

PETER SHUMLIN  
Governor



State of Vermont  
OFFICE OF THE GOVERNOR

June 6, 2012

Honorable Kathleen Sebelius, Secretary  
U.S. Department of Health and Human Services  
200 Independence Avenue, Washington D.C. 20201

Dear Secretary Sebelius:

I am pleased to endorse Vermont's application for a Level II Establishment Grant for Vermont's Health Benefit Exchange. I have been very encouraged by our progress in planning for the Exchange, and I am confident that we are ready to proceed with the second phase of Exchange implementation.

I am fully committed to building an Exchange in Vermont that will both meet the requirements of the Affordable Care Act and form the basis for a future single-payer system in our state. I believe we have the expertise and commitment in our leadership team and their staffs to create a system that will provide quality health care to all Vermonters while still controlling costs. For Vermont, the Exchange is more than a mechanism for purchasing health insurance; it is the foundation for building a comprehensive health care system.

Thank you for this grant opportunity and for your ongoing support of our efforts. I look forward to continuing our excellent working relationship with the Department of Health and Human Services.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Shumlin", with a long horizontal flourish extending to the right.

Peter Shumlin  
Governor

**State of Vermont**  
**Department of Vermont Health Access**  
312 Hurricane Lane, Suite 201  
Williston VT 05495-2807  
[dvha.vermont.gov](http://dvha.vermont.gov)

[Phone] 802-879-5900  
[Fax] 802-879-5651

*Agency of Human Services*

June 7, 2012

Mr. Steve Larsen  
Director of the Center for Consumer Information and Insurance Oversight  
U.S. Department of Health & Human Services  
Centers for Medicare and Medicaid Services  
200 Independence Avenue, SW  
Washington, D.C. 20201

Dear Mr. Larsen:

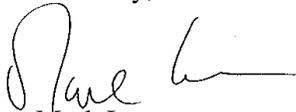
I am pleased to give my overwhelming support for Vermont's application for a Level 2 Health Insurance Exchange Establishment grant. Vermont has made significant progress in our work under our Level 1 Establishment grant, and we believe we are well positioned to enter into this next phase of implementation.

In 2011, the Vermont legislature passed Act 48, Vermont's health care reform law that includes authorization for Vermont's Health Benefit Exchange. In 2012, the legislature passed Act 171, which made significant changes to Vermont's private insurance market to prepare that market for the Exchange and other Affordable Care Act provisions. Passage of these important bills required DVHA's close cooperation with many key players, such as the Commissioner of the Department of Financial Regulation (our insurance department), the Governor's Health Care Reform Director, the Agency of Administration, the Vermont Department of Health, and other organizations both within and outside of state government. As we have moved into the implementation stage, my Exchange team has been working closely with Medicaid eligibility staff in the Department for Children and Families and IT staff in our Agency of Human Resources. I am very pleased with the level of commitment and enthusiasm I have observed in all of the staff working on the Exchange.

I am confident that this high level of cooperation will continue as we move closer to the day when Vermont's Exchange will be open for business.

Thank you for your consideration of Vermont's Level 2 grant request, and for your continued support to Vermont in this very important and transformational project.

Sincerely,



Mark Larson  
Commissioner



State of Vermont  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101  
[www.dfr.vermont.gov](http://www.dfr.vermont.gov)

For consumer assistance  
[All Insurance] 800-964-1784  
[Securities] 877-550-3907  
[Banking] 888-568-4547

June 11, 2012

Mr. Steve Larsen, Director  
Center for Consumer Information and Insurance Oversight  
Department of Health and Human Services  
Centers for Medicare and Medicaid Services  
200 Independence Ave, SW  
Washington D.C. 20201

Dear Mr. Larsen:

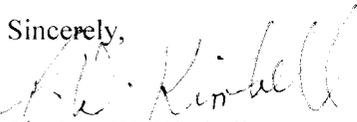
On behalf of the Department of Financial Regulation, I write in support of Vermont's application for a Level II Health Insurance Exchange Implementation Grant.

This past year has been an exciting one for Vermont as we have made significant progress during the Level I planning phase, meeting the challenges of staffing and IT needs head on. We will continue to collaborate across state agencies to implement health insurance market reforms and move toward having a fully operational Exchange in 2013.

Our Department looks forward to playing a key role in implementing the Exchange and developing a process to certify and monitor Qualified Health Plans. The funding requested will help ensure that Vermont has a solid foundation upon which to build and maintain a successful Exchange. I fully support the program proposed in this application.

Thank you for your time and consideration.

Sincerely,



Stephen W. Kimbell  
Commissioner



**State of Vermont**  
**Department of Vermont Health Access**  
312 Hurricane Lane, Suite 201  
Williston VT 05495-2807  
**[dvha.vermont.gov](http://dvha.vermont.gov)**

[Phone] 802-879-5900  
[Fax] 802-879-5651

*Agency of Human Services*

June 28, 2012

U. S. Department of Health and Human Services  
Centers for Medicare and Medicaid Services  
200 Independence Avenue, SW  
Washington D.C., 20201

Project Title: Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges, Level 2 Establishment  
Applicant Name: State of Vermont, Agency of Human Services, Department of VT Health Access  
Project Director: Lindsey Tucker, Deputy Commissioner, Health Benefit Exchange  
802-871-7523, [lindsey.tucker@state.vt.us](mailto:lindsey.tucker@state.vt.us)

The Department of Vermont Health Access (DVHA) is pleased to submit Vermont's application for a Level Two Establishment Grant. The following documents are enclosed:

1. SF 424: Application for Assistance
2. SF 424A: Budget Information
3. SF 424B: Assurances-Non-construction Programs
4. SF LLL: Disclosure of Lobbying Activities
5. Project Site Location Form(s)
6. Lobbying Certification Form
7. Letter of Support from Governor Peter Shumlin
8. Letter of Support from Mark Larson, Medicaid Director
9. Letter of Support from Steve Kimbell, Insurance Commissioner
10. Application Cover Letter
11. Project Abstract
12. Project Narrative
13. Operational Workplan and IT Timeline
14. Budget Narrative
15. Description of Key Personnel & Organizational Charts
16. Attachment A: Self-Sustainability Analysis

Thank you for your consideration of our application. We look forward to working with HHS on Vermont's successful development and implementation of its Health Benefit Exchange.

Sincerely,



Mark Larson  
Commissioner









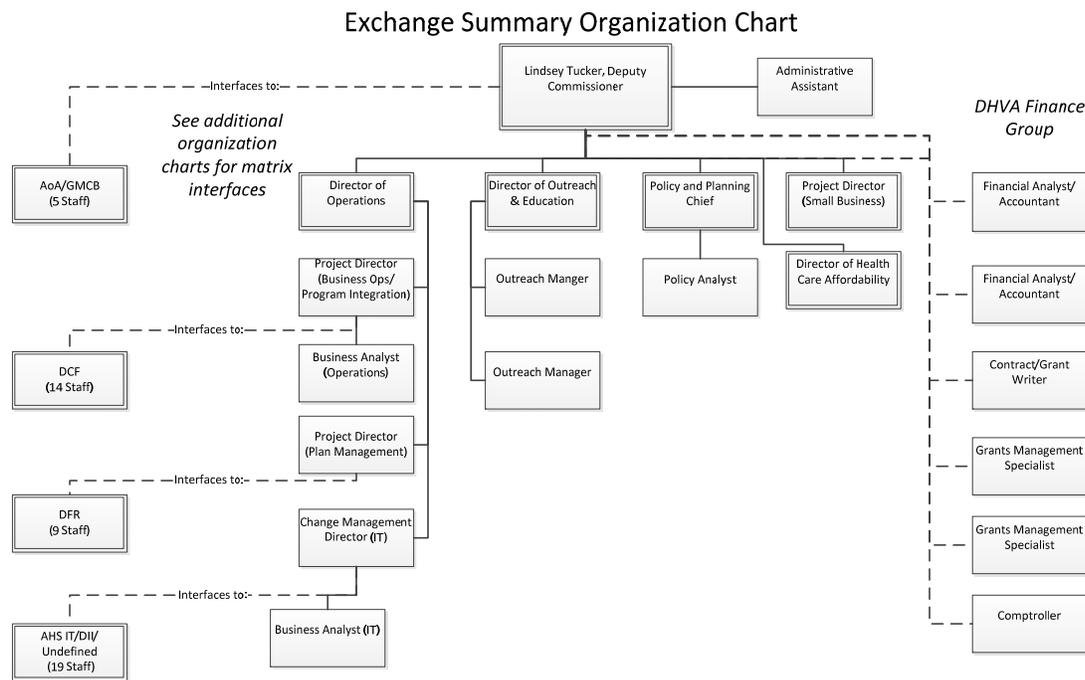


Quality Rating System																					
Review ACA requirements and subsequent guidance for plan quality rating system		ACA review complete, awaiting additional federal guidance	In Progress	x	x	x	x														
Explore currently available information and options for dissemination			Completed - Level 1					x	x												
<b>Utilize federal quality rating system developed by HHS and augment with Vermont-specific measures</b>	X		In Progress					x	x	x	x										
Work with DFR on developing process to coordinate on the implementation and tracking of quality measures										x	x										
Integrate the rating process with the QHP procurement strategy and will include specifications in the QHP procurement on reporting quality data												x									
Incorporate rating system into system and website development	X	Business architecture										x	x								
Consult with stakeholders to obtain input in quality rating program development			In Progress & Ongoing						x	x	x	x	x								
Post quality rating system information on the Exchange website	X													x							
Develop implementation plan for ongoing data maintenance and updating ratings												x	x								
<b>Continually update quality rating information on the Exchange website and for call center representatives as it becomes available</b>	X														x	x	x	x	x	x	
Navigator Program																					
Develop recommendations for the most effective use of the Navigator program and who navigators should be, including coordinating and differentiating the role of producers		Navigator Recommendations	Completed - Level 1							x	x										
<b>Develop high level milestones and timeframes for establishment of navigator program</b>	X		Completed - Level 1							x	x										
Monitor other states' progress Navigator program development			In-progress and ongoing					x	x	x	x	x	x								
Convene stakeholders including consumer advocates, providers, and producers to obtain input on Navigator			Ongoing					x	x	x	x	x	x	x	x	x	x	x	x	x	
<b>Establish criteria for Navigator Program and create a list of potential organization that could serve as navigators</b>	X	Potential Navigator organizations	In Progress - Level 1					x	x												
Determine financial model for Navigator program including grant fund size and revenue stream to support			In Progress - Level 1							x											
Develop Navigator training curriculum and certification process		Training program								x	x										
Develop Exchange oversight and quality control process for Navigator program including feedback mechanism for consumer complaints			In Progress - Level 1							x											
Develop process for the selection/designation of Navigators			In Progress - Level 1							x	x										
Begin selection/designation process														x							
<b>Determine Navigator grantee organizations and award grants (funded from the operational funds of the Exchange)</b>	X														x						
<b>Train and certify Navigators</b>	X														x						
<b>Begin Navigator program</b>	X														x	x					
Require quarterly reporting from Navigators on performance															x	x	x	x	x	x	
Begin selection process for 2015 Navigators																				x	
Eligibility Determination of Exchange Participation, Advance Payment of Premium Tax Credits, Cost-sharing Reductions, and Medicaid																					
<b>Coordinate with Medicaid, DFR, and DCF on eligibility changes</b>	X		In Progress & Ongoing	x	x	x	x	x	x	x	x	x	x	x	x	x	x				
Build business requirements for eligibility system			In progress					x	x	x	x										
Develop workgroup to handle development and coordination of integrated eligibility			In Progress									x									
Develop preliminary policy options for handling churn and vet with advisory group and legislature			In Progress					x	x	x	x										
<b>Begin developing requirements on integrating enrollment and eligibility transactions, coordinating appeals, coordinating applications and notices, managing transitions (including data conversion)</b>	X		In Progress - Level 1							x	x										
Develop integrated staffing plan to support eligibility operations, determinations, and transition			Completed - Level 1							x	x										
Develop processes for identity verification of applicants										x	x										
Develop processes for citizenship and income verification with the federal data hub										x	x										
Identify potential eligibility exemptions and develop policies and workflows to address												x	x								
<b>Begin conducting eligibility determinations for the Exchange and Medicaid</b>	X															x					
Applications and Notices																					
<b>Review Federal requirements for applications and notices</b>	X		Ongoing					x	x	x	x	x	x	x	x	x	x	x	x	x	
Develop requirements for Exchange applications and notices										x	x										
Begin customizing federal applications and notices to meet state's need												x	x	x							
Develop notice content that is accessible to consumers of varying education levels and languages.														x	x						
Receive input from outreach/education work and stakeholders on draft applications and notices															x	x					
Work with IT team to ensure requirements are reflected in web application												x	x	x							
Ensure Exchange application meets CMS requirements																x					
<b>Finalize applications and notices including stakeholder review, testing, translation of content, etc.</b>	X																x				
<b>Begin utilizing applications and notices to support eligibility and enrollment process</b>	X																	x			
Individual Responsibility Determinations and Exemptions, appeals, and consumer complaints																					





## Organizational Charts & Descriptions of Key Exchange Personnel



### Department of Vermont Health Access

**Deputy Commissioner:** The Deputy Commissioner provides leadership to the Exchange, works with State health reform leadership to make policy decisions, and provides strategic direction to the entity. The Deputy Commissioner will lead staff to develop, implement, and operate the Exchange.

**Project Director:** The Project Director will have primary responsibility for managing the development and implementation of core exchange operational elements. This will include consultant/vendor management, managing the scope and goals of the project, risk mitigation, resource allocation, and the management of changing timelines and milestones.

**Project Director, Business Ops/Program Integration:** The Project Director leads the business functions of the Exchange. S/he will be responsible for the day-to-day functions of the Exchange and will work closely with partners of the Exchange to ensure the entity is working appropriately and efficiently.

**Business Analyst, Operations:** The Business Analyst will be responsible for the operational work planning, coordination, and analytics necessary to implement the exchange.

**Director of Health Care Affordability:** The Director will be the primary liaison with other departments with key roles in Exchange development and implementation and will assist the Deputy Commissioner in his/her duties. This position will serve on the core Exchange grant work group and will be involved in the coordination of all Exchange work.

**Director of Outreach:** The Director of Outreach will oversee the outreach and education campaigns of the Exchange and administer the Navigator program. S/he provides strategic development of the messaging that will accompany the Exchange's launch.

**Outreach Manager:** The Outreach Manager will be responsible for overseeing the development of an outreach strategy and other customer support services.

**Outreach Program Coordinator:** The Outreach Program Coordinator will work closely with community groups and the public. S/he will schedule outreach events and will support leadership in presenting throughout Vermont.

**Change Management Director:** The Change Management Director will work closely with the senior leadership team to anticipate and effectuate changes in existing state operational structures in order to

smoothly implement the exchange. This role will primarily be focused on supporting the Exchange IT build.

**Project Director, Small Business:** The Small Business Director will manage relationships with health plans and with brokers, oversee outreach activities, conduct market research, and generally support the unique needs of small businesses.

**Project Director, Plan Management:** The Plan Management Project Director will be responsible for making sure products sold on the exchange are approved according to federal and state standards. They will work with the rate review analysts and DFR staff to ensure that individuals and small businesses can access affordable plans on the exchange.

**Policy and Planning Chief:** The Policy and Planning Chief will provide strategic direction and policy and analytical oversight for the development and implementation of the Exchange. S/he will direct policy decisions and make recommendations to the Deputy Commissioner. The Director will also oversee policy changes that are put into effect.

**Policy Analyst:** The Policy Analyst is the Exchange legal lead and will analyze, develop options, make recommendations, and complete work that supports the development of the Exchange, such as rules writing. The Policy Analyst will coordinate with other analysts, consultants, and managers to provide staff work that assists in decision-making.

**Comptroller:** The Comptroller will offer budgetary oversight to the Exchange. S/he will ensure the operational expenditures, contracts, revenues, and payments of the Exchange occur continuously and in a responsible manner.

**Grants Management Specialist:** The Grants Management Specialist will manage the numerous contracts with various consultants and contractors for the development of the Exchange. S/he will ensure that contractors are meeting the terms and conditions listed in the contract and the Exchange is making timely payments to consultants.

**Contract/Grant Writer:** The Contract/Grant writer will develop RFPs, oversee the bidding process, and negotiate contracts with vendors. The Contract/Grant writer will develop any necessary data use agreements, and will work closely with the Grants Management Specialist to ensure that grant funds are properly expended.

**Finance Analyst/Accountant:** The Accountant will assist the Grants Management Specialist in meeting all federal and state requirements for tracking and managing grant funds. S/he will provide fiscal analyses of specific Exchange components.

**Office Manager:** The Office Manager will provide administrative support to the Deputy Commissioner. S/he will support the Deputy Commissioner with clerical duties, expense reports, and providing general organization for the senior leadership.

#### Department of Financial Regulation

**Exchange Project Director:** The DFR Project Manager is responsible for ensuring that all of the Exchange-related activities in DFR are coordinated internally within the agency. This includes rate review of qualified health plans as well as plan certification. The project manager is also responsible for ensuring that plan-related information flows between DFR and the Exchange, as well as risk mitigation strategies.

**Data and Information Manager:** The Data and Information Manager works on issues, performs research, drafts documents and plans strategy on insurance-related issues in the Exchange design process; liaison between Exchange administration and DFR.

**QHP Certification Administrator:** The QHP Certification Administrator will work with the Project Director at DVHA to design and implement a certification process. S/he will also manage all necessary data to support that process.

**Consumer Services Specialist:** The Consumer Services Specialist will serve as a resource for Vermonters when they have questions or concerns about the market reforms required by the ACA.

Agency of Administration

**Director of Health Reform:** The Director of Health Reform is responsible for ensuring that Exchange implementation and all health care reforms are a coordinated effort within state government. The Director is also tasked with managing the federal government and state government relationship for all of Vermont’s health care reform efforts.

**Attorney/Policy Analyst:** The Attorney/Policy Analyst will be responsible for researching legal and health policy issues related to the Exchange and its integration with the greater health reform effort in Vermont. The attorney/health policy analyst will prepare policy briefs and reports, public hearing testimony, meetings and conference presentations.

**Administrative Assistant:** The Administrative Assistant will provide administrative support to the Director of Health Reform. S/he will also provide overall clerical and organizational support to executive leadership working on the Exchange.

Department of Children and Families:

**Call Center Management:** The Call Center Management will oversee the transition and modernization of servicing related to Medicaid. S/he will work closely with the call center vendor.

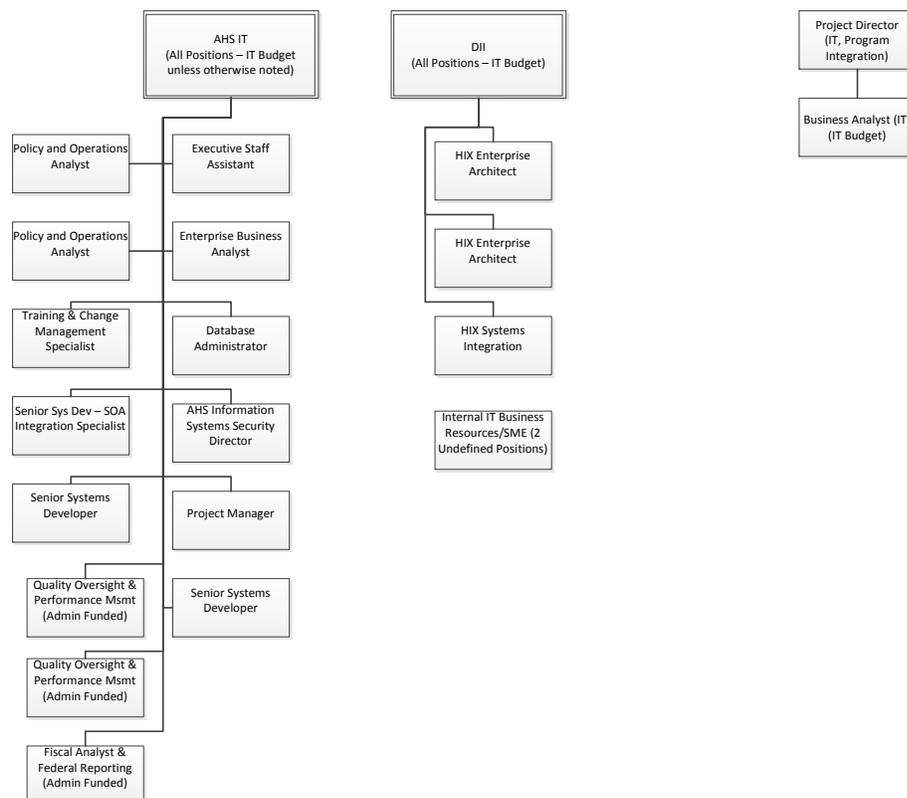
**Eligibility Staff:** The Eligibility Staff will assist in the design and operationalization of eligibility policy and ensure that system design is coordinated and integrated.

Vermont Department of Health

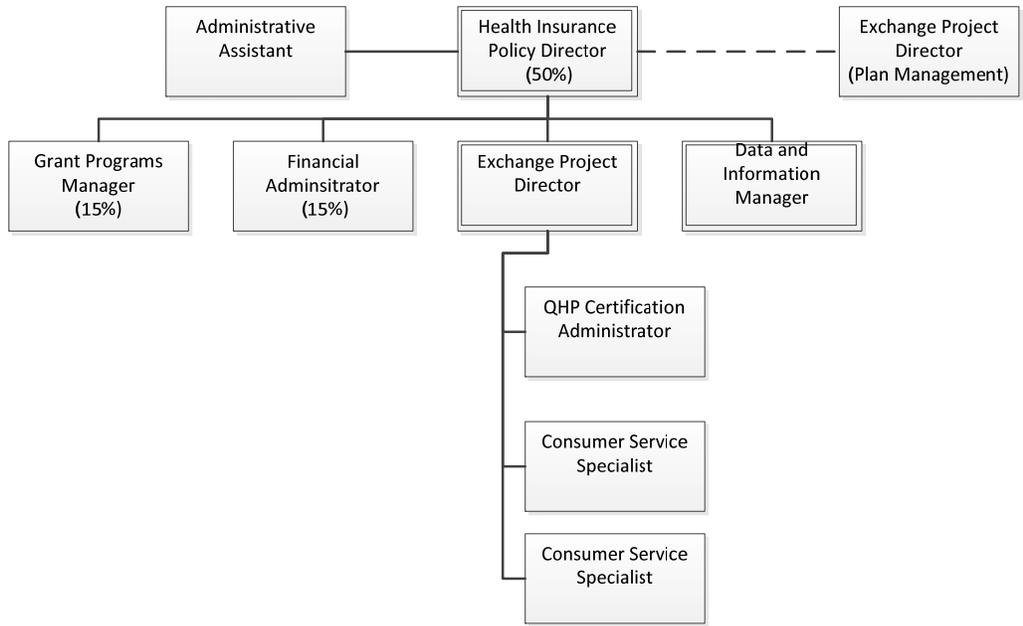
**Wellness Program Coordinator:** The Wellness Coordinator will be the primary liaison between the Exchange and the Vermont Department of Health. S/he will lead the development and implementation of an Exchange wellness program or programs.

**Organizational Charts for Supporting Agencies**

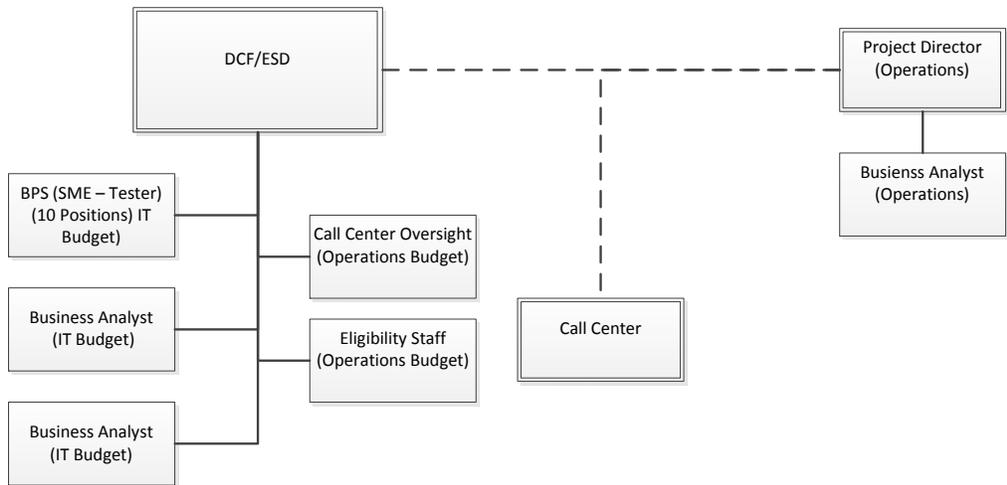
IT Matrix Organization Chart



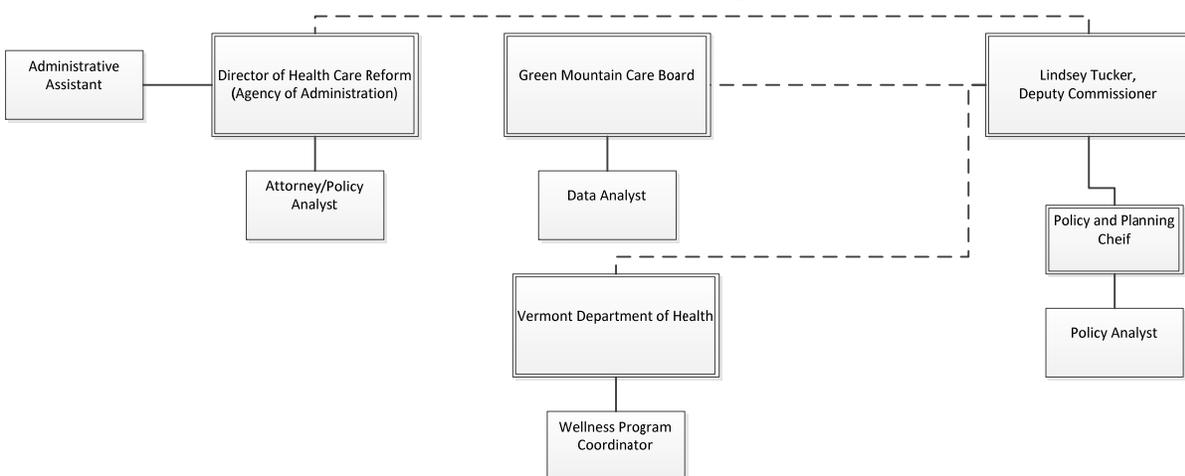
## DFR Matrix Organization Chart



## DCF/ESD Matrix Organization Chart



## Policy Matrix Organization Chart



## **Attachment A: Self-Sustainability Analysis**

### **Overview**

As required under the ACA, Vermont is planning for the financial self-sustainability of Exchange operations by January 1, 2015. The state has not yet determined a methodology for financing the ongoing operations of the Exchange and will submit a financing plan to the Vermont general assembly on January 15, 2013, as required by Act 48 (2010).

Due to the state's small population size and similarly modest expected exchange enrollment, a per person enrollment fee, as discussed in larger states, will not be the most effective mechanism in meeting the organization's funding needs. Given that final decisions regarding a funding mechanism have not yet been made, the state has developed a range of market metrics against which to gauge whether the operations of the exchange will be sustainable once the period of federal funding has come to an end.

To assess self-sustainability in 2015, the Department of Vermont Health Access, which will house the Exchange, focused its analysis on whether the overall cost of operating the organization is reasonable for the market in Vermont by estimating the overall cost of operating the entity as a percent of five specific metrics: (1) the total estimated value of fully insured premium revenue in 2015; (2) the estimated value of all commercially insured, including self-insured groups in 2015; (3) the total estimated net revenue received by state hospitals in 2015; (4) the budgeted appropriation for human services in the FY2013 budget; and (5) the state's total budget appropriation for 2013. Given the significant level of uncertainty as to market conditions in 2014, including premium levels, overall health insurance coverage levels, Exchange participation, product mix, and distribution channels, to name only a few, the estimates incorporated in this section are necessarily preliminary, and rely on a series of assumptions that have been outlined in the text below. DVHA recognizes the importance of appropriate contingency planning and cost management strategies to ensure that the Exchange remains viable in the event of unforeseen market developments.

The discussion below first describes anticipated Exchange expenses in 2015, and then assesses the revenue requirements needed to sustain these operations.

### **Expense Estimates**

The estimates for total Exchange expenses are based on a combination of methodologies. For certain expense items, such as staff salaries, ongoing system development costs, and general and administrative costs, the estimates are based on detailed, line item build up similar to cost estimates incorporated into the grant funding request. For other variable cost items likely to be directly affected by the scale of membership in the Exchange, including core systems costs related to customer service and other vended operational costs, as well as outreach and consulting costs, the estimates are based on scalable, membership-based cost estimates.

#### *Enrollment Estimates*

Because elements of Exchange expenses will be sensitive to the overall size of enrollment in the Exchange, for planning purposes, we have developed a range of enrollment scenarios to estimate Exchange expenses and related revenue requirements at high and low enrollment levels. This was done to, on the one hand, estimate the upper end of potential state spending to support exchange operations, and, at the low end, to evaluate the cost of Exchange operations on a per-member per-month basis, as at low levels of enrollment this per-member cost is expected to increase.

The overall cost of the Exchange is heavily dependent upon the number of individuals who are covered through plans sold through the Exchange. This is so because many of the systems required to operate the Exchange, including the web portal, billing platform, and customer call center, are transaction-based and, while they include a significant fixed-cost element, their cost will increase as does the number of individuals being processed by the system. As highlighted in Vermont's Act 48 Integration Report on the

Exchange provided by the Agency of Administration in January of 2012, the ultimate size of the Exchange-eligible population is dependent upon several policy decisions, including whether or not the state chooses to pursue a Basic Health Plan. However, based upon the current composition of the market and the estimated number of uninsured individuals, that state estimates that approximately 118,000 individuals will be eligible to purchase insurance through the Exchange. This estimate includes approximately 18,000 individuals currently covered through direct purchase (non-group and Catamount Health), 61,000 currently enrolled in small group coverage (either through the small group market or in an association plan), and approximately 39,000 uninsured individuals whose income is greater than 138% of the federal poverty level (FPL).

**Table 1. Estimated Distribution of Insurance Coverage in Vermont, 2010<sup>1</sup>**

Non-Group <sup>1</sup> .	18,000
Small Group <sup>1</sup> .	61,000
Large Group <sup>2</sup> .	105,000
Self-Insured <sup>3</sup> .	150,000
<b>Total Commercial Insured</b>	<b>334,000</b>
Uninsured (< 138% FPL) <sup>3</sup> .	15,000
Uninsured (>138% FPL) <sup>3</sup> .	39,000
<b>Total Uninsured</b>	<b>54,000</b>
<b>Total Government<sup>3</sup></b>	<b>237,000</b>
<b>Total</b>	<b>625,000</b>

**Table 2. Estimated Size of Exchange-eligible Population Based on Current Market**

Individual	18,000
Small Group	61,000
Uninsured (>139% FPL)	39,000
<b>Total</b>	<b>118,000</b>

Because Vermont has altered its insurance markets to require individuals and small groups to purchase through the Exchange, we anticipate a higher degree of take up in these markets than in states where such a requirement has not been adopted. The high enrollment scenario accounts for the possibility of all Exchange eligible individuals enrolling through the Exchange. While aggressive, this scenario was chosen to approximate the upper limit of potential Exchange expenses for purposes of gauging self-sustainability. The low enrollment scenario assumes that 60%, or 73,800, of Exchange eligible individuals take up insurance through the Exchange by 2015.

#### *Exchange Expense Estimates by Category*

The estimates for total Exchange expenses are based on a combination of methodologies. For certain expense items, such as staff salaries, and general and administrative costs, the estimates are based on detailed, line item build up similar to cost estimates incorporated into the grant funding request. For other cost items likely to be directly impacted by the scale of membership in the Exchange, including core

<sup>1</sup> Sources:

1. Vermont Issuer Data Call Conducted by Wakely Consulting Group, Reflecting Small and Non-Group Enrollment for 2012, Including Association Plan Business
2. Vermont Department of Financial Regulation, Annual Statement Supplement (2010)
3. Estimated based upon total market size as reflected in the American Community Survey (U.S. Census Bureau). Government includes Medicaid, Medicare, Tri-Care, and Other Government.

systems costs related to customer service and other vended operational costs, as well as outreach and consulting costs, the estimates are based on scalable, per-member per-month cost benchmarks, adjusted to reflect the anticipated size of Vermont’s Exchange.

**A. SALARY & BENEFITS**

Total salary expenses in 2015 are estimated to be \$3,109,703. The number of salaried FTEs dedicated to the Exchange is estimated to be 26.05 at year end 2015, and is distributed between departments as outlined in the table below. This amount is not inclusive of all Vermont IT and eligibility staff responsible for technology system maintenance and operations on the integrated state operating system. The ongoing costs associated with additional internal staff required to operate and maintain these systems have been incorporated into the contractual line, described below.

**Table 3. Estimated Exchange FTE’s, 2015**

VT Exchange Departments	2015
DVHA	17
DFR	4.8
Agency of Administration	0.5
AHS IT	3
DCF	0.75
<b>Total</b>	<b>26.05</b>

**B. OUTREACH AND EDUCATION**

Total outreach and education funding for 2015 is estimated to be between \$1,817,775 and \$1,835,480. This amount includes paid and public service advertising, direct outreach, and navigator training.

**C. CONSULTANTS**

Total consulting costs for 2015 are estimated to be between \$1,287,934 and \$1,390,088. This amount includes actuarial support, IT consulting, and other professional services.

**D. OTHER ADMINISTRATIVE EXPENSES**

Total spending for Equipment, Supplies, Travel, and Other expenses in 2015 is estimated to be between \$1,990,664 and \$2,336,030. Assumptions for administrative costs remain largely the same as those outlined above for the grant period and incorporate indirect overhead costs absorbed by the state in support of the Exchange as part of Vermont’s cost allocation plan.

**E. OPERATING SYSTEMS AND VENDOR EXPENSES**

Total expenses for the Exchange’s core operating systems in 2015 are estimated to be between \$8,752,038 and \$12,276,347 in the low and high enrollment scenarios, respectively. This cost includes fixed costs related to the maintenance and operations of core Exchange operating systems, including both the Exchange portion of the state’s integrated health care eligibility system, as well as ongoing system integrator maintenance costs related to enrollment, premium aggregation, small business-specific functions, and other system integrator-supported functionality. Ongoing contractual costs also include the customer service and call center functions of the Exchange, as well as the variable operating costs associated with key Exchange functions not provided by the system integrator (e.g., fulfillment, enrollment, and premium billing). In addition, the contractual cost estimate includes funds to support the Exchange portion of required updates, refinements, or remediation to the Exchange system. It is important to note that the contractual expenses itemized in the table below represent the Exchange-only costs for these items and do not reflect costs allocated to Medicaid or other subsidized programs.

**Funding Requirements**

Because the state has not yet determined the funding mechanism that will be used to support Exchange operations, to gauge self-sustainability, we have measured the estimated cost of running the Exchange in Vermont with key market metrics to evaluate the overall impact supporting the Exchange would have on the market and/or the state. Key metrics include: (1) the total estimated value of fully insured premium

revenue in 2015; (2) the estimated value of all commercially insured insurance, including self-insured groups in 2015; (3) the total estimated net revenue received by state hospitals in 2015; (4) the budgeted appropriation for human services in the FY2013 budget; and (5) the state's total budget appropriation for 2013.

To gauge the potential impact of financing the exchange relative to the entire insurance market, we have also developed estimates for the total volume of commercial insurance revenue for two separate measures: (1) total fully-insured premium revenue; and (2) total commercially insured premium or premium-equivalent revenue, including an estimate for the volume of payments on behalf of self-insured employers. To develop these estimates, we relied on one main data sources: the Vermont Annual Statement Summary for Accident and Health Lines for 2008, 2009, and 2010, submitted by insurance carriers annually to the Department of Financial Regulation. These schedules itemize total premium, premium equivalent, and covered lives for several lines, including non-group, group, association, and TPA/ASO. The information contained on these schedules was validated against several other data sources, including the Vermont Household Health Insurance House Survey, the U.S. Census Bureau, as well as independent analyses conducted by Bailit Consulting Group and VHCURES.

**Table 4. Vermont Health Insurance Premium and Premium Equivalents, 2010<sup>2</sup>**

	Health Premium Revenue
Non-group (including Catamount)	\$ 78,408,108
Large Employer	\$ 271,462,373
Small Employer	\$ 98,412,600
Association	\$ 344,203,225
Other (Discretionary, Trusts, Federal)	\$ 86,995,649
TPA/ASO (Non Dental)	\$ 238,092,242
<b>Total</b>	<b>\$ 1,117,574,197</b>

To project the total amount of premium and premium equivalents to 2015, we relied upon the Three Year Vermont Health Care Expenditures Report, which projects insurance and hospital expenditures for three years from 2010 through 2013. We extrapolated these trends from 2013 to 2015 using an estimated annual increase of 3.75% for Hospital Revenue and 5.4% for Insurance expenditures, based on findings in the Three Year Vermont Health Care Expenditures Report for insurance revenue and the annual net revenue increase amount adopted by the Green Mountain Care Board and Department of Financial Regulation for the 2013 hospital budget review process.

**Table 5. Expected Expense Trend, 2010 - 2013<sup>3</sup>**

Expected Trend, 2010 – 2013	Projected Annual Increase
Hospital Revenue (Provider Perspective)	3.75%
Insurance (Resident Perspective)	5.40%

The table below shows the 2015 estimated total premium or premium equivalent based on the annual projections described above for different Vermont market segments. The estimated total premium for the Total Fully Insured market is \$1.14 billion and the total premium-equivalent for the Commercially Insured market is \$1.45 billion.

**Table 6. Estimated Total Premium or Premium Equivalent, 2015**

Market Segment	Estimated Total Premium or
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<sup>2</sup> Source: Vermont Annual Statement Supplement, Accident and Health Lines of Business: As Reported by Insurance Companies, 2010.

<sup>3</sup> Source: Department of Financial Regulation, Three Year Forecast of Vermont Health Care Expenditures, 2010 - 2013 (Revised February 3, 2011); Green Mountain Care Board, Letter to Vermont Hospital CEOs, April 16, 2012.

	Premium-Equivalent
Total Fully Insured	\$1,144,010,439
Total Commercially Insured (Includes Self-Insured, AHPs)	\$1,453,715,498

In addition to insurance premium revenue, we also incorporated hospital net revenue as an important market yardstick against which to measure the expense scale of the Exchange. To estimate hospital revenue in 2015, we relied upon the FY 2011 Vermont Hospital Budget Report published by the Department of Financial Regulation and submitted to the Legislature in June 2011, which reflects total Vermont hospital revenue for 2010. We then projected this amount into 2015 using the hospital net revenue annual increase amount to employed by the Green Mountain Care Board and the Department of Financial Regulation for FY2013 (3.75%). The resulting estimate for hospital revenue in 2015 is \$2.27 billion, which is reflected below.

**Table 7. Estimated Total Vermont Hospital Revenue, 2015**

Hospital Net Revenue (2015 Estimated)	\$2,274,430,765
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*Source: Department of Financial Regulation, Vermont Hospital FY 2011 Budget Report, June 2010  
Green Mountain Care Board, Letter to Vermont Hospital CEOs, April 16, 2012.*

Finally, we incorporated the total scale of both the state’s appropriation for human services, as well as the total state budget. Because a substantial share of the total budget for human services as well as the overall budget is made up federal funds, the yardstick selected included only the state’s contribution (since federal funds will not be available to support the Exchange). The requested appropriation, included in the FY2013 Executive Budget Recommendations issued on January 12, 2012, is summarized in the table below. The recommended state share of this amount for human services is \$0.96 billion, and the total state share of the budget appropriation for 2013 is \$3.22 billion.

**Table 8. Governor’s Proposed Appropriation, FY 2013<sup>4</sup>**

	State Share (All Funds)	Federal Share	Total
Human Services Agency	951,447,306	1,111,933,013	2,063,380,319
Other Human Services	11,913,128	7,084,986	18,998,114
Total Human Services	963,360,434	1,119,017,999	2,082,378,433
Total Budget Recommendation	3,215,513,460	1,785,929,945	5,001,443,405

*Summary of Exchange Self-Sustainability*

The table below summarizes the analysis of Exchange self-sustainability in 2015 based on the enrollment scenario outlined above. The projected total requirements for the operation of the Exchange in 2015 are estimated to be between approximately \$16,958,113 and \$20,947,648 or between \$14.98 and \$20.22 PMPM. As a percent of key market metrics, this represents between 1.5% and 1.8% of total fully insured premium revenue or between 1.2% and 1.4% of all commercially insured premium equivalent. As a percent of total expected hospital revenue in 2015, it is between approximately 0.7% and 0.9%. The amount represents roughly between 1.8% and 2.2% of the state human services appropriation, or between 0.5% 0.7% of the total state appropriation in 2013. It is important to note that these preliminary estimates do not include offsets from other costs to the system or from other state agencies, which could be reduced as a result of the Exchange or from other health care reform activities. Because the Exchange is part of state government, there could be additional offsets within the state government that are not represented in this estimate. Unlike a stand-alone, new entity, it is unlikely that all Exchange costs will need to be raised through a new revenue source.

Based on the analysis presented in this application, the state believes that Exchange costs presented here are sustainable. Although the state believes the cost estimates and revenue assumptions presented here

<sup>4</sup> Source: FY 2013 Executive Budget Recommendations, January 12, 2012.

represent a financially sustainable Exchange, Vermont recognizes that there are risks to sustainability in a QHP-based funding mechanism as well as in other funding mechanisms tied to enrollment because enrollment could be materially higher or lower than anticipated. The Exchange will actively manage Exchange finances to mitigate this risk. To mitigate the potential threat of unpredictable Exchange costs relative to available funding, particularly in the first years of operations, the Exchange is contemplating several specific strategies to manage this risk:

- a) To the extent possible, structure expenses and vendor contracts with sufficient scalability to reduce expense loads at low membership levels and achieve efficiencies at high enrollment levels;
- b) Actively manage discretionary spending to levels supportable by the enrollment base and funding stream;
- c) Include in key vendor contracts the right to right-size ongoing fixed and variable cost exposure based on actual membership trends;
- d) Reduce marketing and outreach funding if necessary to maintain required expenditures for core operational functionality; and
- e) Take steps necessary to ensure that staffing loads and consulting expenses are at a level that is supportable based upon total membership/premium revenue.

**Table 9. Exchange Self-Sustainability Analysis**

		Total Cost		PMPM Cost	
		Low	High	Low	High
<b>Key Variables</b>					
Members				70,800	118,000
Member Months				838,759	1,397,924
<b>Operating expenses:</b>					
Customer Service		3,106,633	4,711,334	3.70	3.37
Exchange Solution		5,645,404	7,565,013	6.73	5.41
<b>Subtotal - Systems Development and Support</b>		<b>8,752,038</b>	<b>12,276,347</b>	<b>10.43</b>	<b>8.78</b>
Outreach & Education		1,817,775	1,835,480	2.17	1.31
Consulting & Professional		1,287,934	1,390,088	1.54	0.99
Salary & Benefits		3,109,703	3,109,703	3.71	2.22
General & Administrative		1,288,456	1,288,456	1.54	0.92
Facility & Related		117,350	117,350	0.14	0.08
Appeals Program		584,858	930,224	0.70	0.67
<b>Subtotal - Program Operations</b>		<b>8,206,076</b>	<b>8,671,301</b>	<b>9.78</b>	<b>6.20</b>
<b>Total Operating</b>		<b>16,958,113</b>	<b>20,947,648</b>	<b>20.22</b>	<b>14.98</b>
<b>Total Cost as Percent of Key Market Metrics:</b>					
Fully Insured Premium Revenue (2015 Estimated)	1,144,010,439	1.5%	1.8%	7.68	9.49
Total - Privately Insured Premium Equivalent (2015 Est.)	1,453,715,498	1.2%	1.4%	4.23	5.23
Hospital Net Revenue (2015 Estimated)	2,274,430,765	0.7%	0.9%	NA	NA
State Human Services Appropriation (2013)	963,360,434	1.8%	2.2%	NA	NA
Total State Appropriation (2013)	3,215,513,460	0.5%	0.7%	NA	NA