

NON QHP PRODUCTS AND THE LEGAL STRUCTURE REQUIRED

Joint Committee – November 23, 2015

Why Add Non-QHP Products?

- **Exceed Customer Expectations**
  - ✓ Provide access, affordability and choice
  - ✓ Provide cash flow products for deductibles
  - ✓ Drive bulk pricing of Non-QHP products
  - ✓ Trust and loyalty

- **Achieve and maintain sustainability through:**
  - ✓ Addition of new revenue streams
  - ✓ Increase customer retention
  - ✓ Decrease dependency on fees and assessments

- **Value to Channels**
  - ✓ Access to more products
  - ✓ Increased retention and revenue opportunities

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Non QHP Products/Timeline

SHOP	Individual
COBRA/Admin- 2016 (Any size employer)	Life Insurance/$20,000 - 2016
Group Vision – 2016	Vision (in place since 2013)
Worksite Benefits-2017	Pet Insurance – 2016 (more pets than children in the U.S.)
Identity Protection -2017	Critical Illness/Accident -2017
	Medicare Supplement - 2017

Revenue Streams – Non QHP Products

- Commissions from Insurance Products
- Co-Marketing Fees
- Brand Web Hosting Fees
- Subscription Fees

Revenue Scenario-Non QHP Products
Critical Illness/Accident

Assumptions:

- ✓ 114,000 Individual Policies
- ✓ Take-Up %= 15%** (nationally = 35%-60%) = **17,100**
- ✓ Avg. Premium = **$350/yr**
- ✓ C4HCO Gross Commission Rate* = **20%**** (40%-70% -yr)

Gross Revenue Estimate Year One:

- ✓ 17,100 x $350 Avg. Premium = $5,985,000
- ✓ $8,977,500 x 20% = $**1,197,000** Revenue/Yr 1
- ✓ Large Program Over-ride(3%) $35,910/Yr 1
- ✓ Total Gross Year 1 Revenue = **$1,232,910**

Legal Structure Background and Guidance

- Since late 2011 State Based Marketplaces have been planning to offer Non-QHP products & services to consumers to enhance value to consumers and address sustainability
- CMS provided guidance in March 2013 related to the offering of Ancillary products & services through a Marketplace
- Non-QHP products ***must*** be offered via a separate and legally distinct "programs" (entities)
- New entity can share resources and infrastructure with the SBM
- Non- QHP products must be legally and publicly distinct from the Marketplace
- New entity must be allocated fair portion of shared costs

Legal Structure of the Separate and Distinct Program/Entity

- HB 13-1245

  10-22-106 The Board may create a separate program that shares resources and infrastructure with the Exchange to offer Ancillary products & services.
- The sale of Ancillary products & services is a commercial activity and likely not construed as “charitable, educational or scientific” for the purposes of tax exempt status. Thus, the sale of Ancillary products & services is likely a for-profit venture
- The establishment of a separate for-profit program under the umbrella of the Colorado Health Benefit Exchange allows the profit to be returned to Connect for Health Colorado and be used to reduce the costs of running the non-profit organization

Why a PBC Made Sense

Public Benefit Corporations:

- Conducted as a separate legal entity-CMS compliant
- “Public benefit” means positive effects on individuals and communities other than shareholders
- Must elect to be operated to produce a public benefit
- Must operate in a responsible and sustainable manner
- Consistent with the mission and values of Connect for Health Co.
- No jeopardy to 501c tax exempt status
- Dividends can be distributed to C4HCO to offset ongoing “parent” costs
- No liability for business activities of subsidiary
- PBC structure received support from stakeholders

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Next Steps to Establish a PBC

- Board to designate Committee to serve as “sponsor”
- Committee to work with Executive Team on governance structure, bylaws, board charter
- Submit application for PBC to Sect’y of State to form new entity
- Execs to model revenue and expense projections of proposed products
- CFO to model financial impact to Connect for Health Colorado