applicable to business/IT operations for the Exchange. The final deliverables of the Needs Assessment are expected to inform these decisions.

DOI has worked with the HMA team to identify staffing needs associated with many of the Exchange business operations. While the State is awaiting the results of its Needs Assessment report to begin formal planning and implementation of business operations, advanced preparation has already been initiated in some categories. For instance, in June DOI staff met with Tia Goss Sawhney, HFS Director of Research and an expert in the field of risk adjustment, to develop an understanding of state options and responsibilities related to risk adjustment and controlling indirect selection in the Exchange. Ms. Sawhney will continue to be a resource for Exchange planning.

The State has also carefully monitored federal guidance and regulations related to Exchange business operations, including the CMS Guidance for Exchange and Medicaid IT Systems, the Plan Management Blueprint, and the Eligibility and Enrollment Blueprint, to ensure all Exchange operations are developed in compliance with such federal requirements. Analysis of the new federal guidance issued in early July is underway.

The State also made some progress outlining the business functions and relationships of different key elements of the Exchange and the integrated eligibility system. The following schematic shows how the State currently envisions Exchange operating systems.



The following are two relevant considerations:

- The State separates the Integrated Eligibility System from the remainder of Exchange Business Operations/IT for design purposes. This is not a division in authority for these functions, as the State will require mutual decision making by the Exchange and the Medicaid Agency. The purpose is to establish zones of development and design responsibility – not to divide systems.
- The attached schematic assumes enrollment functions (- *i.e. specific plan choices*) in the Exchange as being outside the scope of the Integrated Eligibility System. The model anticipates a single entry point for individuals, whose eligibility for Medicaid or the Exchange will be determined. Once an individual is determined as Exchange-eligible, the application process will shift to the Exchange pathway, a transition invisible to the applicant. The State wants to preserve the option to use the same enrollment mechanism for individuals in the SHOP Exchange.

The option to borrow from Early Innovator states, use COTS software, or other external acquisition for the Exchange is very important to Illinois. The State has virtually no existing infrastructure for Exchange business operations/IT. With so many other states in the exact same position, Illinois' planning team recognizes vendors will be creating systems that states can purchase (Early Innovator states being a key resource), or collaborate to purchase common software or common hosting services.

- *Regulatory or Policy Actions*

*Senate Bill 1729*

As noted in the previous report, DOI produced draft legislation in the form of SB 1729 that was introduced in the Illinois General Assembly on March 17, 2011, by Senator David Koehler of Peoria. The legislation would have established the State's Exchange as a quasi-governmental entity financed in a manner independent of general revenue funds and provided for the inclusion of a SHOP Exchange under its broader umbrella. It defined the duties of an Illinois Health Benefits Exchange Board (the Board), a Technical Advisory Committee, and an Executive Director and authorized the appointment of additional staff at the Board's discretion. The legislation authorized the Exchange to carry out all the minimum functions necessary to meet compliance with the standards outlined in the ACA. The only minimum necessary issue not addressed in the legislation was a mechanism for financial sustainability beginning in 2015. Throughout the 2011 spring legislative session of the Illinois General Assembly, DOI and HFS staff worked with Senator Koehler and other stakeholders to advance SB 1729, eventually attracting 19 additional co-sponsors.

*Senate Bill 1555*

While SB 1729 currently remains in the Insurance Committee, [SB 1555](#), Exchange legislation sponsored by Senator William Haine of Alton and Representative Frank Mautino of Spring Valley, passed the General Assembly on May 29, 2011. The legislation commits the State to establish a State-level Exchange meeting the core requirements of the ACA by January 1, 2014, but does not establish a governance structure or take other direct measures toward Exchange establishment. Instead, the bill establishes a Legislative Study Committee consisting of 12 Members of the General Assembly (3 Members each appointed by the Majority and Minority Leaders of the House and Senate) to conduct a study and produce recommendations by September 30, 2011, concerning prospective actions through 2014 toward the establishment of an Exchange. This Committee is to be staffed by the Commission on Government Forecasting and Accountability (COGFA). DOI and HFS will act as a resource to both COGFA and the study committee. The recommendations of the Legislative Study Committee will be used to craft Exchange establishment legislation that meets the minimum requirements of the ACA and Level II Establishment Grant funding requirements during the General Assembly's Fall Veto Session, which is scheduled to begin on October 25, 2011.

### **Barriers, Lessons Learned, and Recommendations to the Program**

While Illinois continues to make progress, the same barriers to progress exist as those noted in previous reports. The issues related to the current State-mandated procurement processes have resulted in some residual delays in our original timeline.

### **Technical Assistance**

Collaboration on the technical elements of Exchange planning with HHS and other States would be of value. Additionally, the State would benefit from understanding in much more specific terms exactly what Early Innovator States are working on, what deliverables will be available, and on what timeline.

**Draft Exchange Budget**

The budget included below is informed to the greatest extent possible at this time by the work executed under this grant, the States' Level 1 Establishment Grant application, and the initial draft operating budget provided to the State by its consultants, Health Management Associates (HMA) and Wakely Consulting. *It is important to emphasize that the State is still very much in the process of digesting and refining the work products provided by its vendors and, as such, these numbers will change.* Nonetheless, we think the attached budget is more informed on what the costs are anticipated to be for the Illinois Health Benefits Exchange.

| <b>TOTAL</b>  | <b>FFY 2011</b>       | <b>FFY 2012</b>        | <b>FFY 2013</b>        | <b>FFY 2014</b>         |
|---|-----------------------|------------------------|------------------------|-------------------------|
| Salaries and Wages  | \$110,082.43          | \$3,050,862.42         | \$5,702,027.91         | \$6,998,655.15          |
| FTEs  | 1.50                  | 22.00                  | 46.00                  | 88.00                   |
| Existing Employees Receiving Partial Salary Contributions | 0.00                  | 15.00                  | 0.00                   | 0.00                    |
| Fringe Benefits   | \$17,014.64           | \$1,315,455.98         | \$2,879,524.09         | \$3,534,320.85          |
| Consultant Costs  | \$1,151,385.04        | \$4,974,824.34         | \$5,130,457.33         | \$3,328,145.00          |
| Equipment   | \$1,062.33            | \$24,850.67            | \$123,000.00           | \$1,237,387.00          |
| Supplies  | \$2,088.37            | \$5,507.37             | \$0.00                 | \$0.00                  |
| Travel  | \$17,716.05           | \$26,083.14            | \$0.00                 | \$0.00                  |
| Other   | \$7,424.20            | \$6,634,505.29         | \$63,732,043.67        | \$44,916,614.00         |
| Contractual Costs   | \$0.00                | \$0.00                 | \$0.00                 | \$0.00                  |
| <b>Subtotal</b>   | <b>\$1,306,773.04</b> | <b>\$16,032,089.20</b> | <b>\$77,567,053.00</b> | <b>\$60,015,122.00</b>  |
|   |                       |                        | <b>PROJECT TOTAL</b>   | <b>\$154,921,037.24</b> |

**Staffing.** This budget assumes the salaries/wages and fringe benefits of both permanent and contract employees within the Department of Insurance (DOI), Department of Healthcare and Family Services (HFS), and the Department of Human Services (DHS) for both 2011 and 2012. As noted on the table, this includes 1.5 FTEs in 2011 and 22 FTEs in 2012, with 15 other existing state employees contributing on a fraction of their time to the Exchange. The costs for these years have been cost-allocated to Medicaid using the methodology described in the States' Level 1 grant application. Beginning in 2013, the States assumes some level of staffing will be necessary within existing agencies to meet the ongoing needs for the eligibility systems with public healthcare programs and the consumer assistance program within DOI. However, at this time those estimates are unknown and therefore have not been

incorporated into the budget estimates. We expect to include these in future estimates. The staffing estimates included beginning in 2013 and 2014 are ONLY those working for the Illinois Exchange 100 percent of the time.

**Consultant Costs.** This budget assumes a varying degree of consultant costs – again the estimates for 2011 and 2012 are virtually all based on the Level 1 grant. However, the last four months of FFY2012 include a fraction of the newly estimated costs provided by the States' consultants. The State assumes the costs provided by the consultants include a myriad of needs associated with purchasing services primarily for auditing, legal, actuarial and independent contractors for short-term subject matter expertise.

**Equipment.** This includes the costs associated with IT infrastructure, including computer equipment, software licensing, servers and hosting services, and other key operational expenses associated with an Exchange.

**Supplies.** At this point, supplies are only considered for State staff in 2011 and 2012 working on the Exchange specifically. Because "supplies" are not clearly defined in the current budget estimates provided by the States' consultants (but are rather lumped together in a "General and Administrative" category, these will have to refined going forward and re-budgeted as appropriate.

**Travel.** Similar to supplies, travel is only considered for State staff in 2011 and 2012 working on the Exchange specifically, and is not defined as a subset of the 2013 and 2014 budgets yet. This will be refined going forward, but is currently lumped into a larger category called "General and Administrative".

**Other.** This category includes all of the costs associated with purchasing various aspects of the Exchange Systems Development and Support. These items, which affect specifically the systems for eligibility, verification and enrollment, the Exchange website, a customer service/call center, and premium billing, can be obtained through various different mechanisms. Since the State has not yet defined the mechanisms through which it will obtain the different pieces, they are simply categorized as other for now. This category also includes "General and Administrative" costs, such as office supplies, postage, printing, and travel, as well as "Facility and Related" costs, such as rent, utilities, furniture, etc. Finally, due to the uncertainty of how marketing and advertising will be approached by the Exchange; these items are also lumped into this category.