Washington State Auditor's Office
Performance Audit
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Costs and Sustainability at the Washington Health Benefit Exchange

The Health Benefit Exchange was created in 2011. Its goal: provide a one-stop marketplace where customers can purchase health insurance plans or enroll in Medicaid, known in Washington as Apple Health, which serves low-income individuals. The Exchange works with the Heath Care Authority, which administers Apple Health, to obtain state and federal reimbursement for the services it provides to Medicaid clients.

In 2013, due to concerns about the Exchange's operating costs and its fiscal sustainability, the Legislature asked the State Auditor to conduct a performance review of the Exchange's operational costs. The resulting audit looked for ways to lower those costs, including opportunities to partner with the federal government or other states, and how the Exchange could improve its sustainability.

We found several issues that have affected the Exchange's cash flow and operating costs in the past, as well as opportunities for it to improve its financial footing in the future.

The Exchange has not been fully reimbursed for the cost of the Medicaid services it provides

The greatest problem affecting the Exchange's long-term financial sustainability lies in the way it has been reimbursed for the Medicaid services it provides. The annual, federally approved reimbursement plans, developed by the Exchange with the Health Care Authority, did not include all costs for Medicaid services the Exchange provided.

If the Exchange obtained full reimbursement for the Medicaid services it has provided, it would recover $12 million more for the second half of state fiscal year 2016 and more than $77 million for calendar years 2014 and 2015. We estimate the state's share is between $22 million and $45 million.

Because the Exchange was not fully reimbursed in 2014 and 2015, it used at least $51 million in federal establishment grants to cover the costs of these Medicaid-related services. The Exchange may need to repay these grants. Furthermore, when the Medicaid program does not fully pay for the costs of these services, qualified health plan enrollees must help cover them through higher premiums. If the Exchange is fully reimbursed for the past and future Medicaid services it provides, this should ensure its self-sustainability.

The Exchange is taking steps to contain its operating costs, which appear reasonable

We examined other aspects of the Exchange's operating costs, and found that in many areas it has already taken important steps to control operational expenses. For example, the Exchange stopped billing and collecting individual insurance premiums, which we estimate will result in savings of about $9 million through June 2017. Management has also brought more information technology (IT) services in-house, and is using state resources to reduce its IT maintenance and operating costs. The Exchange put compensation policies in place to control payroll costs, and reorganized staff and processes to further reduce call center costs.

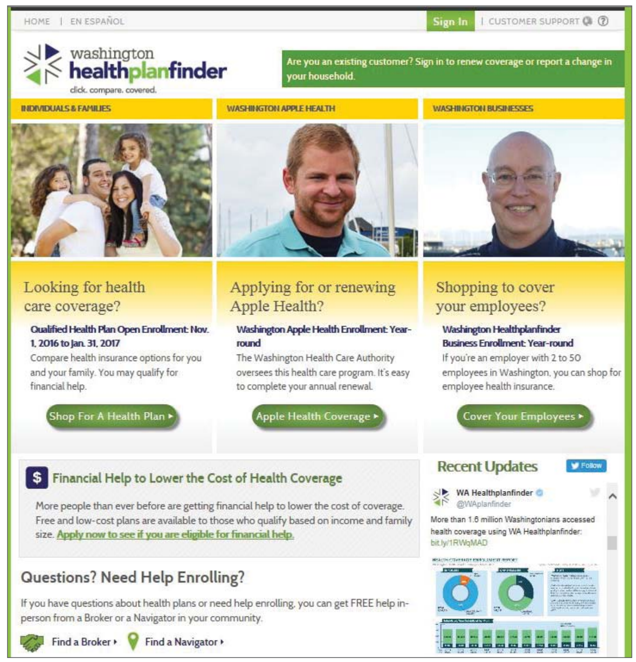
We identified additional opportunities to reduce operating costs

- *Explore partnering with Covered California for lower hourly call center rates* – California and Washington use the same vendor for call center services, but California pays a lower hourly rate. If the Exchange partnered with Covered California and obtained the same contracted rate, it could save between $756,000 and $1.3 million a year, depending on call volume.
- *Make improvements to further reduce call center volume and costs* – Giving call center staff more tools to assist customers could reduce call duration and repeat calls. Making customer correspondence and the Healthplanfinder website simpler to understand could also reduce the number of calls. The Exchange could collect additional information about why customers call to identify where it should make these simplifications. Although there are challenges that would need to be considered, shifting certain calls to brokers is another possibility for reducing costs.

The Exchange can increase its operating revenue by increasing QHP enrollment

Increasing enrollment in insurance plans other than Medicaid would result in additional revenue and further strengthen the Exchange's ongoing fiscal sustainability. The Exchange could achieve this by improving its website, Healthplanfinder (illustrated at right), to provide better guidance around automatic renewals and to highlight the financial subsidies available to customers.

A screen-capture of the Healthplanfinder website home page



Still needed: A long-term financial plan and other financial management practices

Although it recently adopted a strategic plan, the Exchange has been slower to develop long-term financial planning that focuses on self-sustainability. Without a long-term financial plan that considers future IT investments and when and how it will pay for them, the Exchange will have greater difficulty managing its sustainability. Its sustainability is further challenged by its lack of both a working and capital reserve.

Although we found that partnering with the federal exchange would not be cost-effective at the moment, the Exchange should periodically assess the viability of doing so should future costs come down.

Recommendations in brief

We recommend the Health Benefit Exchange:

- Work with the Health Care Authority to ensure the Exchange is fully reimbursed for all Medicaid services it provides
- Continue to reduce call center costs
- Continue taking steps likely to increase enrollment and resulting revenues
- Improve long-term financial planning

As part of the appropriation process, we recommend the Legislature consider the Exchange's:

- Need to obtain full reimbursement for all Medicaid-related costs
- Planned IT investments, the need for both working and capital reserves, and how transferring those reserves adversely affects planning