



# The Undisclosed Cost of Developing an Affordable Care Act State Exchange in Massachusetts

by *Josh Archambault, Senior Fellow*

The transition to the Affordable Care Act (ACA) in Massachusetts has been a bumpy one, to say the least. The state still lacks a functional website, and currently has almost 300,000 individuals on a newly created transitional Medicaid (MassHealth) program, with almost no program integrity provisions being observed, as little eligibility verification was run on the population upon enrollment.

This financial arrangement for the transitional Medicaid program is unavailable to any other state. Yet to be clear, Massachusetts will now pay more to transition to the ACA than it would have if the state website had worked the first time, or significantly more than if the state had decided to switch to healthcare.gov either in 2014 or 2015.

While the state has moved forward with new contractors following its first failed attempt at launching an ACA-compliant website, there has been little transparency about the full taxpayer cost of the state-based exchange. Estimates often have been released piecemeal, and they never examine the full cost of the project across multiple agencies involved in the work. As a result the public is unaware of the total expense to both federal and state taxpayers.

Following passage of an amendment to the FY 15 state budget (Chapter 165 of the Acts of 2014) the Patrick administration did report “on the financial impact of challenges associated with the launch of an updated state health insurance website in connection with the implementation of the Affordable Care Act.” Yet the report left much to be desired from a transparency perspective.

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Below is an attempt by Pioneer Institute staff to compile an accounting of the money that has been committed to the project so far, both from the state and federal governments (Chart 1 & Table 2). In addition, Chart 1 & Table 2 also include the cost of medical claims due to the newly created transitional Medicaid population, which was created out of thin air when the first website failed, and will conservatively cost taxpayers well over \$400 million dollars for the year. While some of these individuals would have had coverage on another public program, an unknown number are receiving benefits fraudulently (Table 1 attempts to explain the state/ federal split for these costs, and how they differ from what would have taken place if the website had worked the first time). In Table 2 we have also included a list of known unknowns regarding future obligations in hopes that the administration will release estimates in response to this report. Chart 2 examines the increasing administrative cost of running a state-based exchange under the ACA. Finally, Chart 3 provides some context for how much this site is costing in relation to other public priorities.

While the final bill for the ACA will not be known for months as the state and federal governments “reconcile” who will cover what costs, additional money drawn from cigarette tax revenue and additional state funds used to fill funding shortfalls could have been spent on other priorities (like smoking cessation programs) if the website had not failed. In addition, the cost overruns will spread as the Connector plans to draw \$10 million from its reserve fund next year.

These additional state costs are separate from the hundreds of millions of additional federal dollars that are being redirected to the state, at the expense of every other state, to pay for additional consultants, software, and contractors for future work on the website. These sources of revenue would not have been tapped if state officials had delivered a functional website.

It is time for heightened transparency and accountability for how taxpayer money is spent. Our estimates put the cost of getting the ACA exchange up and running at over \$600 million,

all of which will pay for systems to administer health care, not care itself. When you add in the cost of temporary coverage and healthcare claims paid on those programs under the ACA, you are looking at a price tag closer to \$1 billion just in Massachusetts. This excludes the billions spent on “regular” Medicaid coverage for close to 1.4 million residents, the extra cost of insurance premiums due to the ACA, and the cost of ACA taxes, all of which are over and above the costs related to the state-based exchange, and its failure.

These budget numbers are a call to action. Unlike in other states with faulty exchanges where multiple investigations have been opened, our elected officials have been surprisingly quiet given the website’s failure. The Massachusetts Inspector General, Glenn Cunha, should immediately open an investigation of the failed website and conduct a full accounting of how taxpayer money was spent. The U.S. Health and Human Services Inspector General and Federal Bureau of Investigation (FBI) should add Massachusetts to the growing list of states requiring a full examination of what went wrong to see if state officials lied about their progress to maintain the flow of federal funds. Finally the Government Accountability Office (GAO) should take a close look at the eligibility process for the transitional Medicaid population to gauge the likelihood of fraud, as the state has now exceeded its statutorily mandated 180-day window to fix data inconsistencies on applications and suggest immediate remedies.

Our hope is that this budget estimate starts a conversation and stirs state and federal leaders to exercise proper oversight; a sentiment that has taken hold in numerous other states with troubled state-based exchanges, but has yet to penetrate the Commonwealth.

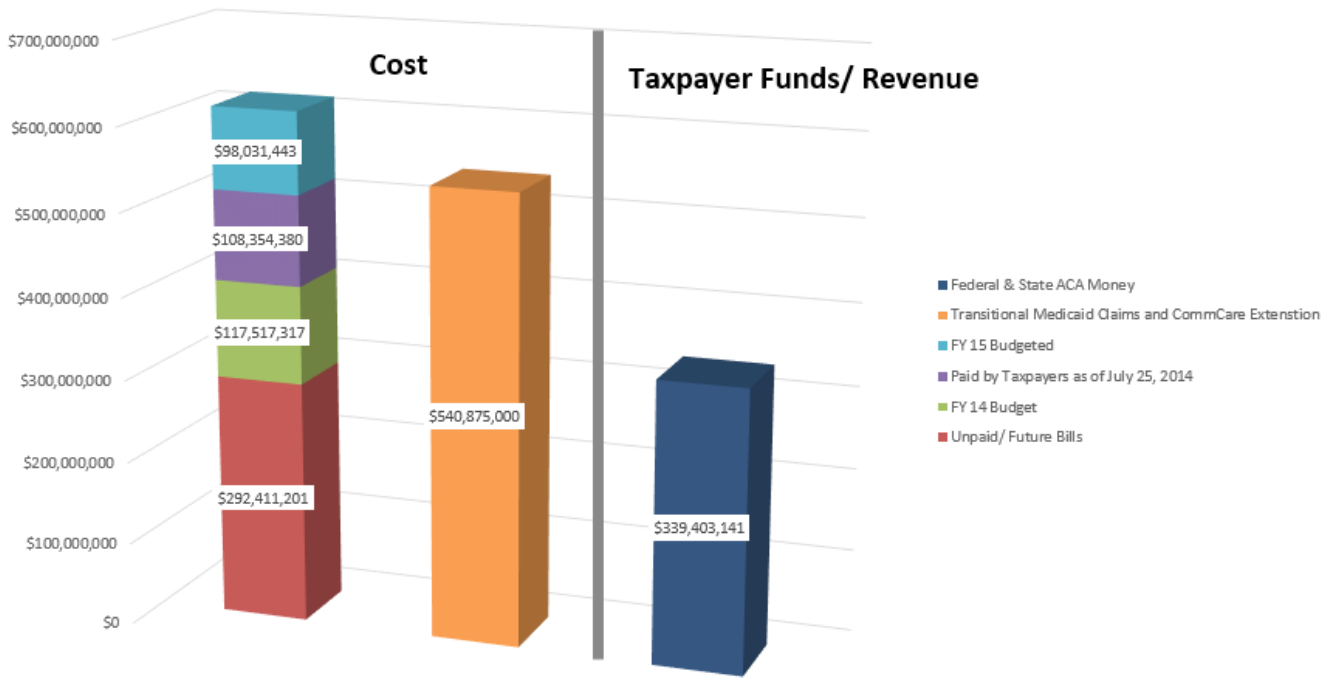
NOTE: Chart 1 & Table 1 both include some projections for costs to be incurred during the remainder of calendar year 2014. Where projections have been made, they are largely based on historical average monthly costs for line-items earlier in the calendar year. In some cases, we may be slightly too high in our estimate, but in many cases we have been overly conservative.

For example, when calculating the possible cost of coverage from August to January for the new transitional Medicaid population, we have used average paid claims from past months to estimate future costs, when a more accurate method would have been to use the higher *incurred* claims average, but the state has thus far refused to release this data. We have also assumed no enrollment growth, which is unlikely as the program has no open enrollment restrictions, and there have been tens of thousands of additional sign-ups in each of the last few months.

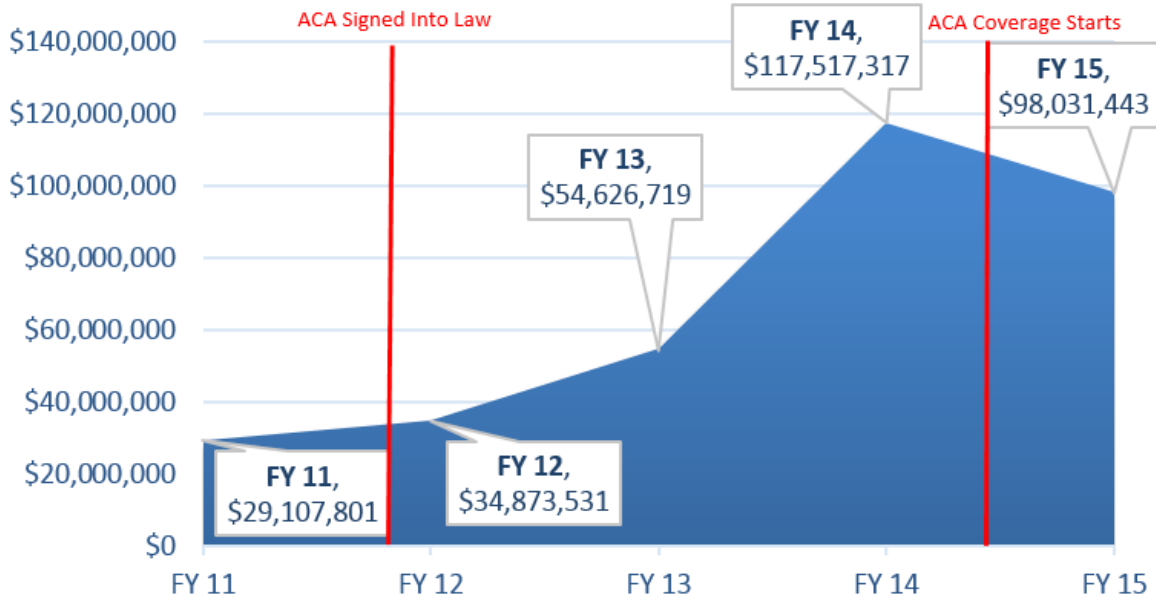
Column 1 of Chart 1 includes all the administrative and other costs associated with running the Connector for FY 14 and FY15 (July 1, 2013-June 30,2015), the time period of the most concentrated effort to ramp up and implement the ACA in Massachusetts. Column 2 includes the cost so far of paid claims for the Medicaid program created due to the failed website; it also

includes an estimate of the cost for the rest of the calendar year. Column 3 is the amount of state and federal money that has been committed to be spent on ACA exchange-related activities.

**Chart 1. Cost of Running Massachusetts Connector under ACA FY 14-15, Cost of Transitional Medicaid Coverage & Federal and State Money for ACA Exchange**

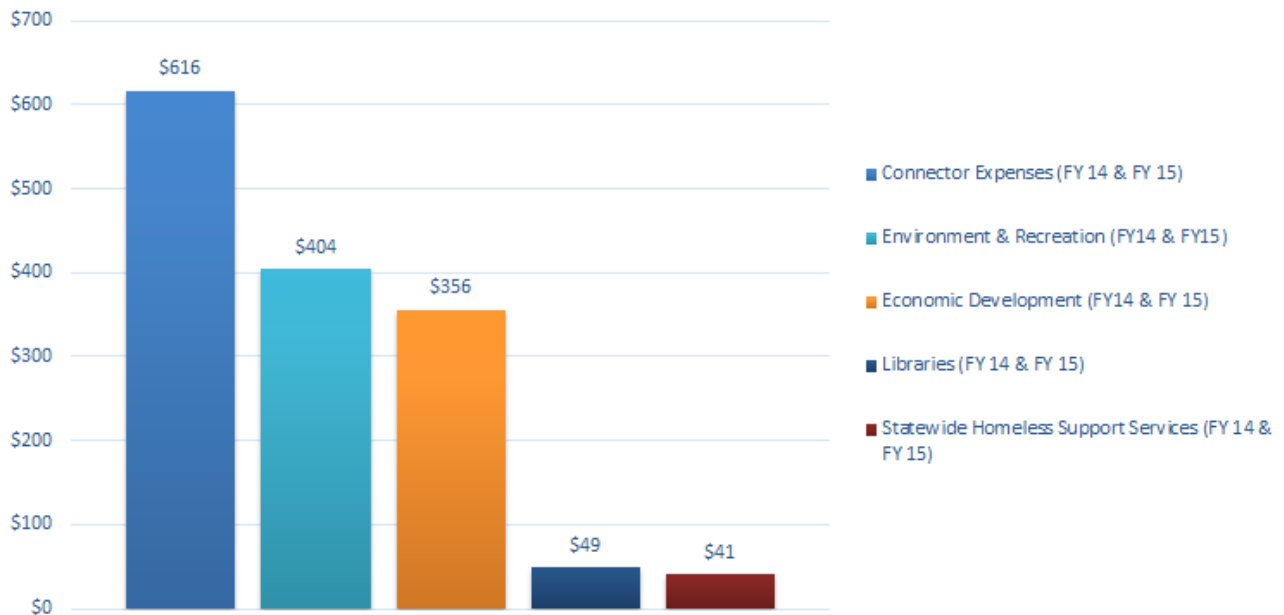


**Chart 2. Connector Administrative Budgets**



Despite relatively flat or declining enrollment due to ACA-related changes, the Connector’s administrative budget has grown significantly from before the ACA passed. A significant portion of the increase has come from federal taxpayers, which include Bay State residents

**Chart 3. Connector Costs in Relation to Other Public Priorities (Millions)**



Dollars spent on administration are dollars that are unavailable for other public projects, borrowing, or tax relief.

Source: Budget data taken from MassBudget.org, the FY 14 number are adjusted for inflation.

**Table 1. Possible Reimbursement for Transitional Population**

|                             | Illegal Coverage   | Exchange Eligible  | Medicaid Expansion   | Old Medicaid   |
|-----------------------------|--|--|--|--|
| <b>No Website Failure</b>   | A- 400%+ FPL<br>State Taxpayers: None<br>Federal Taxpayers: None<br>Consumer: 100%   | B- 138.1-400% FPL<br>State Taxpayers: Only add'l state wrap.<br>Federal Taxpayers: 100% of subsidy<br>Consumer: Sliding scale premiums, and copays.  | C- 100-138% FPL<br>State Taxpayers: 25% of cost in 2014<br>Federal Taxpayers: 75% of cost in 2014<br>Consumer: None  | D- Woodwork<br>State Taxpayers: 50%<br>Federal Taxpayers: 50%<br>Consumer: None  |
| <b>With Website Failure</b> | State Taxpayers: 100% of cost<br>Federal Taxpayers: None<br>Consumer: None   | State Taxpayers: ??<br>Federal Taxpayers: ??<br>Consumer: None   | State Taxpayers: ??, **<br>Federal Taxpayers: ??<br>Consumer: None   | State Taxpayers: 50%<br>Federal Taxpayers: 50%<br>Consumer: None   |
| <b>Impact</b>               | Mass Taxpayers will pay 100% of the cost of coverage due to the states' inability to launch a functional exchange that checks eligibility. | * Current claims are being split 50/50. It is unclear what the final state/federal breakdown will be for this population. Early indications look like it will remain 50/50.<br>Regardless, taxpayers will pay more for this population due to the failed website, since consumers should have been paying premiums and copays in 2014, or some enrollees would have been repaying subsidies due to increasing incomes this year. In addition, state taxpayers could be paying more for those whose income drop, and the federal government would have paid more subsidy, but now the state will pay a greater share.<br>Finally, federal taxpayers are paying 50% of an additional insurance "wrap" that is not available in any other states. | ** Current claims are being paid for by a 50/50 split. It is unclear what the final state/ federal breakdown will be for this population.<br>State officials have hinted at a "reconciliation" at the end of the year which may result in additional federal dollars for this population. However it is unclear if this will be at the enhance FMAP rate or not. | There is no additional taxpayer liability due to the failed website, as this population was eligible before the ACA for Medicaid and would have been paid for at the exact same state/federal breakdown. |

There has been significant confusion over the potential cost of the transitional Medicaid (MassHealth) population. Table 1 attempts to explain the four buckets enrollees could fall into (Illegal Coverage, Exchange Eligible, Medicaid Expansion, and Old Medicaid), and what the funding arrangement would have been if the website had worked, versus what it will be now that the first website failed. The table also tries to explain the impact of each situation.

As you will see, many questions remain, but one thing that is clear is that state taxpayers will be paying more for this population than they would have if the website had worked.

Currently the state is splitting program costs evenly with the federal government, but this will not last as they will reconcile at the end of the calendar year. The Patrick administration has set this reconciliation for when they leave office, so the next Governor and Legislature are in for a rude awakening when the bill from the federal government comes due in early 2015. The result will likely be additional cuts to education, transportation, public safety and/or higher taxes to cover the gap.

It should be mentioned that Massachusetts was obligated to verify eligibility for all those enrolled in transitional Medicaid coverage within 180 days. It appears that Massachusetts has missed this deadline, so the state runs the risk of not being compensated with any federal funds for this population. However, this outcome is unlikely under the Obama administration.

Individuals on transitional Medicaid coverage likely fall into four categories, with each having very different potential impacts on the state budget and federal reimbursement amounts.

- A) **Improper/Fraudulent Coverage:** These individuals have: i) incomes > 400% of the federal poverty level (FPL), ii) are incarcerated, iii) live out of state or iv) are not U.S. citizens, or are legal aliens in the U.S. for less than five years. All are ineligible for transitional Medicaid coverage and



Massachusetts will receive no federal money for these individuals.

- B) **Exchange Subsidy Eligible:** These individuals, having incomes 138.1-400% of FPL and not having access to other affordable Minimum Essential Coverage (e.g. employer coverage), would be eligible for an ACA tax credit subsidy. This was the principal group for which transitional Medicaid coverage was intended. However, it appears that thousands may be gaming the system. The number currently enrolled in the CommCare extension (RomneyCare subsidized exchange coverage) and Transitional Medicaid Coverage combined (approximately 318,000) exceeds the state's highest estimate of those who would be eligible for an exchange tax credit by almost 90,000 enrollees, which suggests fraud.

Individuals in this group also receive three additional taxpayer-financed financial benefits not available to exchange tax credit-eligible individuals:

- i) they have no premium contribution, and cost sharing is far less than for those with subsidized plans on the exchange,
- ii) they can apply for Medicaid coverage at any time, whereas those who are exchange tax credit subsidy-eligible can only apply during open enrollment or in special enrollment, and
- iii) they are presumptively enrolled in Medicaid for 12 months with no change in benefits as income changes, while individuals eligible for exchange tax credit subsidies are subject to tax credit recovery if their income increases during the year.

All three of these benefits are likely to increase combined federal/state costs of transitional Medicaid coverage in comparison to exchange tax credit subsidies that would be in place had the website worked.

- C) **ACA Expanded Medicaid Eligible:** This group includes individuals with incomes of 0-138% of FPL who were not previously enrolled in CommCare, but are eligible for ACA expanded Medicaid. This should be a small group, however, as most individuals eligible for ACA expanded Medicaid were enrolled in CommCare (approximately 125,000) and were auto-enrolled in MassHealth CarePlus (the program for ACA expanded Medicaid) on January 1, 2014.

- D) **Medicaid "Woodwork":** These individuals qualified for Medicaid pre-ACA, but were not enrolled. This number should be relatively small as prior to ACA, Massachusetts boasted over 99.8 percent coverage of children (the largest non-disabled Medicaid population), and had adult coverage of about 97-98 percent.

**Table 2. Full Accounting of Massachusetts's State ACA Exchange Costs**

| <b>Taxpayer Money In</b>  | <b>Award Amount</b>  |
|---|----------------------|
| <b>Exchange Funding</b>   |                      |
| State Planning Grant  | \$1,000,000          |
| Early Innovator Grant*  | \$35,591,333         |
| Establishment Grant Level 1   | \$11,644,938         |
| Early Innovator Grant Supplement  | \$8,895,029          |
| Establishment Grant Level 1A: Revision  | \$9,260,999          |
| Establishment Grant Level 2: Revision   | \$18,580,051         |
| Establishment Grant Level 1A  | \$41,679,505         |
| Establishment Grant Level 2   | \$80,225,650         |
| Eligibility System Total (Mix of Federal and State)                             | \$92,125,636         |
| Work by Optum (Feb-May)   | \$17,500,000         |
| State Funded Operations (FY14)  | \$22,900,000         |
| <b>Exchange Grant Total:</b>  | <b>\$339,403,141</b> |
|   | \$202,791,143        |
|   | \$44,486,362         |
|   | \$92,125,636         |
| <b>Taxpayer Funded Checks Paid July 25, 2014:</b>                               | <b>\$108,354,380</b> |
| <b>Taxpayer Cost To Run State Based Exchange in 2014 &amp; 2015</b>             |                      |
| <b>FY 14 Budget</b>   |                      |
| FY14 Customer Service and Premium Billing                                       | \$10,936,205         |
| FY 14 Personnel   | \$6,060,433          |
| FY 14 Appeals   | \$329,111            |
| FY 14 Website Maintenance and Development                                       | \$213,166            |
| FY 14 Information Technology  | \$857,926            |
| FY 14 SBSB Customer Support and Premium Billing                                 | \$5,169,432          |
| FY 15 Consulting and Professional Services                                      | \$762,616            |
| FY 15 All Other   | \$857,254            |
| FY 14 CCA 2.0 Operations- Application Processing and Intake                     | \$204,240            |
| FY 14 OPEB  | \$545,805            |
| FY 14 CommCare Customer Services and Premium Billing                            | \$9,011,243          |
| FY 14 CommCare Enrollment and Eligibility Services                              | \$3,330,706          |
| FY 14 Operations Launch Costs Allocated to CommCare Members                     | \$1,842,691          |
| FY 14 Communications  | (\$95,855)           |
| FY 14 Navigators  | \$1,138,860          |
| FY 14 Consulting and Professional Support - Health Connector 2.0                | \$31,988,301         |
| FY 14 Consulting and Professional Support - HIX- Related                        | \$34,568,782         |
| FY 14 Consulting and Professional Support- Subawardees (EOHHS, ANF, CHIA, HCFA) | \$9,796,401          |

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| <b>FY 15 Budgeted</b>  |                |
| FY15 Customer Service and Premium Billing  | \$26,173,419   |
| FY 15 Eligibility Determination and Exchange Shopping                            | \$2,477,771    |
| FY 15 Application and Processing and Intake                                      | \$1,225,440    |
| FY 15 Personnel  | \$7,723,680    |
| FY 15 Appeals  | \$519,179      |
| FY 15 Information Technology   | \$1,180,463    |
| FY 15 SBSB Customer Support and Premium Billing                                  | \$2,183,400    |
| FY 15 Consulting and Professional Services                                       | \$3,183,400    |
| FY 15 All Other  | \$855,448      |
| FY 15 OPEB   | \$555,087      |
| FY 15 CommCare Customer Services and Premium Billing                             | \$2,430,907    |
| FY 15 Communications   | \$2,083,333    |
| FY 15 Navigators   | \$1,600,000    |
| FY 15 Consulting and Professional Support - Health Connector 2.0                 | \$16,101,415   |
| FY 15 Consulting and Professional Support - HIX- Related                         | \$29,582,765   |
| FY 15 Consulting and Professional Support- Sub awardees (EOHHS, ANF, CHIA, HCFA) | \$155,736      |
| <b>Unpaid Bills</b>  |                |
| Unpaid Optum Work (May-June 2014)  | \$8,300,000    |
| Additional MassHealth Costs Due to Workarounds (Jan-July)                        | \$1,873,000    |
| <b>Projected Future Bills</b>  |                |
| Projected Berry Dunn Project Audit Work (Aug-Dec 2014)                           | \$2,038,201*   |
| hCentive 2014  | \$55,900,000   |
| Planning for default to healthcare.gov 2014                                      | \$13,000,000   |
| Information Exchange/ Eligibility System 2014                                    | \$40,900,000   |
| Operations and Stabilization 2014  | \$11,300,000   |
| Non-HIX Expenses FY 15( Customer Service, outreach, personnel)                   | \$37,100,000   |
| Optum Work (2014-2015)   | \$105,000,000  |
| Outreach   | \$17,000,000   |
| <b>Healthcare Related Claims</b>   |                |
| Projected Commonwealth Care Program Extension Cost (Jan-Dec 2014)                | \$120,000,000* |
| Transitional Paid Medicaid Claims for 267,000 (January-August)                   | \$259,000,000  |
| Projected Transitional Medicaid Claims (September-January)                       | \$161,875,000  |
| <b>Known Unknowns</b>  |                |
| QHP Federally Funded Subsidies (Jan-Dec 2014)                                    | ?              |
| Staff and Consultant Costs at ITD  | ?              |
| CGI for Additional Work Completed Under State Contract                           | ?              |
| CGI's Ongoing Work with MassHealth   | ?              |
| hCentive Work with MassHealth  | ?              |



|  |                        |
|--|------------------------|
| Additional MassHealth Administrative Costs (July-Dec)        | ?                      |
| Transitional Incurred Medicaid Claims (January-July)         | ?                      |
| Additional Medicaid APDU Funds                               | ?                      |
| Maintenance of Legacy HIX system, as backup                  | ?                      |
| Additional Withdrawal from Cigarette Fund                    | ?                      |
| Extensions of Old Contracts with SBSB, etc                   | ?                      |
| OPEB Increases at Connector Due to New Staff                 | ?                      |
| <b>Cost of Running ACA Exchange in 2014 &amp; 2015</b>       | <b>\$616,314,341</b>   |
| <b>Total Taxpayer Cost with Transitional Medicaid Claims</b> | <b>\$1,157,189,341</b> |

Source: Author's calculation from Connector Board Meeting Budget Presentations, media accounts, and some projections marked by a \*.

Note: Administrative budgets may include some of the projected future bill costs included in our calculations, but due to a lack of transparency it is impossible to know for sure how much. We hope the administration or Connector will clarify this issue.



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