LATE

HAWAI'I HEALTH
CONNECTOR

The Honorable Senator Rosalyn Baker
Chair, Committee on Commerce and Consumer Protection

The Honorable Senator Josh Green
Chair, Committee on Health

Re: Testimony regarding H.B. 2529, HD3, Relating to Health.

Hearing scheduled for March 18, 2014 at 9:00 a.m.

Chair Baker, Chair Green, and members of the Committee Commerce and Consumer Protection and the Committee on Health,

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

The following **comments** are offered with respect to the creation of the three advisory groups in proposed HD3 of HB 2529:

1. Currently, the Board of Directors has several mechanisms available for stakeholder engagement and public input on proposed board actions. Board meetings are open to the public, with agendas posted on the Connector website 3 days in advance. Every board meeting has a standing agenda item for public comment. Both written and verbal comments have been received at most board meetings. The Board has a standing Consumer Advisory Committee consisting of a variety of participants from the community. The committee has assisted with consumer input and focus group meetings about Connector services. Also, the Board has the option to create ad hoc committees as needed for stakeholder engagement.

2. If the advisory groups are created, it will be necessary to provide staff support to organize and conduct the meetings, prepare materials and analysis, produce agendas and minutes, and coordinate the advisory groups' findings and recommendations to the Board. If the advisory groups are very active, it may be necessary to hire an additional staff position to provide support for their work.

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The following **comments** are offered with respect to the proposed establishment of a Connector sustainability fee. The Connector's federal funding agency recently issued policy guidance to all state-based marketplaces regarding the extension of time to utilize existing grant funds through 2015. The guidance states that system development funding can be extended into 2015, but funding for operations and maintenance cannot be extended past 2014.

The Connector Board is currently engaged in a sustainability planning process to prudently reduce the annual operating expenses of the Connector. The challenges in that process include the following:

- Many of the services provided to the public by the Connector are mandated by the federal Affordable Care Act (ACA), which requires that all states must have online marketplaces that provide individuals and small businesses with access to health insurance and access to individual and small business tax credits. These operational requirements may prohibit us from reducing some services, at least until the State Innovation Waiver becomes available in 2017.

- The online marketplace and the ACA tax credits provide a valuable service by reducing the number of uninsured people in Hawai'i, reducing the out-of-pocket cost of insurance premiums for thousands of individuals and families, providing higher quality insurance benefits, and providing greater consumer choice. Reductions in future operating costs should protect the services that provide a net financial or health benefit to the people of Hawai'i.

- Under H.R.S. 435H, the Connector is required to protect the Prepaid Health Care Act and the many health insurance benefits it provides to the community. For that reason, the Connector's online marketplace for small businesses, called the Small Business Health Options Program (SHOP), is uniquely customized to provide access to Prepaid-compliant health insurance plans and the small business tax credits. Any reductions in the Connector's operating costs must avoid any threats to Prepaid.

- Changing federal rules regarding the implementation of the ACA sometimes have negative impacts on Connector enrollments, making it difficult to accurately predict future revenue.

These and many other issues make the Board's planning process complex, with many unknowns. The Board is engaged in a series of planning meetings to consider various alternatives to reduce costs. The planning discussion includes close collaboration with the

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State administration to find ways to reduce operating expenses that are consistent with State goals for Healthcare Transformation. The Board's goal is to find the right balance between cost cutting, complying with federal and state law, and protecting the most important services and benefits for Hawai'i's people, especially Prepaid, and to provide the Legislature with an outline of a cost reduction plan within the next 2 to 3 weeks.

The following **comments** are offered with respect to the proposed changes to the board composition and appointment process. The Connector Board wishes to reiterate previously submitted testimony regarding legislation to change the composition of the Board. To preserve continuity and expertise during a period when informed Board guidance is so important, the Board prefers to maintain the existing positions, designations and membership of the Board of Directors. If any current Board members decide to leave the Board or not renew their appointments, then the Board prefers that any vacancies be filled under the existing guidelines in H.R.S 435H.

Thank you for the opportunity to provide comments on HB 2529.

LATE

As Chief Executive Officers of our two locally owned and operated health care companies, HMAA and UHA, representing approximately 100,000 individuals covered by our respective health insurance plans, we are deeply concerned about the viability of Hawaii's Health Connector and the pending bill (HB2529) ostensibly designed to save the Connector from insolvency inside of ten months.

The Connector, though fundamentally well-intended and sensibly designed to drive federal funding to Hawaii and its residents, is, in a word, unnecessary. Hawaii already enjoys one of the lowest percentages of residents lacking health insurance, with about 93% covered and 7% not covered. Unlike many larger states with higher uninsured populations, those who remain uncovered here are already known to government programs and are able to avail themselves of services affording the coverage they need.

To have our State and all of its residents spend tens of millions of dollars to bail out the Connector and bring it under the State's control is neither necessary nor fiscally prudent. Additional money will not change the core market dynamics working against the Connector, and Hawaii's insurers simply cannot absorb the surcharges being proposed. As a result, those costs will ultimately be passed on to the consumer in the way of higher rates.

We commend the Legislature for its leadership, diligence and innovation in tackling this issue head-on. We must nevertheless be vigilant in not overreaching for solutions that aren't needed. As the Interim Director of the Connector recently testified, due to the longstanding success of our Prepaid Health Care Act, Hawaii simply does not have a sufficient number of uninsured to keep the Connector sustainable either as a private nonprofit or state-run entity.

We submit that the Connector's narrow but valuable role should be as its name suggests: educating consumers and connecting them with the best available health insurance options. The Connector is already acting as an information gateway, and it can continue doing so at a fraction of the expense if we eliminate the State Exchange and instead offer consumers the Federal Exchange.

Thus, we respectfully urge you to "save" the Connector by limiting its role. The first step in such a transition is to defer action on HB2529, which perpetuates the problem instead of solving it. The next steps, which can also begin immediately, would be an orderly winding-down of the State Exchange and implementation of the Federal Exchange while preserving the Prepaid Health Care Act. We believe this approach (i) maintains the valuable informative aspect of the Connector; (ii) ensures the availability of the Federal Exchange for Hawaii's consumers; (iii) avoids the imposition of Connector-related surcharges on Hawaii's healthcare insurers; and (iv) allows our Prepaid Health Care Act to remain the foundation of our best-in-the-nation healthcare system.

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The Hawaii Health Connector website was launched — if that term can even be used for what happened — on the official Oct. 1 start date amid criticism that the online insurance marketplace was hopelessly botched, from the technical standpoint. People were unable to log on or get through the process, and even now confidence is not high that enrollments are being processed correctly.

Last week's candid presentation by the agency's interim executive director, Tom Matsuda, laid bare an even more fundamental problem with the whole setup. Matsuda made official what many people long suspected: There is simply no way this private nonprofit can stay afloat financially without a major bailout by Hawaii taxpayers.

And that should not be allowed by state lawmakers, because it would merely be throwing good money after bad. That, Matsuda told legislators, is because Hawaii has a far lower percentage of people lacking health insurance than most other states. That's an excellent condition, all thanks to our Prepaid Health Care Act.

As a result, he said, the islands simply lack the market of potential customers to make the Connector agency sustainable as it was originally planned, through small fees assessed on each enrollment processed through the exchange. And with only 4,467 people signed up, the revenue shortfall can't be overcome.

The state Senate's proposal, which would financially float the agency by assessing a fee on all insurance holders statewide, should be summarily rejected at the state Capitol. The problem with exchang-es in states that aren't well served by them is one the federal government will have to solve.

And Hawaii's congressional delegation had better get busy and see that it does. There are a few strategies they should pursue:

» Connector leaders seem hopeful that federal authorities will allow unspent grant money to be redirected to cover costs of running the agency beyond the end of this year. That's when the startup, operational grants run out.

The Connector received more than $204 million in federal grants, much of which was intended to pay the information technology bills for setting up the website. About half of that is left, and congressional delegates need to push the Obama administration to extend the grants' expiration date, to buy a year's time to allow the Connector to wind down or transform.

» Hawaii's senators and representatives should start networking with other states struggling with insurance exchanges. Together they should push hard for an amendment that would allow a limited opt-out as soon as possible.

The Affordable Care Act (ACA) does include a provision for state waivers, but those don't become an option before 2017. This date needs to be pushed up as early as possible. Even if the federal funds can be used past this year, Hawaii can't keep this agency running as is beyond 2015.

» Whether Hawaii needs an exchange at all is in doubt, and congressional leaders need to collaborate with state lawmakers on ways to shrink the whole Connector footprint.

A revelation on Thursday makes this discussion pertinent. The ACA was designed to make insurance discounts available only on policies purchased through online exchanges, such as the Connector. However, the Obama administration last week quietly issued a fix by announcing that in states that have experienced technical problems with the websites, some consumers can get the discounts on plans purchased outside the exchange.

This is essentially an admission that elaborate online exchanges haven't worked in many places —like Hawaii — and ultimately may not be needed at all. A simplified version of the Connector website, one that provides some information but relays shoppers to the carriers for purchasing, would certainly suffice.

And it's unlikely that a full-scale agency with a governing board will be needed to run something like that. An arm of an existing state agency could handle any consumer queries and provide support for the ongoing coverage programs.

The Connector is run by a private nonprofit, so state lawmakers wouldn't be able to dismantle it through legislation. Without a revenue stream, though, the agency surely would decide to disband on its own.

In any case, the Connector's survival even for the short term is the problem of the federal government. The Legislature must not turn it into a state problem, a bottomless money pit that Hawaii taxpayers will have to fill, year after year.