

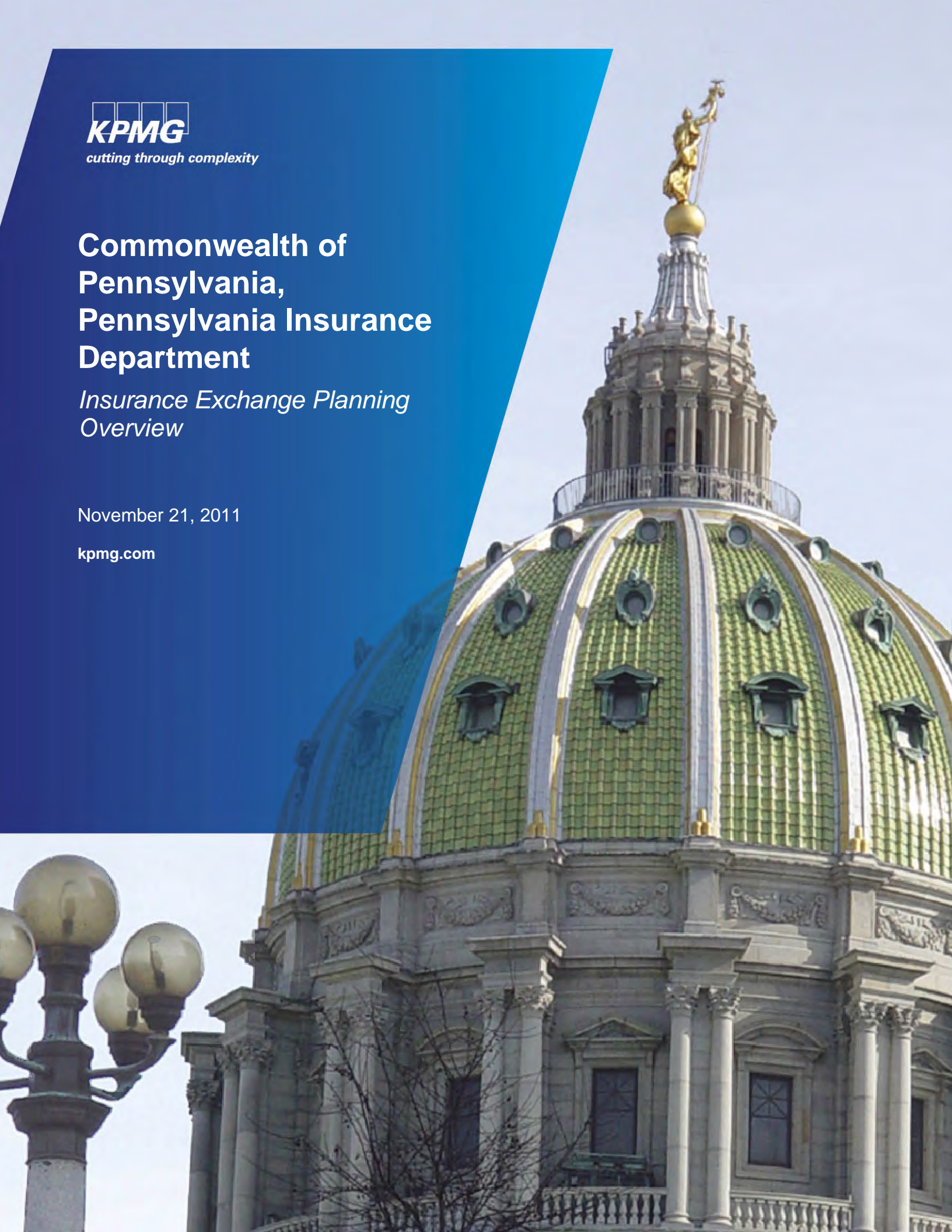


Commonwealth of Pennsylvania, Pennsylvania Insurance Department

*Insurance Exchange Planning
Overview*

November 21, 2011

kpmg.com



Overview of the Affordable Care Act and Exchange Regulations

The Patient Protection and Affordable Care Act, signed into law on March 23, 2010, and the Health Care and Education Reconciliation Act of 2010, signed into law on March 30, 2010 (together referred to as the Act or ACA), covers most facets of the current American healthcare system. The acts propose to significantly revise established components of our healthcare system, such as: Medicaid and other government program eligibility criteria; use of technology to improve healthcare quality and delivery; and creation and administration of Health Insurance Exchanges. Among these, ACA anticipates that a Health Insurance "Exchange" will be operated in each state as a resource for individuals and small employers to access health insurance by January 1, 2014.

KPMG was engaged by the Pennsylvania Insurance Department (PID or the Department) as part of the Commonwealth's ongoing analysis of options to be considered in determining the Commonwealth's plans to comply with the Health Insurance Exchange requirements of the Affordable Care Act. KPMG assisted with identifying, collating, and presenting information for the Commonwealth to consider when making a decision whether to establish and implement its own Health Insurance Exchange. The engagement involved analysis of the Federal Statute, proposed federal regulations, meetings with PID, attendance at stakeholder sessions, review of written stakeholder testimony and consideration of various other publicly available material on the Act and its implementation. The key areas of focus of the work and the resulting analysis were based on the exchange requirements of the Act.

American Health Benefit Exchanges

An "Exchange" is commonly envisioned as an online store that acts as an additional distribution channel where consumers would shop for health insurance. Exchanges are not insurers, but they will qualify plans offered by insurance companies that would like to sell their plans in the Exchange. An Exchange is expected to be in operation in each state by 2014, whether it is a state-operated Exchange or a federal Exchange. Exchanges would be available to those who work for companies with up to 100 or fewer employees (unless a state chooses to reduce the eligibility for employers to those with 50 or fewer employees for the first two years), and to individuals looking to buy insurance for themselves, because they are self-employed, unemployed, not covered by employer coverage, or retired but not yet eligible for Medicare.

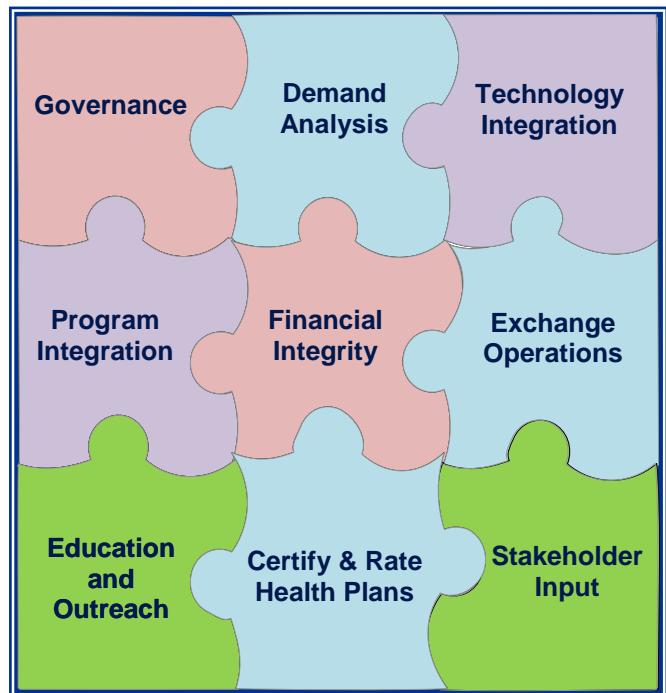
Implementation of an Exchange can take several forms and may be state-wide, multi-state, or regional within a single state; or a federal Exchange may be used by states that either cannot operate their own Exchange or opt into the federal Exchange. In addition, an Exchange will provide both individual and small business coverage. An Exchange may also be implemented within an existing government agency, by a newly created government agency, through a quasi-governmental or by a non-profit entity.

Regardless of whether an Exchange is operated by a state or the federal government or the organizational structure selected, there are a number of core functions that Exchanges are expected to provide under ACA, including:

- **Accessibility:** Certify, recertify, and decertify health plans as qualified, based on established criteria and guidelines; assign a quality rating to each plan; maintain an Internet Website through which individuals may compare standardized comparative information on plans.
- **Eligibility and Monitoring:** Determine eligibility and subsidy levels for insurance through the Exchange; screen applications to determine eligibility and notify individuals if they qualify for other programs such as Medicaid and CHIP; certify that an individual is exempt from the individual mandate to purchase coverage due to affordability or other exemptions permitted under the Act; verify/resolve inconsistent information

provided to the Exchange by applicants; provide and support an electronic calculator to determine the cost of coverage after applicable premium tax credits and cost-sharing subsidies.

- **Support and Assistance:** Provide a toll-free assistance hotline to provide assistance to consumers and businesses; establish a Navigator program – support organizations that will provide information to raise awareness in the community.
- **Communications and Notifications:** Notify the U.S. Department of the Treasury when an employed individual accesses premium tax credits through the Exchange because they were not offered minimum essential coverage by their employer or if the coverage was deemed unaffordable; notify employers when an employee ceases coverage under an Exchange provided Qualified Health Plan (QHP); for verification purposes send applicant citizenship/immigration status information to the Social Security Administration and the Department of Homeland Security; send applicant income-related information to the Internal Revenue Service for purposes of verifying and determining:
 - Income eligibility
 - Tax credit and cost sharing subsidies
 - Eligibility for exemption from individual mandate requirement



In summary, there will be many integral workstreams that must be carefully planned and executed to establish an insurance Exchange that meets the needs of Pennsylvanians, while also meeting the requirements of the Act.

Stakeholder Feedback

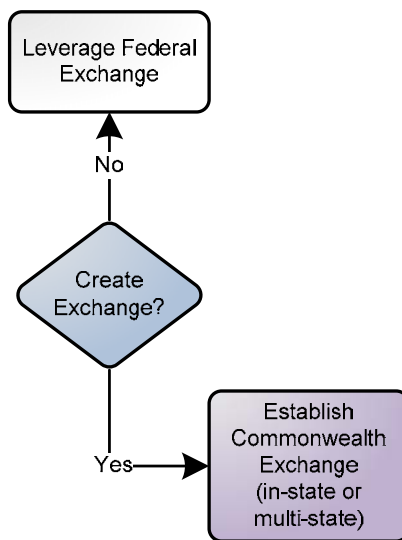
The Pennsylvania Insurance Department (PID) has led the Commonwealth's initiative to seek and obtain input from all interested stakeholders. This was accomplished through several methods including one-on-one stakeholder meetings with the Department, acceptance of written statements from stakeholders and the coordination and execution of three stakeholder forums. These activities were undertaken by PID to gather feedback from the impacted community regarding ACA legislation and the establishment of a Health Insurance Exchange. The Stakeholder Forums were conducted in three locations across the state: Pittsburgh, Philadelphia and Harrisburg. Approximately 800 individuals attended the forums, 75 participants presented testimony, and those who did not want to present at the forum were able to submit their written input to the Department via the website. In addition, a consumer and small business survey administered by the Neiman Group was completed. Stakeholder inputs relevant to several of the key decisions facing the Commonwealth are included in this report.

Demand Analysis

Based on statistical analysis of economic scenarios, shifting in insurance coverage and demand curve participation changes, KPMG developed a range of participation that estimates 2.0 to 2.2 million individuals may participate within a Commonwealth Health Insurance Exchange in 2014. The mean number of estimated participants is approximately 2.1 million participants and the standard deviation of participation is approximately 59,000 participants. These estimates are likely conservative but provide a reasonable foundation for volume expected, and therefore can be used to evaluate systems, resources and process strain. While we have used our best professional judgment in all instances, demand estimates are inherently uncertain because of the random nature of consumer choices. KPMG, therefore, cannot warrant that actual developments will not vary from expectations, perhaps significantly.

Options Analysis

The Commonwealth has many decisions to make in deciding whether, and if so, how, to implement a Health Benefit Exchange. The initial decisions and options to be considered by the Commonwealth are discussed below. With each successive decision, additional considerations are provided including relevant stakeholder input, key risks and potential challenges and benefits. This Options Analysis is intended to provide a framework for the Department's use in working through these first critical steps to determining if and how to establish an exchange.



Federal vs. Commonwealth Exchange

The first decision that the Commonwealth, or any state, is faced with in determining how to provide its constituents with access to the health insurance market is whether to create that marketplace access within the state or to rely on a federal health insurance market or Exchange. Simply put, states have two options for the creation of an Exchange – attempt to create a state-based Exchange by demonstrating adequate progress to the federal government in accordance with milestones in the *Cooperative Agreement to Support Establishment of State Operated Health Insurance Exchanges Funding Opportunity Announcement*, January 20, 2011 (FOA Milestones), or rely on the federal Exchange.

In making this decision, there are several important considerations including costs of establishing and operating an Exchange. While there are many unknowns in the establishment of an Exchange, there are also many risks that should be considered. Several of these risks and considerations are outlined below.

Federal Exchange	State Exchange
<p>Market Risk – The decisions made by a state in leveraging the federal solution as an Exchange may impact the operation of insurance markets within the state and competition in those markets. The potential impacts on the health insurance market should be considered in determining whether or not to use the federally operated Exchange.</p> <p>In addition, the federal Exchange is currently expected to provide only two health insurance plans. The Commonwealth should not only consider the impact on the current insurance market but should also consider whether a limited offering under the federal Exchange will meet the needs of Pennsylvanians. If not, Pennsylvania would need to develop a process to certify qualified plans and work with the federal Exchange to ensure their accessibility through the federal Exchange.</p>	<p>Market Risk – The decisions made by a state in implementing an Exchange may have an impact on the insurance markets within the state, including the level of competition fostered. However, a state may be in a better position to manage those impacts by understanding stakeholder concerns and working to address those concerns in the design of the state’s Exchange.</p>
<p>Implementation Risk – Interfacing/integrating with a federal-based Exchange is a complex, multi-agency undertaking that will require significant effort by the Commonwealth to answer several information technology (IT) policy and responsibility questions (many of which are still under development by the federal government). At a minimum, Pennsylvania would need to:</p> <ul style="list-style-type: none"> • Identify what Exchange functional roles may still apply to the Commonwealth (e.g., Medicaid and CHIP) under the federal model. • Identify what IT assets/interfaces may still need to be developed by the Commonwealth. • Review and revise Commonwealth regulatory and policy issues to ensure coordination between the Commonwealth and federal agencies. • Modify the MA and CHIP eligibility systems (these systems will need to be modified regardless of whether the federal Exchange is leveraged to accommodate other changes in these programs). • Integration with the federal Exchange will also require the identification of risks that are associated with any complex system integration and plans to mitigate those risks. There will also be additional risks in this scenario which the Commonwealth may not be able to mitigate due the involvement of parties outside of the Commonwealth’s control. 	<p>Implementation Risk – Establishing a state-based Exchange is a complex, multi-agency project that includes public-facing, government to business, agency to agency, and state to federal government components. This project will require the identification of risks that are associated with any complex system implementation project of this nature and plans to mitigate those risks. In implementing a Commonwealth Exchange, the Commonwealth will have more control and ability to mitigate those risks.</p>

Federal Exchange	State Exchange
<p>Cost Considerations – Interfacing/integrating with a federal-based Exchange will still require resources for, at a minimum, technical staff to support the anticipated core system software modification efforts and policy staff time to review and revise Commonwealth regulatory and policy issues to ensure coordination between state and federal agencies. Depending on the IT assets/interfaces that may still need to be modified or developed, this could be an extensive (and potentially costly) undertaking.</p> <p>A second cost consideration of leveraging the federal Exchange is that federal cost subsidy incentives may result in over-enrollment in the Commonwealth’s Medicaid (MA) program. This could add more liability to Pennsylvania for the Commonwealth’s unmatched (and uncapped) portion of the MA payments.</p> <p>Another cost consideration the Commonwealth should consider is that by leveraging a federal Exchange model, Pennsylvania could potentially lose out on 90% of federal funds to modify the Commonwealth’s core eligibility determination process (to 2015) and the ability to upgrade any associated functionality.</p>	<p>Cost Considerations – Implementing a state-based Exchange will require resources for, at a minimum, internal staff and hardware and software. Depending on the governance model chosen and the level of outsourcing the state may consider, the level of internal resources will vary significantly. Establishing an Exchange within an existing agency could help reduce the cost required as the Exchange could leverage existing operational policies, procedures, and systems (such as financial and human resources). Leveraging existing systems could also help reduce the potential cost of establishing an Exchange.</p> <p>In connection with establishing a Commonwealth Exchange, future establishment grants may be requested to upgrade or integrate existing Medicaid systems as a coordinated effort with Exchange establishment. Under this model, such upgrades or integration could receive 100% federal funding.</p>

Stakeholder Feedback on Federal vs. Commonwealth Exchange

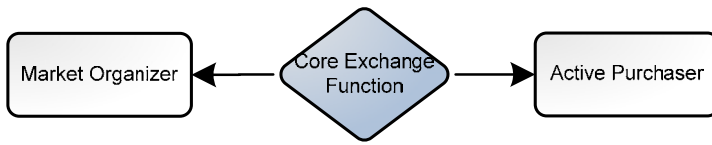
In the feedback obtained through the various activities described above, a large majority of providers, producers, insurers and community representatives alike expressed their desire for Pennsylvania to create its own Exchange. All but one of the stakeholders that spoke at these forums on the topic of establishing a Commonwealth Exchange vs. participation in the federal Exchange indicated that they would prefer a state-run Exchange. The one stakeholder who expressed an interest in the Commonwealth teaming with the federal government to create a federal Exchange suggested it would be a means of promoting efficiencies and minimizing the duplication of efforts required.

Stakeholders expressed a preference for a state-based Exchange because of the flexibility of a state-run Exchange as opposed to a federal Exchange; one stakeholder felt that a Commonwealth Exchange could better support regionally operated plans or subsidiary Exchanges because of the regional differences in health insurance needs of Pennsylvania; while another commented that “an Exchange in PA allows for greater flexibility and reduced federal regulation” and because they believe they would have more input in the creation of such Exchange. Stakeholder investment in any resulting Exchange can be promoted through continued efforts by PID to seek input from stakeholders.

In addition, many of the comments submitted at the Stakeholder Forums include specific concerns that are likely to be more easily addressed if the Commonwealth decides to implement a state Exchange. These concerns include the belief that a regional Exchange within the state will best address the unique needs and attributes of different areas of the state, and the need for ongoing public communication, outreach and transparency.

Active Purchaser vs. Market Organizer Model

Two distinct Exchange operational models are generally believed to currently exist within the United States – the Active Purchaser Model, as implemented in Massachusetts, and the Market Organizer Model, as implemented in Utah.



Under the Market Organizer Model, an Exchange acts as a facilitator between consumers and insurance companies to allow for the purchase of insurance. This model supports a laissez-faire environment where

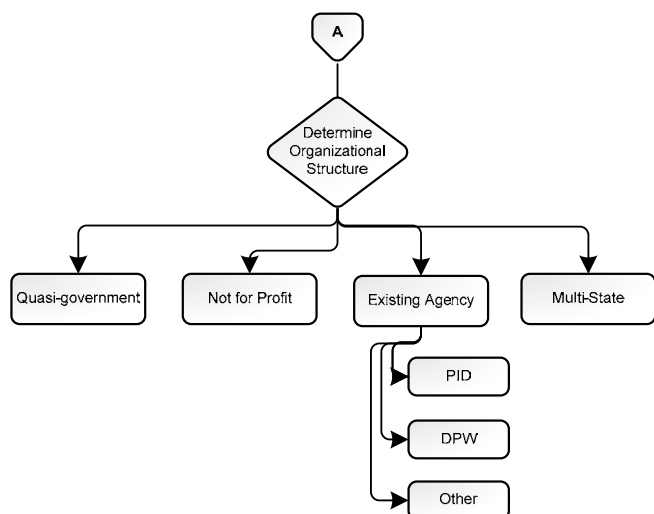
consumer needs and budgets will ultimately drive plan selection similar to current market conditions. A Market Organizer Model could support accepting any plan that meets specified pre-defined requirements, while an aggressive Active Purchaser Model could support the authority to limit the number plans participating based upon a bidding or negotiation process. The Commonwealth should consider the costs and benefits of each approach as well as the amount of government involvement within the Exchange under each model.

In both models, an Exchange will need to have the same functionality as required by the Act. For example, under both models all plans offered through the Exchange will have to be qualified and quality ratings will have to be provided. The key attributes of each model are described below.

Market Organizer	Active Purchaser
<ul style="list-style-type: none"> ■ Less complex technology requirements ■ Less control over consumer experience ■ Reliance on carrier websites to collect premiums and fulfill insurance plan enrollment and purchase ■ May require additional steps to receive operating funds (depending on financing approach) 	<ul style="list-style-type: none"> ■ Exchange selects plans to be offered ■ Exchange acts as market aggregator ■ Technology investment is higher ■ Exchange collects premium payment from enrollee, requiring web-based payment processing capability and enterprise systems capability ■ Exchange potentially responsible for handling billing and premium questions from members

The decision is not necessarily one or the other. For example, a state can take the Active Purchaser approach while still outsourcing core Exchange operations such as enrollment, consumer assistance, and premium collection and aggregation. On the other hand, a state that takes a Market Organizer approach can also put processes in place to provide consumers with a better “shopping” experience through implementation of the required quality ratings and easy-to-use comparison tools.

Organizational Options for Establishing a Commonwealth Exchange



Assuming that the Commonwealth moves forward with establishing a Commonwealth Exchange, the next decision will be to determine what organizational structure is most appropriate for the Commonwealth. In assessing the various options outlined throughout this report, the Commonwealth should evaluate each option against an agreed-upon set of criteria. These criteria should be aligned with the long-term initiative of the Commonwealth to sustain a stable and secure economy.

As with most states, the costs of healthcare coverage for the uninsured as well as the state share of Medicaid are significant components of the Commonwealth's budget.

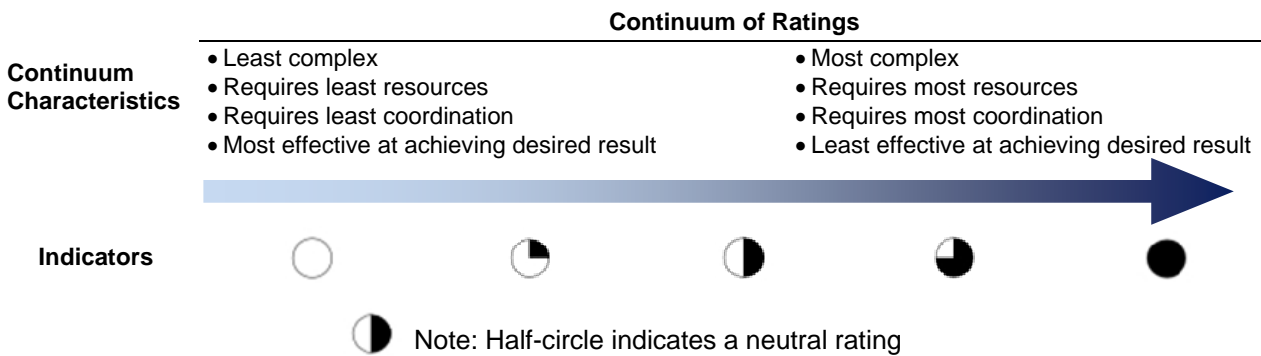
- *Limit the size of government* – In evaluating each option against this criterion, the Commonwealth may wish to consider the degree to which expansion of government may or will need to result. For example, a new quasi-Government agency might require the creation of a new independent board or commission, which may also require oversight from or coordination with existing agencies.
- *Administrative efficiency* – In assessing each option against this criterion, the ease with which the Exchange will be able to operate and make decisions should be considered. In addition, the ability to leverage existing resources (people, process and technology) in establishing the Exchange should be assessed. Options where existing resources can be leveraged will likely create efficiencies in the establishment of a Commonwealth Exchange.
- *Partnering with private industry* – Partnering with private industry, learning from leading practices (within and outside of government), and identifying if there is a possible fit for outsourcing of Exchange functions should be considered for each option.
- *Accountability and transparency* – Stakeholders as well as government leaders across the country are calling for expanded accountability and transparency in government operations, particularly where new operations or programs are implemented. The accountability and transparency of a Commonwealth Exchange are likewise important and expected by all stakeholders and as such, this criterion should be considered when evaluating options for a Commonwealth Exchange. Certain governance structures may provide greater accountability to Pennsylvanians than others. While the level of transparency or “perceived” transparency may be more directly impacted by the operations of the Exchange, certain organizational structures may lend themselves to a greater level of transparency than others.
- *Stimulate and encourage competition* – The current health insurance market is complex with many players and stakeholders. The impact on that market should be considered in assessing options for a Commonwealth Exchange, particularly the impact on competition within that market. A typical goal of an insurance Exchange is to stimulate and encourage competition in the market, thereby resulting in the offering of quality, affordable health care coverage. As a state begins to make decisions with

Governor Corbett's 50 Ways to Rebuild Pennsylvania suggests implementing "healthcare reform by adopting common sense policies that ensure access, quality and affordability."

respect to Exchange operations there can be ripple effects in the market, and certain organizational structures may have greater proclivity than others to consider and address those ramifications.

- *Control and reduce spending* – If a Commonwealth Exchange is established, it must be self-sustaining beginning January 1, 2015. The ongoing costs of operating an Exchange should be considered for each option and the potential costs compared across each option in determining the best fit for the Commonwealth.
- *Accessibility* – A key objective in establishing an Exchange is to create a new avenue of access for health insurance for all Pennsylvanians. When evaluating the options for a Commonwealth Exchange, accessibility was a common concern for stakeholders.

Each organizational structure and the key functions of an Exchange are assessed against these criteria below using the following rating scale.



For example, the full circle under the quasi-government option in the governance focus area for the “limit the size of government” criteria can be interpreted as indicating that establishing a new governance structure within a new entity would not be a desirable result if the goal is to limit the size of government. In contrast, the unfilled circle under the same focus area and criteria for the non-for-profit option can be interpreted as an effective option where the goal is to limit the size of government.

Detail Ratings for Each Option and Focus Area by Criteria

Options	Focus Area	Limit the size of government	Efficiency of administration	Partnering with private industry	Accountability and transparency	Stimulate and encourage competition	Control and reduce spending	Accessibility
Quasi-Government	Governance	●	●	◑	◑	◑	●	◑
	Program Integration	◑	●	◑	◑	◑	◑	◑
	Technology	●	◑	◑	◑	◐	◑	◑
	Financial Management	●	●	◐	◑	◑	●	◑
	Certification and Quality Ratings	●	◑	●	◑	◑	◑	◑
	Eligibility and Enrollment	◑	◐	◑	◑	◑	◑	◑

Options	Focus Area	Limit the size of government	Efficiency of administration	Partnering with private industry	Accountability and transparency	Stimulate and encourage competition	Control and reduce spending	Accessibility
Not-for-Profit	Governance							
	Program Integration							
	Technology							
	Financial Management							
	Certification and Quality Ratings							
	Eligibility and Enrollment							
Existing Agency	Governance							
	Program Integration							
	Technology							
	Financial Management							
	Certification and Quality Ratings							
	Eligibility and Enrollment							
Multi-State	Governance							
	Program Integration							
	Technology							
	Financial Management							
	Certification and Quality Ratings							
	Eligibility and Enrollment							

The key considerations driving the ratings assigned above are described below for each focus area.

Governance – From a governance perspective, the Existing Agency and Not-for-Profit options appear to be the most appropriate for the Commonwealth. An existing agency should need less start-up costs and with strategic sourcing of appropriate functions, ongoing costs of operations could also be contained. An established agency would also be able to better communicate with other involved agencies through existing channels. In addition, should an existing agency such as PID lead the Exchange, many of the other stakeholders, especially insurers, already interact and communicate with PID. On the other hand, a Not-for-Profit or Quasi-Government could potentially benefit from greater flexibility in decision making and administration as compared to a “line” agency in such areas a procurement. In addition, at least one stakeholder commented that establishing an Exchange outside of PID would help to avoid any question or perception of conflict given PID’s role as regulator. In converse, many stakeholders suggested that the Exchange should be run by PID as they are the existing regulator.

Program Integration – Program integration may be more easily or efficiently achieved in an existing agency where similar programs such as Medicaid and CHIP already exist. Although integration can be achieved in the other organizational options, the ease of administration and incremental costs to integrate will likely be less than optimal. A Not-for-Profit may be the least efficient choice under this category as it may be more difficult for a non-government entity to integrate with the existing government programs – or the government programs may need to remain with the Commonwealth and coordinate with the Not-for-Profit through system interfaces or “hand-offs” of certain processes.

Technology – From a technology perspective, establishing the Exchange in an existing agency is effective at achieving the desired result of leveraging the Commonwealth’s existing system assets. While the size of government will not be significantly impacted by placing the Exchange in an existing agency, the efficiency of administration and accountability/transparency are meaningful in this approach. In addition, Pennsylvania’s current IT assets can support several of the anticipated Exchange’s functional components. Depending on the model selected, the Commonwealth may also be able to partner effectively with private industry to provide required Exchange functionality (e.g., web shopping capability). The Commonwealth may not be able to utilize its existing IT assets as fully if it chooses to establish the Exchange using a Not-for-Profit or Quasi-Governmental model, and some functionality may need to be developed separately. Moreover, the Multi-State Exchange approach may introduce additional complexities regarding “ownership” of data and systems and responsibility for various components of the envisioned Exchange transactions (e.g., help desk support).





























Financial Management – A Quasi-Government or Not-for-Profit will need to establish its own financial management and integrity policies, procedures, practices and systems, thus resulting in additional or incremental costs over the existing agency options in which the existing commonwealth systems and processes can be utilized with minimal incremental cost or effort. In addition, financial management practices may not be as transparent under the Not-for-Profit option. Existing processes and systems may also be leveraged in the Multi-State option; however, agreements between participating states will need to be executed to document each state’s responsibilities.

Certification and Quality Rating – A Not-for-Profit or a Multi-State certification and quality rating process may limit the size of government; however, these external agencies may lose the efficiencies of administration gained from maintaining the process within a governmental entity. A Multi-State certification and quality rating process may impede the accountability and transparency of the process and may not encourage competition as well as other choices; however, it may help to control or reduce spending.

Eligibility and Enrollment – Regardless of organizational structure, new processes and systems will be needed to determine eligibility for premium subsidies and tax credits and enrollment in qualified health plans. The same processes and systems can be implemented across the various organizational options. Streamlining of

eligibility across government programs (Medicaid and CHIP) and Exchange subsidies and tax credits may be more complex under the Not-for-Profit option.

Summary of Ratings by Option

Criteria	Quasi-Government	Not-for-Profit	Existing Agency	Multi-State
Limit the size of government				
Efficiency of administration				
Partnering with private industry				
Accountability and transparency				
Stimulate and encourage competition				
Control and reduce spending				
Accessibility				

The ratings above were determined by averaging the detailed ratings for each option. The key observations that can be made from the summary ratings chart are provided below by criteria.

Limit the size of government – While a Not-for-Profit organization will require additional resources, these resources are not within a government organization, enabling this option to help avoid increasing the size of government. A Quasi-Governmental organization will require additional government resources to establish the Exchange, hampering the ability to limit the size of government.

Efficiency of administration – A Quasi-Government or Not-for-Profit organization will likely have more administrative flexibility than an existing state agency or Multi-State organization in how operations are established and decisions are made. A Multi-State organization will need to coordinate administrative tasks among the states involved, impacting the administrative efficiency of this Exchange.

Partnering with private industry – An Existing Agency or a Multi-State organization will need to follow the procurement rules in place for the state(s) involved, potentially hampering their ability to quickly partner with private industry and outsource Exchange functions.

Accountability and transparency – An Existing Agency has processes and procedures already in place to support transparency, while a Not-for-Profit organization will need to establish processes to ensure transparency. The other models have mechanisms in place that can be leveraged to support transparency.

Stimulate and encourage competition – Each of the organizational models appears relatively neutral with respect to stimulating and encouraging competition in the insurance market. The decisions that the Commonwealth makes “down the road” with respect to operations of the Exchange will need to take into consideration the potential market impacts with respect to competition – particularly the choice around the Active Purchaser vs. Market Organizer options.

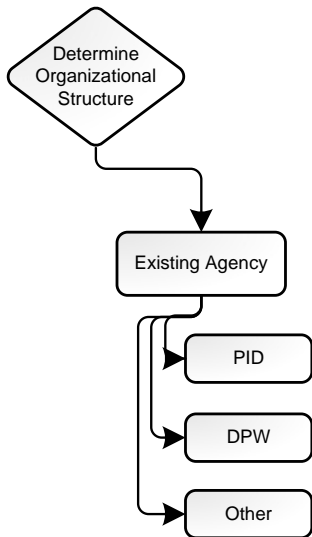
Control and reduce spending – While there are incremental costs in establishing an Exchange within an existing agency, existing processes, systems and infrastructure can be more easily leveraged. This would limit incremental spending to that which is necessary to modify existing systems and put new processes in place that would be required regardless of organizational structure. For the same reasons as described above a Quasi-Governmental structure will have the greatest incremental costs as it represents a new entity that will need its own infrastructure, as would a Not-for-Profit.

Accessibility – As with the previous analysis around the stimulation and encouragement of market competition, the organizational options appear equally able to provide the desired level of accessibility. This is due to the fact that regardless of organizational structure, the Exchange will represent a new channel for access to health benefits. There is a greater possibility that more differences could occur in the “seamlessness” of accessibility under the Quasi-Government, Not-for-Profit and Multi-State options, as the various eligibility determinations (Medicaid/CHIP and Subsidy/Tax Credits) may be more difficult to streamline across multiple entities and supporting technology.

Stakeholder Feedback on Organizational Options for a Commonwealth Exchange

Many stakeholders have commented on their preferred organizational structure for the establishment of a Commonwealth Exchange. One insurer noted that “the governance for the Exchange should sit within the Pennsylvania Insurance Department since the Department currently regulates insurers and has the expertise and relationship with the carriers.” These relationships will help to mitigate the transitional effects of the implementation of the Exchange within the insurance market because insurers already have a direct line of access with the Pennsylvania Insurance Department. Other stakeholders felt that the Exchange should be an independent public authority, perhaps with involvement of key public officers and a stakeholder advisory committee – staffed by consumer representatives. The Exchange will then be in a position to hire assistance more easily, and twenty-nine states have already indicated their consideration of this methodology.

Establishing a Commonwealth Exchange within an Existing Agency



Using the above assessment results, and taking only these factors into primary account, the Commonwealth could conclude that the establishment of a Commonwealth Exchange would best meet the needs of Pennsylvanians if incorporated into an existing agency or agencies of the Commonwealth. If this path is taken, there are several further options to consider. Based on the current processes, systems, regulatory responsibilities and functional responsibilities, two existing agencies may be appropriate candidates for taking on some or all of the Exchange functions. If more than one agency will be involved, a lead agency should be identified. In addition, certain other agencies may only have a temporary role in a Commonwealth Exchange during the establishment phase (through the end of 2013) or may provide support to the lead agency for certain functions.

Also, the Commonwealth may consider outsourcing certain functions of the Exchange to further contain costs of establishing and operating an Exchange as well as potentially transferring risks associated with certain Exchange functions.

The table below reflects what could potentially be outsourced, and/or where existing agency functions could or should be leveraged. In some cases statutory requirements mandate that State agencies retain a certain function such as producer licensing. Under this scenario, the public entities retain the responsibility to establish criteria and rules for operating these functions.

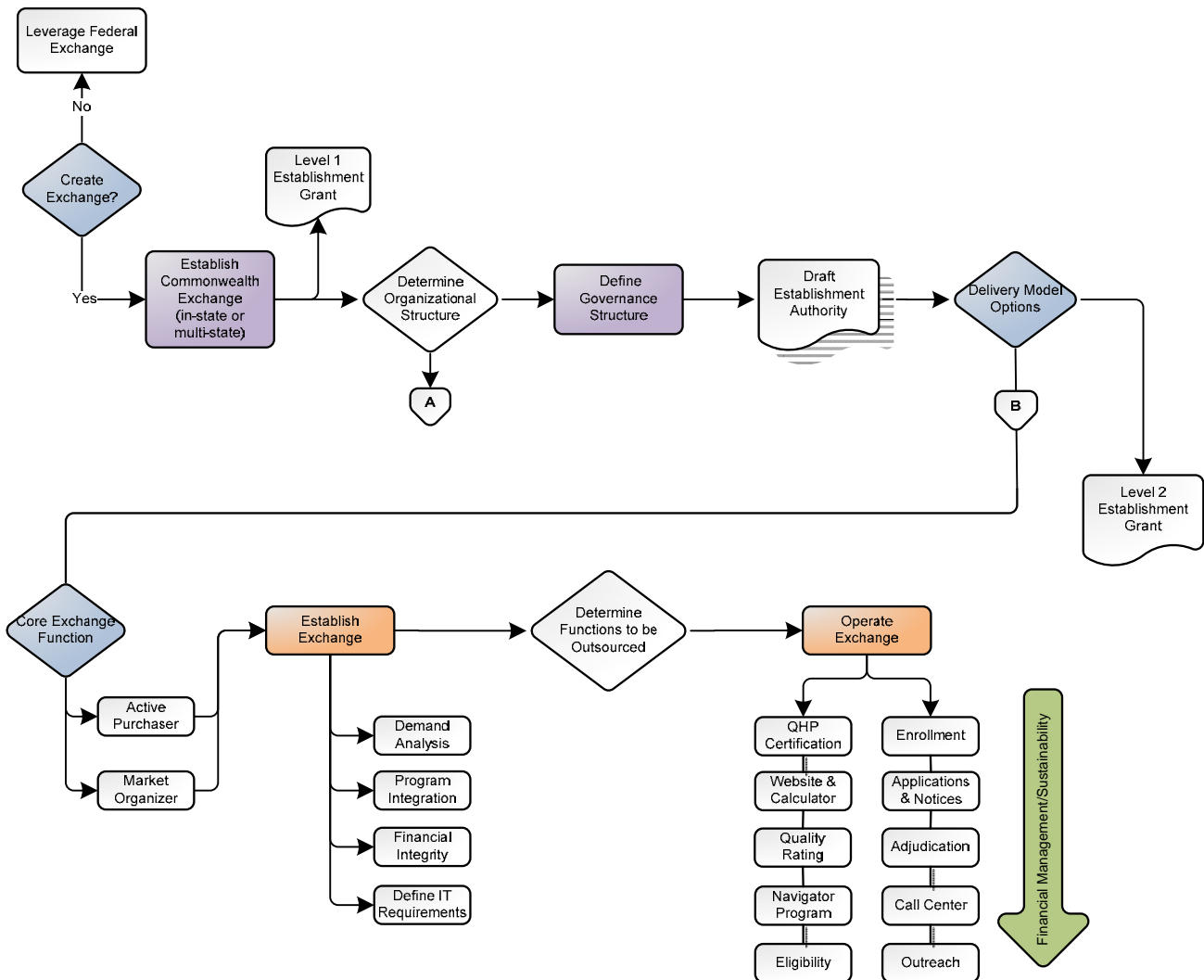
Function	Public Agencies			Private
	PID	DPW	Other	
Establish rules for Eligibility for Medicaid/CHIP, eligibility for subsidy/tax credit, and the related appeals process	✓	✓		
Determine Eligibility for Medicaid		✓		✓
Determine Eligibility for CHIP	✓			✓
Determine Eligibility for Subsidy/Tax Credit				✓
Medicaid/CHIP Eligibility and Tax Credit/Subsidy Appeals Process	✓	✓		✓
Certification of Exemptions	✓			✓
Certification of Qualified Health Plans	✓		✓	
Quality Ratings of the Plans – Develop Criteria for Ratings	✓			
Quality Ratings of the Plans – Evaluate Against Criteria				✓
Oversight and Financial Integrity – Develop Evaluation Criteria	✓	✓	✓	
Oversight and Financial Integrity – Perform Audit			✓	✓
Marketing and Outreach				✓
Customer Service/Call Center		✓		✓
Navigator Management	✓			✓
Producer Licensing	✓			
Premium Processing				✓
Tax Credit Processing				✓
Portal Development		✓	✓	✓
Portal Management/Operation			✓	✓

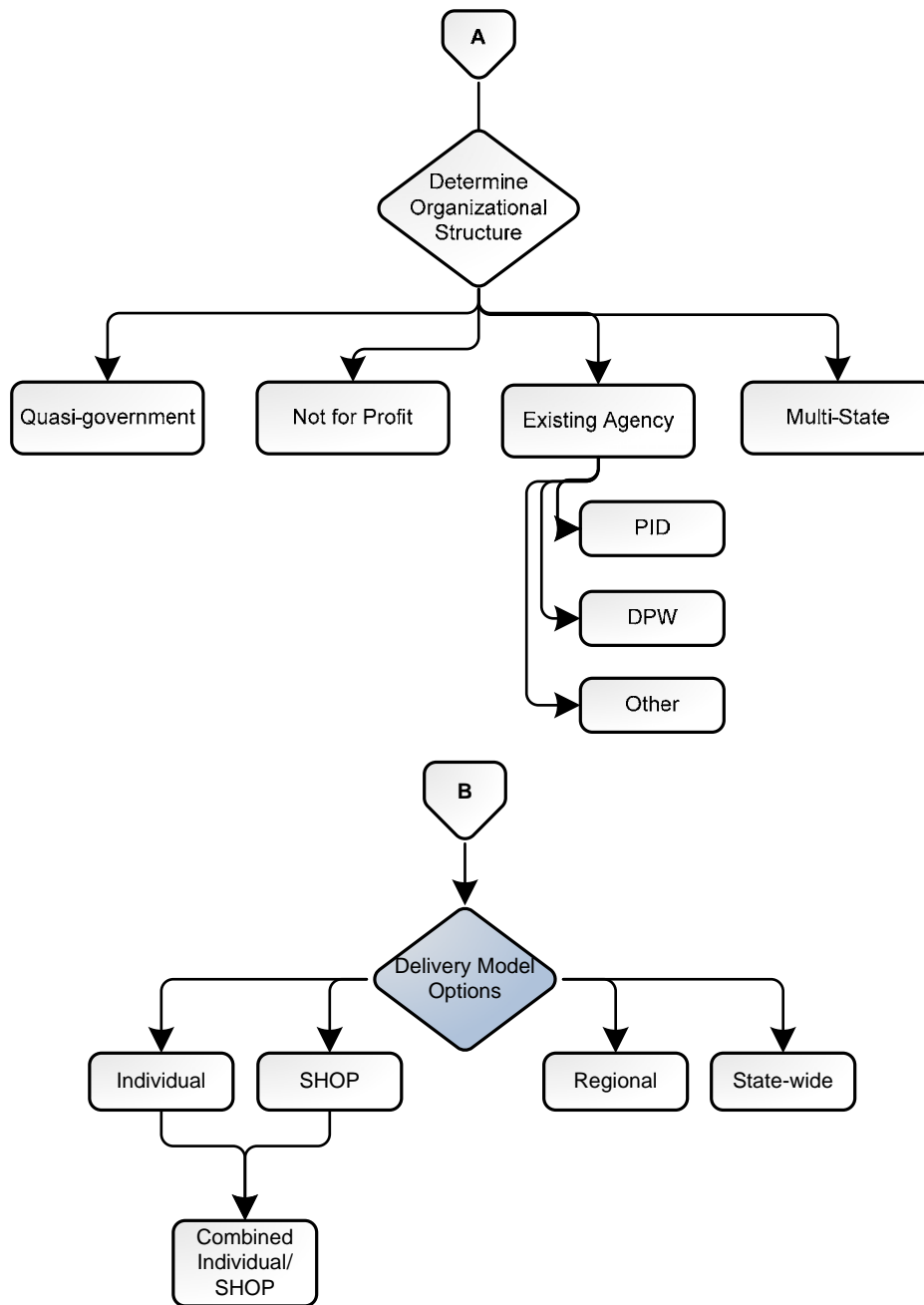
Alternatives for outsourcing could include entering into a public-private partnership (P3). A P3 involves a public sector organization contracting with a private entity to deliver a public service and involves the transfer of risk to the private entity (up to full revenue service). The risk-sharing characteristic of a P3 may be attractive to the Commonwealth; however, contract development can be lengthy as all rules need to be defined in the contract, including penalties and contingencies for the public sector organization to take back the operation. Enabling legislation is also required for P3s.

Moving Forward

The decision tree outlines at a high level the key decisions to be made going forward. It is important to consider the puzzle piece concept presented above and the demonstration of the options rating and analysis – as decisions are made, additional milestones and questions need to be considered in each of the core areas. There are a significant number of possible permutations that can result once the Commonwealth begins to make policy, operational and strategic decisions moving forward.

Health Insurance Exchange Primary Decision Tree





Note to the Reader

The purpose of this report is to present information obtained and observations noted during the course of the engagement for the Commonwealth of Pennsylvania’s consideration. The engagement involved analysis of the Federal Statute, proposed federal regulations, meetings with PID, attendance at stakeholder sessions, review of written stakeholder testimony and consideration of various other publicly available material on the Public Protection and Affordable Care Act and its implementation. The gap analysis performed was based on the data and information collected from the Commonwealth over the course of the engagement with the Pennsylvania Insurance Department. It is important to note that the regulations, related guidance and other materials reviewed were current as of August 2011. Health Benefit Exchange requirements are continuing to evolve, and information contained in this report reflects only that data available at the time the work was performed. Future federal guidance may further clarify or modify such information. In this report, KPMG has not expressed an opinion on financial results, processes, other information or internal controls related to PID or the Commonwealth. The Commonwealth of Pennsylvania maintains responsibility for the decisions to implement any aspect of a Health Benefit Exchange, and for considering the impacts of such decisions.

www.kpmg.com

© 2011 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.