



TO: **The Honorable Sylvia Luke, Chair
House Committee on Finance**

FROM: **Tom Matsuda, Interim Executive Director**

HEARING: **February 26, 2014, at 11:15 a.m., Room 308**

RE: **HB2529 HD2, Relating to Health**

My name is Tom Matsuda, Interim Executive Director of the Hawai'i Health Connector (the "Connector"), speaking on behalf of the Connector's Board of Directors.

The Hawai'i Health Connector would like to **offer comments** on House Bill 2529 HD2. With respect to the proposed sustainability fee and annual sustainability plan, the Connector Board is engaged in a sustainability planning process to evaluate likely scenarios for the Connector's operating revenue based on enrollments as well as scenarios for reducing operating expenses in the future. Although that process is not completed yet, the Board has identified several preliminary findings, as follows:

1. Continuing the Connector as a state-based marketplace (SBM) is necessary in order to preserve the Prepaid Healthcare Act ("Prepaid" H.R.S. §393). To comply with Prepaid and obtain Affordable Care Act ("ACA") tax credits, Hawaii's small businesses have to use a local SBM with Prepaid functionality built in. If the Connector did not exist, Hawaii would have to fulfill the ACA federal mandate by using the Federally-facilitated Marketplace (FFM), which cannot accommodate unique state laws like Prepaid.
2. The market dynamics in Hawaii are not right for an online marketplace of this type and there is little chance of the Connector becoming self-sustaining under its current board-approved revenue model (2% fee on plans sold through the Connector). Our revenue projections, using the best available data, and looking at a dozen variables that affect future enrollment, were not even close to break even. Even with substantial reductions to the estimated \$15 million annual operating budget in FY 2016, we will not be sustainable.
3. The Connector has experienced some well-known operational challenges. If these had been prevented and the roll out had been smooth, the public might have been happier with the Connector and enrollment might have been higher, but that would

not have a made a substantial impact on sustainability over the long term. This is not an operational problem, it is a market problem.

4. Enrolling the uninsured is a primary goal of the ACA, but in Hawaii the number of uninsured is low compared to most other states, estimated at about 100,000 lives. Excluding the uninsured who are Medicaid-eligible, there are not enough left to enroll at a volume that could sustain the Connector. While we will continue to help consumers sign up and provide tax subsidies, individual enrollment alone is not enough.
5. The key to our sustainability has always been small employer enrollments in our Small Business Health Options Program (SHOP). Due to the existence of Prepaid and the small number of health insurers in the state, there is little need for the average small business to use SHOP. The ACA small business tax credit is a real incentive, but few businesses may qualify for the credit. Also, the federal and state decision to give SHOP employers the option to remain with their existing insurance plans in 2014 has reduced the volume of potential customers. The State has a pending request to extend this option through 2017. If granted, it will continue to limit enrollment volume through the Connector.
6. We may be able to reduce operating expenses by considering changes to the Connector's business processes and IT systems in the future, in both the Individual and SHOP marketplaces. Also, we need to consider other enrollment and revenue sources allowed under the ACA, working with our stakeholders to see what makes sense for Hawaii. Those revenue and expense options are being considered by the Board in the next phases of the sustainability planning process.
7. If there are no changes to current revenue sources or projected operating expenses, the Connector will become unsustainable in 2015 unless there is a grant extension from the federal funding agency. With an extension, if nothing else changes it will become unsustainable a year later. (As of the date of this testimony we do not have a decision about the grant extension.)
8. If state policy is to protect Prepaid while implementing the ACA federal mandates and increasing coverage for all, then the community will have to find a way to sustain the Connector's services until the ACA Innovation Waiver can be considered for 2017. With the waiver, the community has an opportunity to change the State-based Marketplace to better fit Hawaii's unique market. A State Innovation Waiver Task Force has been proposed in HB 2581, HD2. If that measure passes, to provide time for

the Task Force to do its work, the Connector's services could be preserved during the interim by increasing fees assessed by the Connector, by a fee assessed by the State across the market, by finding other revenue sources, or by a combination of the above.

9. This information about the Connector's sustainability does not change our current operations. Regardless of the outcome of the Connector-related bills, we will continue to facilitate enrollment and provide public education services for Hawaii's people.

Thank you for the opportunity to provide comments on this measure.