

Office of Consumer Information and Insurance Oversight

**State Planning and Establishment Grants for the
Affordable Care Act's Exchanges**

Final Project Report

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State: South Carolina

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Final Project Report

Project Detail

The process of exchange planning involved stakeholders from public and private organizations with expertise in healthcare and health insurance. On March 10, 2011, Governor Nikki R. Haley issued Executive Order 2011-09 establishing the South Carolina Health Planning Committee (SCHPC or Committee). The Committee was created to assist with the formulation of policy recommendations regarding the feasibility of establishing a health insurance exchange in South Carolina as provided under the Affordable Care Act (ACA). If the Committee recommended that the State decline to establish a state-operated exchange, it was charged with recommending alternative strategies and policies to improve the health insurance marketplace in South Carolina.

The twelve-member committee included representatives from the South Carolina General Assembly, a consumer/non-profit organization, the business community, state agencies, the insurance industry and the medical community. The Planning Committee convened a series of meetings and sought public input on the formation of an exchange in South Carolina.

The Planning Committee held its first meeting in April 2011 and over eight months received numerous briefings and presentations from experts, including but not limited to, the South Carolina Institute of Medicine and Public Health, the Institute of Public Service and Policy Research, the South Carolina Department of Insurance, Mark Tompkins Ph.D., the South Carolina Hospital Association, the South Carolina Medical Association, the University of South Carolina, Health Sciences South Carolina, the South Carolina Office of Research & Statistics, Blue Cross and Blue Shield of South Carolina, AccessHealth South Carolina, TriCounty Project Care, UnitedHealthcare and Deloitte Consulting. To assist with its work, the Committee established four subcommittees to review various exchange and other marketplace issues. To provide for a broad representation, not unlike the full committee, the four subcommittees were comprised of both Planning Committee members and those representing other stakeholders. The four subcommittees combined held more than 20 meetings and allowed for the Planning Committee to receive more detailed briefings on a variety of issues from the history of the health insurance markets in South Carolina to demonstrations of private insurance exchanges to issues related to medical liability insurance.

The timing for planning and implementation of a health insurance exchange was considered a significant restraint for the Planning Committee. According to the ACA, exchanges must begin operating under ACA rules in January 2014. Exchanges must be operational for open enrollment in October 2013. Additionally, this aggressive timeframe does not permit the careful testing of any new IT infrastructure. State health exchange plans must be submitted for approval by the Secretary during the Fall of 2012 for approval by January 1, 2013. Many of the policy decisions about how the exchange could operate in South Carolina in relation to the larger insurance market and how the exchange will integrate with Medicaid could not be fully addressed due to the lack of federal guidance.

The challenges presented by the compressed timeframes impact the state and health insurers that wish to be qualified to offer Exchange Plans. Additionally, some of the policy decisions require an established exchange organization to be determined.

Core Areas

- **Background Research**

As part of this study, the University of South Carolina's Institute of Public Service and Policy Research (IPSPR) and the Institute of Medicine and Public Health (IOMPH) were engaged to conduct independent research on the uninsured in South Carolina. The research was conducted in three phases: a household survey, a key informant survey and the conducting of focus groups. Similar research was conducted by the IPSPR for the South Carolina Department of Insurance (DOI) in 2003 and provided a very good base for comparison on many of the questions studied.

The household survey conducted in June and July 2011 included landline and cell phone exchanges, and collected data from 1,649 households representing 3,843 individuals. An additional sample was collected of 415 households, representing 601 individuals, with at least one person per household without health insurance. The key informant survey conducted by IPSPR surveyed individuals knowledgeable about the health insurance and health care systems. The survey was sent to individuals from different sectors including large and small businesses, health care providers, health researchers, non-profit organizations and the health insurance industry. It included questions about the ACA, benefit plans, insurance markets and products. Additionally, it collected their thoughts on the direction South Carolina should take in response to options provided under ACA. The outcome of the household survey is a report on the current state of health insurance coverage in South Carolina including a demographic analysis of the uninsured, underinsured and insured populations. This research also provided some background on the barriers to coverage and insurance enrollment including insurance affordability.

Six focus groups were conducted from July to September 2011 by the IOMPH. Participants included insurance companies, healthcare system administrators, representatives of consumer organizations and consumers. Participants were provided general information about the purpose of the research, the ACA, and were reminded that the establishment of a health insurance exchange is only one aspect of the law. The purpose of the focus group discussion was not intended to be a debate on health care reform.

Findings

The survey measured three broad definitions of insurance status: 1) no insurance at the time of the interview; 2) uninsured at some time during the past 12 months; and 3) no health insurance during the past year. To estimate the total number of people in each category, percentage responses were applied to South Carolina population data. A projected 633,675, or 13.7 percent, were uninsured at the time of the interview. A

projected 892,695, or 19.3 percent, were uninsured at some point in the past year and a projected 522,666, or 11.3 percent, were uninsured for the entire previous 12 months.

From 2003 to 2010 South Carolina's population grew by 478,212 (an 11.5 percent increase) from 4,147,152 to 4,625,364. In terms of total estimated population, the number of South Carolinians uninsured at the time of the interview increased from 474,380 (11.5 percent) in 2003 to 633,675 (13.7 percent) in 2011. The broadest measure of the uninsured, those without insurance at some point during the previous 12 months, increased by 11 percent. This is roughly the same growth as the general population- from 804,455 to 892,695. For the chronically uninsured, those without any health insurance for the entire previous 12 months, the number increased by 179,538, from 343,128 to 522,666 (8.3 to 11.3 percent). While the population grew 11.5 percent during this eight-year period, the chronically uninsured grew at a significantly higher rate.

Uninsured levels closely correlated with income. Adjusted for household size, those with incomes less than 100 percent of the FPL had the highest uninsured rate, 39.7 percent. Of those, more than 27 percent had no health insurance for the entire previous year. For those with incomes greater than 400 percent of the FPL, 6.7 percent were uninsured at one point in the previous year and 1.9 percent were chronically uninsured. Most of the uninsured were employed but cited affordability as the reason they did not have insurance. South Carolina's median household annual income was \$41,709 in 2010.ⁱ The average annual insurance premium nationwide for individual and family coverage for employer-sponsored insurance was \$4,835 and \$13,871 respectively.ⁱⁱ

Sources of insurance were primarily employment-based. For those insured, 62 percent had insurance either through their employer or a family member's employer. Twenty-one percent purchased insurance directly, although approximately only four percent were individual policies. Medicare covered 18.7 percent and 26.8 percent were covered through Medicaid or the Children's Health Insurance Program.

- **Stakeholder Involvement**

In addition to all of the SC Health Planning Committee meetings and presentations, the DOI Director, Deputy Directors, Project Manager, Principal Investigator, and met with many organizations, agencies, associations, businesses, and other key stakeholders who have an interest in the formulation of policy recommendations regarding whether it is feasible for South Carolina to establish a health insurance exchange and strategies to improve South Carolina's health marketplace. Please see Attachment 1.

No agreements with any of the stakeholders were made.

- **Program Integration**

Efficiently integrating an exchange with Medicaid is critical to its success. The South Carolina Department of Health and Human Services and the South Carolina Department of Insurance enjoy a good working relationship. The directors of the two agencies met regularly to discuss coordination of activities related to Medicaid enrollment and

integration with Exchange activities. In addition, the Program Manager and the CIO for DHHS communicated on a regular basis to ensure coordination. Moreover, the Planning Committee's Information Technology Subcommittee (IT Subcommittee) explored the current state of information technology systems and capabilities related to health care eligibility, enrollment and insurance exchange systems. A summary of their conclusions are set forth in the discussion concerning the Technical Infrastructure.

The Director of the Department of Insurance and the Director of the Department of Health and Human Services served on the South Carolina Health Planning Committee. The Director of Insurance chaired the Committee's Consumer Protection/Medical Liability Subcommittee, and the Director of Health and Human Services chaired the Committee's Competitiveness and Transparency Subcommittee. The CIO for DHHS served as the chair of the Committee's Information Technology Subcommittee.

- **Resources & Capabilities**

The purpose of this section is to identify the resources necessary to run an exchange and provide an assessment as to whether South Carolina has those resources today or needs to acquire them. The requirements for operating an Exchange come from ACA statutory requirements, regulatory requirements based on guidance issued by federal regulators, and operational requirements dictated by the functions needed for an Exchange to carryout its operations. The Planning Committee concluded that the state cannot implement state-based health insurance exchanges as defined under PPACA and unfinished HHS regulations, so detailed resources and capabilities for state-based health insurance exchanges were not finalized by our state at the conclusion of the grant period. The needs of an Exchange cannot be met through existing assets. To provide the required functionalities for an exchange, the services must be developed or contracted for to make an Exchange operational in time for open enrolment. The compressed timeframe, and incomplete federal regulatory guidance make this difficult.

- **Governance**

The Planning Committee was unable to make a determination concerning the type of exchange or its governance because there was insufficient federal guidance available at the conclusion of the grant period. The state is still carefully reviewing all options. The state's leadership will make the ultimate decision about whether enough guidance has been provided by the federal government for South Carolina to consider the establishment of a state-based exchange.

- **Finance**

At present, there are simply too many variables to accurately assess the cost or whether a state-based exchange will be able to operate on a self-sustaining basis. Using cost estimates from a Milliman study, DOI actuarial staff estimated that the cost of operating an exchange could approximate \$7.7 million annually. Funds were not expended to select a contractor to model all of the costs associated with the establishment of exchange due to the compressed timeframe and incomplete federal guidance on how the various exchange models would operate.

- **Technical Infrastructure**

The South Carolina Health Planning Committee's Information Technology Subcommittee (IT Subcommittee) explored the current state of information technology systems and capabilities related to health care eligibility, enrollment and insurance exchange systems. The Committee examined existing and emerging systems within the state's public programs and the private sector to understand, document and ultimately recommend approaches that would best align with the goals and needs of the State of South Carolina (the State). The IT Subcommittee determined that meeting the needs of existing health benefit programs coupled with the needs of Medicaid expansion and new health insurance tax subsidies and credits available through the Patient Protection and Affordable Care Act (PPACA or ACA) along with focusing on ways to provide greater consumer information and transparency into the process of purchasing health insurance would demand a comprehensive technological plan.

Regardless of one's preference to a particular model or approach for supporting health insurance exchanges, the IT Subcommittee recognized that the development of a dynamic modern IT system – one that was responsive to current policies while also flexible and capable of incorporating future policy directions – would be a fundamental shift in how we approach systems within the State.

The IT Subcommittee recognized that whether the exchange was operated on a state level, federal level or by an alternative model, the focus must be on the citizen and the solution must work to minimize the challenges, confusion and complexity of applying for and maintaining health coverage and benefits. The IT Subcommittee believed that one of the key roles the IT systems should play was assisting South Carolina citizens in determining which program(s) they may be eligible for and then connecting or routing them appropriately. Furthermore, the IT Subcommittee believed that the IT systems must expand the information available to healthcare consumers in ways that focus on greater understanding of prices or costs, health outcomes and quality measures.

The IT Subcommittee recognized that technology was one key component to assist the State's citizens in selecting the appropriate coverage. To that end, South Carolina would need to consider how its existing healthcare and health-related capabilities integrate with any new technology developed or implemented in support of insurance exchanges. In addition, the IT Subcommittee both recognized and discussed the reality that technology alone would not take care of all our citizens' needs. The State's plan would need to include comprehensive consumer assistance to help those who are not able to access or understand the technology on their own. The IT Subcommittee discussed ways in which the IT systems can and should facilitate existing and new partnerships among existing private, non-profit and public entities that could and would provide citizens support in their health care decision-making.

To develop this report and respond to its charge, the IT Subcommittee reviewed and discussed the implications of relevant sections of the ACA, explored existing private health insurance exchange technologies, explored existing public technologies, evaluated

a variety of approaches the State could consider, and remained abreast of changes in the landscape throughout its deliberations. After analyzing current private and public capabilities, along with the potential impacts of ACA, the IT Subcommittee believed that the information technology solution to support the needs of any model would need to leverage those systems and operations that already exist in the State, utilize the technologies already developed by the private sector and push back on the Federal government the complexities of ACA that would have been difficult to implement given the short time periods and incomplete guidance.

Throughout its work, the IT Subcommittee focused on the development of an integrated technology plan focused on the needs of South Carolinians and provided the groundwork for systematically improving health in the most cost effective way.

- **Business Operations**

Final decisions in the areas of eligibility determinations, plan qualification, plan bidding, application of quality rating systems and rate justification, administration of premium tax credits and cost-sharing assistance, and risk adjustment were not made by the Committee.

- **Regulatory or Policy Actions**

There is a bill currently pending in the South Carolina General Assembly requiring the establishment of a South Carolina Health Benefit Exchange (H.3738). The Department does not anticipate seeking legislation at this time.

Needs Assessment

Budget estimates for a state-operated exchange were reviewed. The estimate below is based on the state of Ohio study: "Planning Ohio's Health Benefit Exchange, Financing options to sustain Ohio's Exchange," prepared by Milliman on August 31, 2011. Ohio, while it has roughly 2.5 times the population of South Carolina, is similar to our state in many respects. Per capita income, distribution of non-elderly population, and percentage of the population below the federal poverty level are all reasonably similar. Distributions below 138 percent of the Federal Poverty Level (FPL), between 139 and 400 percent, and more than 400 percent are 28 percent, 45 percent and 27 percent respectively according to research performed this year by the University of South Carolina. The same categories in Ohio represent 32 percent, 39 percent and 29 percent according to 2010 Ohio family Health Survey as reported by Milliman.

According to Milliman's estimates, the non-IT costs of staffing, maintaining and marketing an exchange would run somewhere between .8 and 1.2% of annual exchange premium volume. The percentage, when applied to an estimated participant base in Ohio of between 530,000 and 640,000 people representing a total estimated annual premium between \$2.2 and \$2.7 billion, equates to an annual exchange cost between \$19.1 and \$33.7 million, excluding costs for IT. At the low end of this range, this total of \$19.1 million would translate to \$36 per participant annually.

Assuming the same participation rate for South Carolina, 5.3 percent, the projected exchange market would be 212,000 covered lives. Using Milliman's cost assumptions, the cost of an exchange, excluding IT costs, would be \$7.7 million annually for South Carolina.

Statistics from Ohio, West Virginia, Mississippi and several other states were studied. A final needs assessment document, including a budget of projected funding needs, an accounting of number of personnel needed, and a list and description of potential contracts, was not drafted by our state.

Technical Assistance

In addition to other recommendations, the IT Subcommittee considered the concept of the Federal Services Hub contemplated by ACA as a single point of data exchange with federal resources. The IT Subcommittee also considered the potential benefits of creating a similar South Carolina State Services Hub that consolidates data across various state agencies. Likewise, the Subcommittee discussed the role that Medicaid and the existing South Carolina Health Information Exchange (SCHIE) could play in supporting this technology ecosystem. Figure 1 below shows state-specific systems including a possible State Services Hub that would be of benefit to many programs across the state. Additionally, the Subcommittee discussed the challenges of maintaining identity information for its citizens who receive services through these public assistance programs. Please read the IT Subcommittee's Report within the Committee's Final Report to review all of their recommendations.

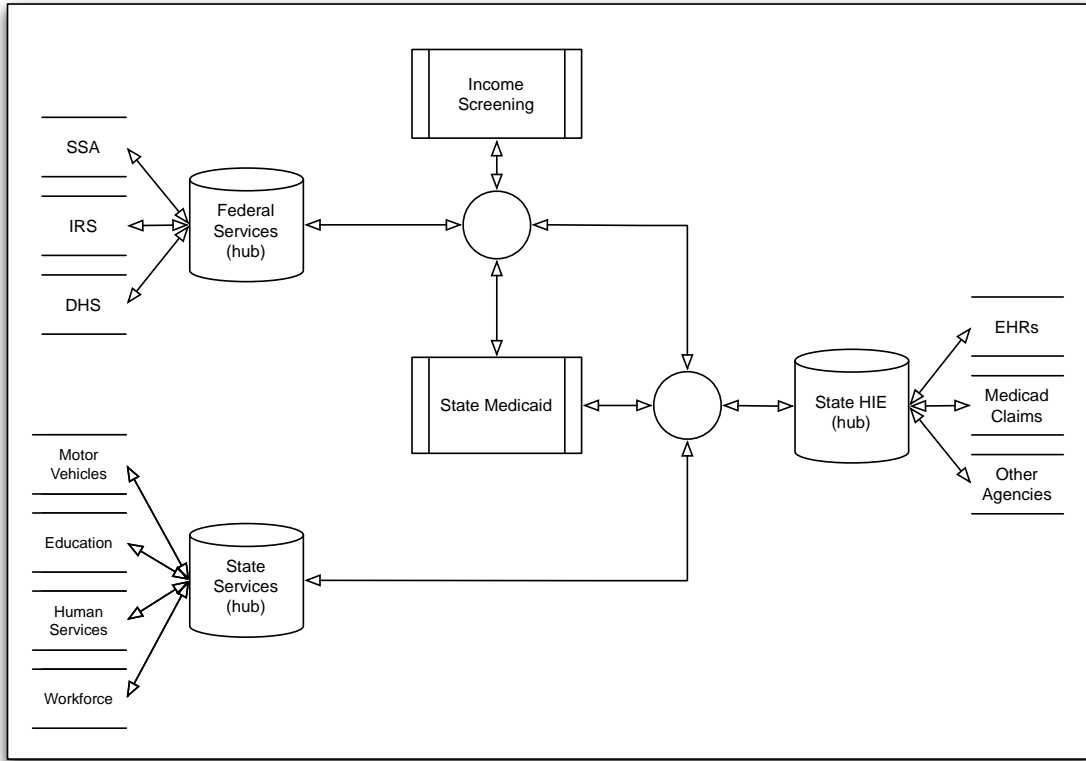


Figure 1: State Systems in Support of a Health Marketplace

In the event of a Federal Services Hub and/or some other proposed federal-state partnership, the representatives of the State and Federal governments should continue to inform and engage each other about prospective Exchange technology and plans.

Final Project Work Plan

The South Carolina Health Planning Committee recommended that the State should continue to inform and engage the Federal government using state-based alternatives as the foundation for all conversations and agreements regarding health insurance in South Carolina. Accordingly, the South Carolina Department of Insurance will continue to participate and monitor exchange-related discussions and activities.

Final Evaluation Report

South Carolina has no immediate plans for further data collection activities and analyses from which the State will further evaluate a State-based Exchange.

Exchange Deliverables

The South Carolina Health Planning Committee’s full report, “Improving the Health Care marketplace in South Carolina – Strategies and Policies Recommended by the South Carolina Health Planning Committee” is included with this final report. Copies of the Committee’s pertinent deliverables and planning activities are included in the full report.

Attachment 1

Stakeholder Meetings Organizations

Absolute Total Care/ Centene	Mercer
Accounting Association of the Carolinas	Office of Research & Statistics
American Benefit Services and Southeastern	Oracle
Insurance Consultants	SC Appleseed Legal Justice Center
AON	SC Business Coalition on Health
Bartlett Actuarial Group	SC Department of Health and Human Services
BlueCross BlueShield	SC Department of Mental Health
Benefitfocus/ACS/Choice Administrators	SC High Risk Pool (SCHIP)
Connecture	SC Hospital Association
Deloitte	SC House of Representatives, Labor
GetInsured	Commerce and Industry Committee
HealthSciences of SC	SC Minority Affairs Commission
HealthCare 21	SC Office of Rural Health
Institute of Public Health and Policy Research	SC Small Business Chamber of Commerce
Kerr and Company	SC Senate
Lucas Group	Tester Consulting
Marsh	United Healthcare
Maximus	University of South Carolina

ⁱ US Census Bureau, Current Population Survey, Median Household Income, <http://www.census.gov/hhes/www/income/data/statemedian/index.html>, accessed November 21, 2011.

ⁱⁱ Agency for Healthcare Research and Quality, 2010 Medical Expenditure Panel Survey (MEPS). Available at: http://www.meps.ahrq.gov/mepsweb/data_stats/quick_tables_results.jsp?component=2&subcomponent=2year=2010&tableSeries=2&tableSubSeries=&searchText=&searchMethod=3&Action=Search, accessed November 21, 2011.