October 6, 2016

Secretary Burwell
Attention: CMS-9934-P
Centers for Medicare & Medicaid Services,
Department of Health and Human Services
P.O. Box 8016
Baltimore, MD 21244-8016

Re: Covered California comments on Patient Protection and Affordable Care Act; HHS Notice of Benefit and Payment Parameters for 2018; CMS-9934-P (RIN 0938-AS95); – **User Fee and State-Based Marketplace on a Federal Platform Recommendations**

Dear Secretary Burwell,

Covered California is submitting comments in response to the proposed regulations CMS-9934. The comments in this letter refer to the FFE User Fee for 2018 (Section 156.50). Covered California has also submitted comments on the following additional areas: standardized options and differential display, innovation in Qualified Health Plans, direct enrollment and web-based entities, and proposals affecting the Small Business Health Options Program.

Federal Proposal

For the proposed regulations establishing the FFE user fee for 2018, Covered California provides the following comments based on our experience and analysis of what efforts are necessary to ensure a viable risk mix and ongoing sustainability. The regulations reflect a proposal with two related fee structures: one for the Federally Facilitated Exchange (FFE) (with a fee of 3.5% of premium) and one for State-Based Marketplace on a Federal Platform (SBM – FP) (with a fee of 3% of premium). For 2018, the user fee for FFE is the same as for 2014-17, but the SBM-FP increases to 3% of premium (from 1.5% of premium in 2017).

As described in Table 1, certain marketplace functions are respectively funded by the two fees but others are the responsibility of states opting to operate as a SBM-FP (see Table 1).

Implicitly in continuing the same user fee from 2017, the respective fee structures proposed reflect the current planned resource allocation such that for 2018, 3% of premiums collected by the FFE are required to operate the Federal Exchange information technology and the call center infrastructure, with 0.5% available for all other marketing, outreach, and plan management functions.

Table 1. Division of Responsibilities: State and Federal Roles in SBM-Function	State or FP
Provision of Consumer Assistance Tools	State
Consumer Outreach and Education	State
Management of a Navigator Program	State
Regulation of agents and brokers	State
Eligibility Determinations	FP (where using Federal Exchange IT and Call Center)
Enrollment Processes	FP (where using Federal Exchange IT and Call Center)
Certification Processes for QHPs	State
Administration of SHOP Exchange	FP (where using FE IT and Call Center

Appropriateness of Assessment Levels and Structures

Covered California makes these comments based on our technical and market experience in the context of the fact the FFE user fee does not apply to State-Based Marketplaces such as California. In addition, California has no plans or intention to change its structure to become a State-Based Marketplace on the Federal Platform. Nonetheless, we want all marketplaces across the nation to be successful and make these comments to contribute to building on the success we have already seen across the nation in the initial launch of federal and state-based marketplaces.

Covered California believes strongly that allocating only 0.5% of the FFE assessment to support marketing – which is essential to the growth and maintenance of a strong enrollment – let alone all plan management functions – is inadequate to ensure the federal marketplace grows and maintains a good risk mix. In addition, the SBM-FP fee structure as articulated would very likely either result in a significant level of underspending on marketing, outreach and plan management as the exchange "norm" against which any state marketplace will be judged, or result in most states migrating to the FFE model.

In addition to examining the "right" portion of the user fee to support marketing, Covered California also evaluated the federal proposal of 3% of premium to support IT and call center infrastructure in the context of its experience. In this analysis, Covered California excluded its first two open enrollment periods because at the time the Exchange operated primarily on Establishment Funds. Covered California found that support for IT and call center functions across Open Enrollments 2016-2018 averaged 2% of premium. As one of the most successful and viable marketplaces, the share of premium that supports Covered California's IT and call center infrastructure is a relevant point of reference for the FFE and other marketplaces to consider.

Summary of Covered California's Concern and Alternative Proposal

The fundamental element required for the success of any marketplace is generating enrollment that reflects, and continually refreshes, the risk mix to ensure the lowest possible premiums for all consumers (and for the federal government that is paying a substantial portion of the premium through the Advanced Premium Tax Credit). Exchanges face constant churn with a substantial portion of consumers moving out of exchanges each year to other forms of coverage and new enrollees joining as they become newly eligible. A good risk mix and a viable business proposition for exchanges does not "just happen" -- insurance must be sold. Selling insurance -- which is different than providing a free benefit to a beneficiary, as is the case in most Medicaid programs -- requires ongoing and significant investments in marketing and outreach to both promote retention of current enrollees and attract new enrollees that reflect a balanced risk pool.

The Federal Marketplace and SBMs have achieved strong enrollment over the first three open enrollment periods, during special enrollment and all indications are that the fourth open enrollment period that will be underway will build on that experience. For the FFE, that enrollment has been the result of a number of factors, including in particular very high public interest and media coverage. The significant amount of free coverage has supplemented and complemented by marketing investments that have been relatively limited and effectively targeted, (e.g., focused navigator funding, targeted digital marketing and well-designed programs to follow-up on those who have started the enrollment process). Efforts at marketing from health plans in exchanges and from groups such as Enroll America have also invested in community outreach and promotion in many FFE states. The importance of sales and marketing efforts will only increase in coming years as the free, earned media garnered by the historic nature of the Affordable Care Act subsides and the efforts of foundation-supported enrollment and marketing efforts decrease and more people gain coverage.

Based on Covered California's experience, which is described in more detail in the following sections, the proposed FFE assessment is inadequate and should be increased to ensure sufficient resources are available for marketing. Specifically HHS should consider:

- In addition to what is required to maintain Healthcare.gov and the call center, the FFE should allow for at least 1.5% of premium to be dedicated to marketing, outreach, and sales. Providing sufficient funds for outreach, marketing, outreach, and sales, as well as for plan management functions is vital to the FFE maintaining a good risk mix and maintaining low premiums. A level of funding that supports marketing is not only warranted but more on par with industry norms related to member retention acquisition and retention costs. Retaining and attracting more and healthier enrollees will improve the risk mix and make premiums both lower and more stable. As discussed below, a total assessment of 4% — with a slight decrease in the current 3% identified for IT/Call Center (to 2.5%) and ensuring 1.5 percent allocation for marketing and outreach — would not only result in a marked savings to health plans compared to pre-Exchange costs to attract and retain new members in the individual market, the marginal investment would have direct impacts on reducing premium costs to consumers and the federal government by improving the risk mix of those insured. Having a dedicated share of the user fee for marketing would also allow the FFE to benefit from greater year-to-year certainty and less reliance on the annual budget appropriations process.

- For the SBM-FP, the federal government should consider collecting the same 4% base amount as states operating under the FFE structure but pass along to states 1.5% in the proposed assessment above and HHS should require the State to document how it would use the majority of such funds for effective marketing and outreach, as well as how it is supporting plan management. States could still have the federal government collect additional funds if the State wanted even more robust marketing to ensure a better risk pool and lower premium costs, but the 1.5% of premium would be a floor of marketing spending (For example, if the FFE established 5% of premium as the assessment, it would pass along to SBM-FP's 2.5% for marketing, outreach, and plan management).

Covered California believes that when the FFE or state-based exchanges spend less proportionally on marketing and outreach this jeopardizes their respective risk pools and negatively impacts the premium trend in future years. If HHS were spending a comparable percentage of premium for the FFE as is California, we estimate that its total expenditures for marketing, outreach and sales for 2017 would be over $660 million. This would be money well spent to ensure good risk mix and keep premiums low for all those – both subsidized and unsubsidized – who enroll in states supported by the FFE.

What follow are data and observations to support these recommendations.

1. Context of Covered California's Experience and Results

Covered California has always approached its spending on marketing, outreach, and enrollment as sound business investments central to creating and maintaining a viable risk pool, lowering costs for all Californians in the individual market and critical to its ongoing sustainability. Covered California has used federal Establishment Funds to do marketing and outreach during the first two open enrollment periods, and has since transitioned to using plan assessment revenues for its continued efforts. The marketing and outreach investments have been large – as you would expect given the fact that California is the largest state, with diverse target populations and some of the most expensive media markets in the country.

Covered California has been collecting a fixed per member/per month (PMPM) plan assessment since January 1, 2014 of $13.95. These assessments have built a substantial reserve that Covered California can use, along with new revenue, to fund future activities. A 4 percent of premium assessment fee will be assessed on the 1.4 million currently enrolled in Covered California plans beginning in 2017. It is very important to note that, as discussed in more detail later, while the "premium assessment" is based only on those enrolled directly through Covered California, the true assessment is about <u>half</u> of that amount since it is spread across the health plans' entire individual market (on and off exchange).

As shown in Table 2 below, for the current 2016-17 Fiscal Year (FY), Covered California plans to spend approximately $94 million from our reserve – so total expenditures are estimated to be 4.7% of premium. For FY 2017-18, with the anticipated increase in premiums and slight budget reductions, Covered California anticipates that total expenses will be 4% of premium for one time (with no use of reserves). Covered California projects that its assessment will decrease in future years.

Table 2. Covered California Expenditures as a Percent of Premium—Projected Premiums and Funding Sources

	FY 2016-17	**FY 2017-18**
Projected Premiums ($Millions)		
Individual - Medical	$6,673.7	$7,521.3
Covered California for Small Business - Medical	$188.3	$300.0
TOTAL	**$6,861.9**	**$7,821.3**
Funding Sources ($Millions)		
Assessment Fees	$227.3	$313.0
Reserve	$93.6	$0.0
TOTAL	**$320.9**	**$313.0**
Funding Source as Percentage of Premium		
Assessment Fees	3.3%	4.0%
Reserve	1.4%	0.0%
TOTAL	**4.7%**	**4.0%**

The marketing, outreach and enrollment efforts of Covered California have included paid advertising (TV, radio and digital), support for enrollment by Navigators and Certified Enrollment Counselors, enrollment through our Call Center and coordination with health plans and Certified Insurance Agents (who are paid directly by our QHPs, but are certified and overseen by Covered California). (See Table 3, which presents Covered California's marketing spending as a percentage of premiums).

Table 3. Summary of Covered California Marketing, Acquisition and Retention Costs

	FY 2013-14 (OE1)	FY 2014-15 (OE2)	FY 2015-16(OE3)	FY 2016-17 (OE4)	FY 2017-18 (OE5)
Gross Premium (for Calendar Year, e.g., for OE1 for 2014) in billions	$4.5B	$6.0B	$6.5B	$6.9B	$7.8B
Total Enrollment (as of June, actual or projected)	1,174,392	1,318,974	1,320,581	1,344,087	1,409,724
Expenditures					
Marketing/Outreach Expenditures	$134M	$143M	$122M	$99M	$99M
IT/Call Center Expenditures	$246M	$182M	$137M	$133M	$133M
Plan Management & Evaluation Expenditures	$6M	$17M	$17M	$15M	$15M
Administrative & Other Expenditures	$58M	$69M	$60M	$74M	$66M
Total (millions)	**$444M**	**$412M**	**$335M**	**$321M**	**$313M**
Expenditures as a percentage of Premium					
Marketing as % of Premium	3.0%	2.4%	1.9%	1.4%	1.3%
IT/Call Center as % of Premium	5.4%	3.0%	2.1%	1.9%	1.7%
Plan Management & Evaluation as % of Premium	0.1%	0.3%	0.3%	0.2%	0.2%
Administrative & Other as % of Premium	1.3%	1.1%	0.9%	1.1%	0.8%
Total	**9.8%**	**6.8%**	**5.2%**	**4.7%**	**4.0%**

Note:

- For full and detailed budgets see hyperlinks: for 2013-14, for 2014-15, for 2015-16, and for 2016-17.
- While showing marketing as percentage of premium provides a common framework – initial years of any product or service require higher initial acquisition costs. Also, the initial year's marketing expenses were not paid out of a portion of premiums but from Federal Establishment Funds.
- Covered California has not determined its Marketing Budget for future fiscal years; for this model we show those expenses being held constant
- Marketing does not include an attribution of any Call Center expenses, which currently average about $100 million per year.

The results of Covered California's efforts have been very positive. While California and the rest of the nation have benefited from substantial free media from the coverage of Open Enrollment periods, we believe that the marketing investments have paid off in terms of enrollment and a better risk mix that has had a direct impact on moderating rate increases.

Based on our enrollment and the good risk mix that has been generated as a result, the weighted average rate increase for Covered California plans in 2015 was 4.2% and in 2016 it was 4.0%. While anticipated rates for 2017 are likely to be on average about 13%, the majority of that increase is a reflection of one-time adjustments. At the same time, health plans in California generally did not face losses nor have they needed to depend on the federal risk corridor program – because they priced their products for the good risk that was enrolled. Because our risk mix was even better than some plans anticipated, California's health plans contributed over $182 million – over 50% of all the Risk Corridor payments generated nationally by plans in Affordable Care Act products. Note that only one California plan had unanticipated losses of $1.7 million (0.06%, or about one-half of a tenth of a percent) of the $2.87 billion in Risk Corridor losses nationally.

2. Marketing and Outreach Investments Results in Better Risk Mix/Lower Premiums

Covered California has acted from the point of view that "good risk is earned" and made both investments and policy decisions to promote broader enrollment to ensure the best possible risk mix. Analysis of available data seems to confirm that marketing investments pay off.[1] In assessing whether Covered California's significant marketing and enrollment spending have

[1] While marketing and outreach expenditures by an Exchange/Marketplace is one critical variable in promoting enrollment and a good risk mix in an exchange/marketplace, there are clearly other independent variables. The six other major variables we identify include:

1. The size and efficacy of marketing efforts spent by health plans or others.
2. Whether the state converted all plans to ACA-compliant plans and created a common risk pool. California converted all plans effective January 1, 2014. States that maintained grandfathered plans through 2016 will have continued uncertainty regarding their risk pool through the 2018 plan rating year.
3. Whether the state expanded its Medicaid program. To the extent states did not expand the Medicaid program, generally this would be likely to have a positive effect on the Exchange risk pool since the additional individuals with very high subsidies – those with incomes from 100% to 138% of poverty – would be expected to have very high enrollment.
4. Whether the state has a "Basic Health Plan." A Basic Health Plan would generally have a negative effect on the Exchange risk pool because removing individuals with higher subsidies would likely lower total enrollment.
5. The extent that carriers effectively price health plans. Prices could be wrong based on "bad planning" or with the intent of underpricing to garner enrollment.
6. The efficacy of enrollment processes that could have impeded enrollment (a concern about the early challenges with Healthcare.gov).

"paid off" there are two potential points of comparison: (a) measurement of actual risk mix; and (b) enrollment of subsidy eligible populations.

a. Measurement of Risk Profile

The actual risk mix of a state's individual market is the most important measure of the success of marketing and outreach. It is important both because "sales" are always needed to obtain healthier individuals and because a better risk mix has a direct impact on the premium costs that will either support or deter future enrollment. The best standardized information about the national relative risk mix was developed by HHS in its ***Summary Report on Transitional Reinsurance Payments and Permanent Risk Adjustment Transfers for the 2015 Benefit Year*** (linked here) issued June 30, 2016. That report includes a state-by-state summary of each state's "plan liability risk score" for the individual market.

Analysis of that data provides a few important indicators of California's performance compared to other states and the potential benefits of investing in marketing and enrollment, including:

- For the 2015 Benefit Year California had the lowest standardized risk score in the nation (at 1.344)
- If California had the average risk score of the rest of the nation (of ~1.61 – calculated based on a weighted average of enrollment) – ***it could have had premiums that were 20% higher than actually offered in 2015,*** based on a simplified application of this risk score methodology. If the rest of the nation had the same risk mix as California's, instead of what they actually had – other states, and consumers in those states along with the federal government, would have faced substantially lower premiums than they actually experienced—depending on the state's relative experience, premiums could have been anywhere from a few percent lower to as much as 20% lower premiums for consumers in those states in 2016.

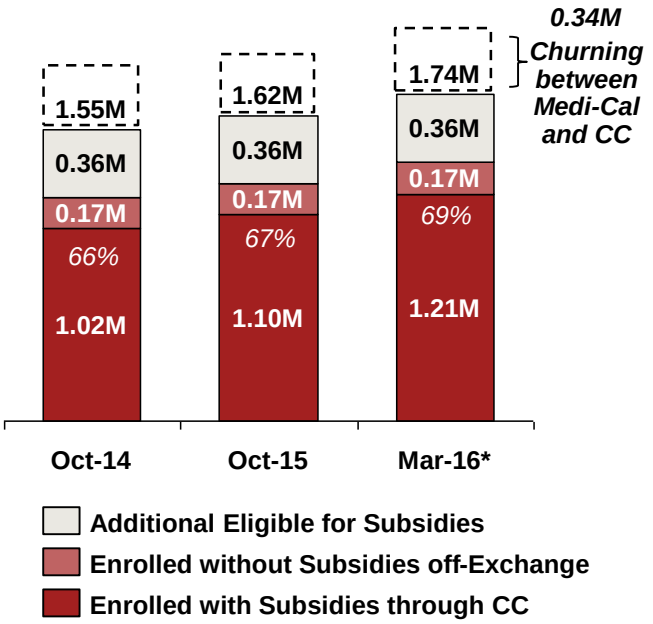
b. Enrollment of Subsidy Eligible Populations

Another potential measure of relative efficacy of marketing and outreach efforts is the extent to which a state has enrolled its subsidy eligible population. Based on the HHS reported percent of the subsidy eligible population effectuated as of March 2016, California had one of the ten highest rates of enrollment of subsidy eligible population (at 79%), substantially higher than the national average of 59%.[2] However, it is difficult to use these rates alone as the basis for comparison of the impact of marketing efforts for a range of reasons, including in particular the potential confounding variable of some states not expanding Medicaid which results in higher likely enrollment of lower income individuals eligible for large subsidies. In addition, large and more diverse states may have to invest additional resources to attract target audiences and smaller states with fewer or less expensive media markets may be able to enroll a higher percentage of the subsidy eligible population with the same or less effort than larger states.

[2] Kaiser Family Foundation analysis of March 31, 2016 Effectuated Enrollment Snapshot, Centers for Medicaid and Medicare Services (CMS), June 30, 2016 and Kaiser Family Foundation analysis based on 2015 Medicaid eligibility levels and 2015 Current Population Survey.

Covered California has already served ~2.5M subsidy-eligible Californians and is on track to touch three quarters of the eligible population in 2016. Figure 1 below shows that Covered California has opportunity to enroll ~360K additional consumers that are eligible for subsidies as well as the roughly ~200K consumers that are subsidy eligible but enrolled in off-Exchange plans.

Figure 1. Covered California Subsidy Eligible (138-400% FPL) and Enrollment[3]



3. New Enrollment and Retention To Maintain Good Risk Will Require Substantial Spending in Future Years

Covered California's experience is that almost half of its enrollees leave its marketplace each year. This "churning" of enrollees is a natural part of the individual market, but necessitates continual outreach to maintain enrollment, and further investments to expand a marketplace's enrollee pool. Most enrollees renewing into the next coverage year opt to passively renew, which means these enrollees do not use the online portal. It is also the case that many of those getting insurance with Covered California – and with the FFE – are relatively new to insurance. Because of this, there is the risk that they may not renew at high rates since relatively few actually use their insurance for expensive services. Marketing and outreach efforts are important to remind and reinforce the ongoing value of having insurance for those enrolled who did not use the health care system very much. This group is precisely the individuals who you want to be sure renew to maintain a good risk mix.

[3] Notes:

- Eligibility estimates are point in time at the specific point within the year; enrollment estimates are based on effectuated members at the end of open enrollment each year.
- Subsidized and Unsubsidized Enrolled values as reported for October of 2014, 2015 and March of 2016, from Membership report as of March 16, 2016.
- At the time of this analysis, 2016 Covered California enrollment numbers were still preliminary and subject to change as the effectuated population stabilized over several months.

For both renewals and new enrollment, many have responded to Covered California's paid marketing and outreach, to "earned media" – coverage of Covered California in the news generated by our communications and PR activities that has resulted in high awareness from radio, print and television -- and to outreach from independent insurance agents who are certified and supported by Covered California but paid directly by health plans. The importance of these efforts – paid, "earned media" and agent sales -- were documented in an independent survey of subsidy eligible California consumers conducted by the University of Chicago/NORC (available here). The survey results affirm the importance of consumers hearing about Covered California and the benefits available to them because of the Affordable Care Act from multiple channels, and that whether they heard about the benefits of coverage and the availability of subsidies from marketing or news coverage, many then spoke to family or friends and ultimately enrolled because of that promotion. The FFE has benefited from media coverage as well, but it is important to note that media has been garnered with substantial investments in California both in terms of developing a highly trained and experienced team of media and communications professionals on staff and use of a communications firm to assist in delivering our message. In future years, there will be less media interest as the "newness" wears off. The FFE and SBMs (whether or not they operate on the Federal Platform) will need to invest, like Covered California, in building a media outreach team, content marketing efforts, public relations activities and robust support for the agent sales channel. There will be an increasing need to rely on paid marketing and outreach to ensure ongoing retention and new membership growth.

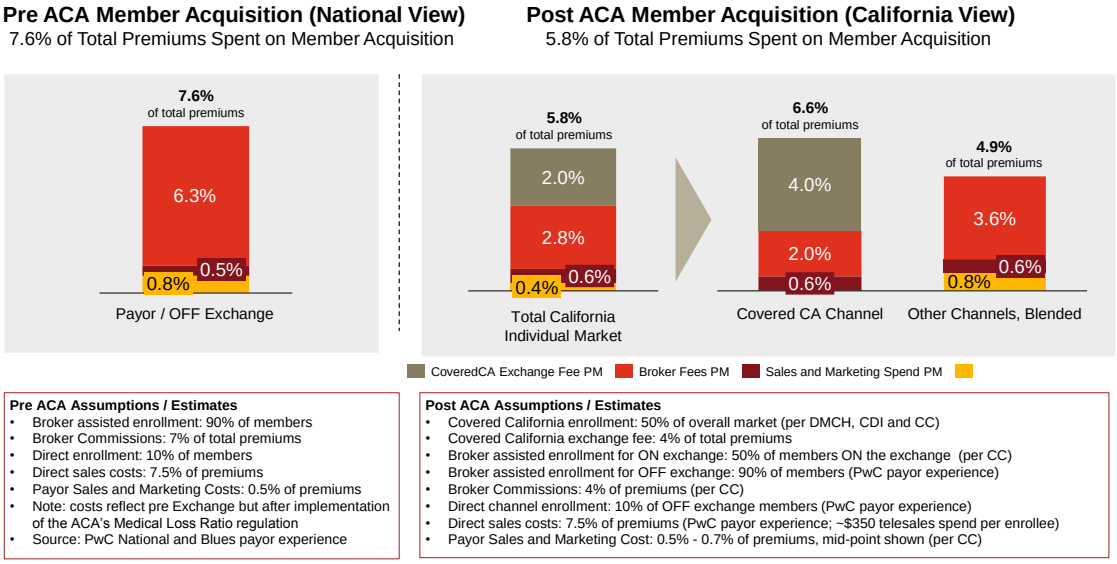
4. Higher Plan Assessments Still Reflect Cost Reductions Compared to Prior Acquisition Costs of Enrollees in the Individual Market and Complement Health Plan Spending

Getting consumers insured in the individual health insurance market has always been a costly proposition. The fact of the high cost of member acquisition was the central factor in the Medical Loss Ratio being set at 80% for the individual market compared to the 85% for employer groups.

A recent analysis by PricewaterhouseCooper (PwC) examines the implementation of state and federal marketplaces and their impact on member acquisition costs in the individual market (See Figure 2).[4] Using national data as a baseline for pre-ACA conditions, the PwC analysis found that **the ACA contributed to a 23.7% reduction in member acquisition costs (from 7.6% to 5.8% of total premiums, pre- and post-ACA).** These findings do not even reflect the fact that health plans no longer have expenses related to medical underwriting, which were estimated to be from 1% to 3% of premium. Similar to the findings above that focused on the role of the MLR, PwC found that, despite a new user fee levied on participating Covered California carriers, the overall California individual market benefitted from a lower share of total premiums paid to agent and broker commissions.

[4] http://board.coveredca.com/meetings/2016/5-12/Covered%20CA%20and%20PwC%20Market%20Planning%20and%20Analysis_Board%20Draft.pdf

Figure 2. Member Acquisition Costs in the Individual Market, Pre-And Post-ACA[5,6]



Pre ACA Assumptions / Estimates
- Broker assisted enrollment: 90% of members
- Broker Commissions: 7% of total premiums
- Direct enrollment: 10% of members
- Direct sales costs: 7.5% of premiums
- Payor Sales and Marketing Costs: 0.5% of premiums
- Note: costs reflect pre Exchange but after implementation of the ACA's Medical Loss Ratio regulation
- Source: PwC National and Blues payor experience

Post ACA Assumptions / Estimates
- Covered California enrollment: 50% of overall market (per DMCH, CDI and CC)
- Covered California exchange fee: 4% of total premiums
- Broker assisted enrollment for ON exchange: 50% of members ON the exchange (per CC)
- Broker assisted enrollment for OFF exchange: 90% of members (PwC payor experience)
- Broker Commissions: 4% of premiums (per CC)
- Direct channel enrollment: 10% of OFF exchange members (PwC payor experience)
- Direct sales costs: 7.5% of premiums (PwC payor experience; ~$350 telesales spend per enrollee)
- Payor Sales and Marketing Cost: 0.5% - 0.7% of premiums, mid-point shown (per CC)

While we also estimate that on average carriers may have marginally increased health plan service center and data-related costs, these increases are likely very small compared to the other areas of savings. The fact that with Covered California a smaller portion of health care premiums are being spent on enrollment and promotion is an important and relevant frame of reference, but the far more important fact is the positive impact on premiums by having a better risk mix as discussed above.

A number of other key facts are important in understanding the relative costs of promoting enrollment in the individual market supported directly by health plans. First, we assume that on average health plans are spending about 3.4% of premium directly on marketing and acquisition of individual-market insureds (both on and off exchanges). The biggest portion of this – about 2.8% of premium is in the form of payments to agents. Agents have been a vitally important sales channel used in California and having fair and adequate compensation for agents is needed given the importance of having in-person or moderated support for consumers. The second major expense area is in direct marketing, digital and other promotional expenses. Covered California estimates that to be about 0.6% of premium based on the media and marketing spend of the plans it contracts with -- totaling over $40 million a year in California.

Spending by a marketplace complements and supplements the direct health plan marketing expenditures. In the case of Covered California, while the payments to Certified Insurance Agents are made directly by health plans – we actively work with agents in terms of branding, promotion and coordination. The fact that across California there are now more than 600 "storefronts," the vast majority of which are owned, operated and entirely supported by Certified Insurance Agents -- but all using common branding and promotion rules developed by Covered California. Covered California is literally on hundreds of "Main Street's" across California because of these efforts. The benefits of this effort are reflected both by the fact that 45% of

[5] Sources: Kaiser Family Foundation, Covered California, PwC client average across national and Blues plans
[6] Note: It is difficult to make an "apples to apples" comparison regarding overall impact on profitability for payers from pre to post ACA. Where there have been reductions to cost of acquisition, there were some likely increases (e.g., risk adjustment and new data transfer), increase in marketing to capture members on exchanges and through off exchange channels.

Covered California's enrollment is through Certified Insurance Agents, and by the fact the even sales by agents in off-Exchange insurance products benefits the overall risk mix.

With regard to the media and marketing spend of the plans Covered California contracts with, we actively coordinate with the plans to complement their advertising. All contracted plans are required to provide full and detailed marketing plans to Covered California, which are used in our identifying gaps and opportunities. For example, on reviewing the planned marketing spending of California's health plans we identified a gap in spending on in-language marketing targeting major communities speaking Chinese, Korean, Vietnamese and other Asian languages. Based on this analysis, Covered California targeted these channels with very positive results.

5. The Proposed FFE Plan Assessment Overstates Cost to Consumers or Plans Since In Reality It Is Spread Across the Entire Individual Market

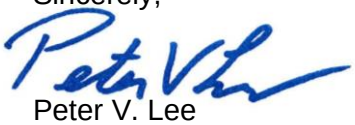
The benefits resulting from Exchange activities, including improved risk mix due to enrollment gains, apply to both Exchange consumers as well as off-Exchange, individual market consumers. In addition, because of the pricing requirement that plans charge the same rate on and off-Exchange for the same product – the effect is to spread the FFE percent of premium cost across the entire market for plans that sell both on- and off-Exchange. For example, in California, where virtually all of the major health plans offering individual coverage are in Covered California, this means that a 4% fee of premium assessment would only actually be slightly over 2% fee since about 40% of the total individual market is off-Exchange but plans spread the cost of the assessment to all insureds.[7]

6. Proposed SBM-FP Fee Structure Would Discourage State-Based Efforts

Lastly, the proposed fee structure all but guarantees that no state would launch its own state-based marketplace. Under the FFE proposal, 0.5% of premiums dedicated to plan management, outreach, marketing, and other activities, few, if any states will be able to "compete" with the proposal that HHS sets forth. Any FFE state that later contemplates becoming a state-based marketplace will face strong fiscal pressure to remain a FFM, even if greater investments in plan management or outreach would benefit residents of the state.

Thank you and please contact me if you have any questions.

Sincerely,



Peter V. Lee
Executive Director

cc: Covered California Board of Directors

[7] Covered California's analysis shows that, in the aggregate and by enrollment, about 30-40% of the total ACA-Compliant market is off-Exchange.